

University of Southern Queensland

**PERCEIVED EFFECTIVENESS OF THE INTERNAL AUDIT
FUNCTION IN LIBYA:**

**A QUALITATIVE STUDY USING INSTITUTIONAL
AND MARXIST THEORIES**

A dissertation submitted by

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DEDICATION

To my parents

For their life-long support, belief and love

To my wife

For your steadfastness, belief and absolute dedication to this journey

To my children

Sajeda, Rana, and Muez

For being so incredible and the source of so much love and joy

ABSTRACT

Internal audit (IA) has become an important and integral function of organizations in achieving their objectives and protecting their assets. Nonetheless, IA effectiveness has received scant attention in the literature, especially in the context of developing countries such as Libya. Such settings offer the potential to enhance the understanding of IA practices where standards for such practices are not formally adopted and the rationale for establishment of IA tends to remain more coercive than normative. This study seeks to examine the perceived effectiveness of the IA function in Libyan public enterprises (state-owned) by employing institutional theory and Marx's (1978) theory of the circuit of industrial capital. It addresses the issue of IA effectiveness by identifying seven qualitative factors considered to be important for effective IA, namely, independence, competence, scope of internal auditing work, performance of internal auditing work, coordination and co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing within organizations. In order to attain the research objectives, this study followed a qualitative research design. Data was gathered through semi-structured interviews with chief executive officers, IA directors, managers of administrative affairs, managers of financial affairs and the general auditors, and was supplemented with analysis of relevant archival evidence.

This study identifies four potential threats to internal auditor independence due to the absence of (1) direct communication with the board of directors; (2) submission of reports to the highest level of management; (3) restrained reporting on IA findings; and (4) full access to all necessary information. Analysis of qualitative data illustrates that there were weaknesses in specific elements relating to the competence of internal auditors in terms of their low level of experience and professional qualifications, and computer technology skills. The results show that the level of IA effectiveness is limited due to the narrow scope of IA work, limited use of career internal audit staff, and lower organizational status of IA departments. It is concluded that lower perceptions of IA effectiveness signifies IA customers' expectation of a broader scope of work and internal audit professionalism. The

results also suggest that coercive establishment of IA does not necessarily lead to effective IA departments if normative processes of professionalism are absent.

The results of this study indicate that there are weaknesses in specific elements relating to co-operation between the internal and external auditor. Libyan IA directors do not believe external auditors assist them in achieving or improving their activities. In addition, external audit working papers are unavailable to internal auditors. The findings of this study also indicate a general consensus among Libyan participants that there is dissatisfaction regarding top management support to internal audit departments and the extent of top management support to internal audit is considered inadequate in Libyan public enterprises. The interview results also reveal inadequate awareness of the benefits of effective internal auditing within Libyan public enterprises.

Overall, based on the results of this study, it can be argued that internal auditing operates in ways that are decoupled in some important areas from those envisaged by the Institute of Internal Auditors (IIA) and other organizations in the field. Therefore, from the perspective of institutional isomorphism, IA in Libyan public enterprises is not perceived as value-adding or having the capacity to improve an organization's operations. Furthermore, IA may not play an important role in assisting organizations to minimize wastage, maximize employment levels and increase wage rates and production levels, and minimize capital devaluation as much as possible under the circumstances. Based on the perspective of Institutional theory and Marx's theory, and the results of qualitative data analysis overall, IA in Libyan public enterprises is not perceived as being effective.

The study contributes to the IA literature and practice in several ways. First, it introduces a new perspective for explaining the IA effectiveness by identifying two groups of factors impacting on IA effectiveness. these relate to International Standards for Professional Practice of Internal Auditing (ISPPIA) (independence, competencies, scope of work and work performance) and those related to external factors influencing IA effectiveness (the coordination and co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing within organizations). Specifically, this study establishes a factor not identified by prior research that may influence IA effectiveness,

namely, awareness of the benefits of having internal auditing. Therefore, it will fill an important gap in previous research by proposing different perspectives to explain IA effectiveness. Second, it contributes to knowledge regarding IA effectiveness by using a qualitative research design. Qualitative data analysis allows for a deeper understanding of a phenomenon and, rather than just measuring previously known constructs it allows for the identification of new contextual issues and relationships. Third, it contributes to the limited literature employing Marx's theory of the circuit of industrial capital in accounting in general and IA research in particular. Specifically, this study contributes to the literature by establishing a theory-based link between IA effectiveness and an added assurance in relation to production processes. Fourth, it also extends IA research under institutional theory. Specifically, this study contributes to the literature by establishing a theory-based link between IA effectiveness and normative isomorphism which increases proficiency within organizations and arises when institutional changes occur due to an organization's recognition of professions. Finally, prior IA research has largely focused on the empirical context of developed economies, whereas the findings of this study may be considered to add valuable additional insights to the literature emanating from the empirical setting of a developing country.

CERTIFICATE OF DISSERTATION

I declare that the ideas contained in this dissertation are entirely my own, except where otherwise acknowledged. I also certify that the work is original and has not been submitted for any other award.

Signature of Candidate

Date

ENDORSEMENT

Signature of Supervisor

Date

Signature of Supervisor

Date

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LIST OF ACRONYMS AND ABBREVIATIONS

ACPA	Arab Certified Public Accountant
AICPA	American Institute of Certified Public Accountants
ASCA	Arab Society for Certified Accountants
ASX	Australian Stock Exchange
CIA	Certified Internal Auditor
IMF	International Monetary Fund
GPC	General People's Congress
GPCC	General People's Committee for Control
GPCFA	General People's Committee for Financial Audit
IA	Internal Audit
ICC	International Criminal Court
IIA	Institute of Internal Auditors
ISA	International Standards on Auditing
ISPPIA	International Standards for Professional Practice of Internal Auditing
LINTC	Libyan Interim National Transitional Council
LCC	Libyan Commercial Code
LAAA	Libyan Association of Accountants and Auditors
SAS	Statement of Auditing Standards
SOX	Sarbanes-Oxley Act
ECOSOC	Economic and Social Council
OPEC	Organization of Petroleum Exporting Countries
RCC	Revolutionary Command Council
SAB	State Accounting Bureau

CHAPTER 1 INTRODUCTION

1.1 Introduction

The latest definition of internal auditing (Institute of Internal Auditors 2011c) states:

‘Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes’

It is apparent from this definition that IA is expected to add value to organizations by providing a wide range of services including assurance and operational (performance) audits as well as consulting management on a variety of issues.

In recent decades, internal audit departments have become an important part of organizational structure as a value adding service (Al-Twajry, Brierley & Gwilliam 2003; Arena & Azzone 2009; Bou-Raad 2000; Coram, Ferguson & Moroney 2008; Enyue 1997; Goodwin 2004; Yee et al. 2008). The importance of IA has been confirmed in a variety of legislation such as the Sarbanes Oxley Act (2002) in the USA, and the Corporate Law Economic Reform Program Act 2004 in Australia (Carey, Subramaniam & Ching 2006). The recent spate of corporate collapses and financial scandals has resulted in an increased focus on IA as an important consideration for organizations (Arena, Arnaboldi & Azzone 2006; Coram, Ferguson & Moroney 2008; Schneider 2003). With the global financial crisis of 2008-2009, IA becomes especially important in safeguarding the rate of return on capital and ensuring that capital is not wasted or devalued (Yee et al. 2008). However, several authors suggest that the function may not always be effective (Al-Twajry, Brierley & Gwilliam 2003; Crockett & Albin 1995; Mihret, James & Mula 2010; Mihret & Yismaw 2007; Montondon 1995; Financial Reporting Council 2011). This especially may be the case in developing countries such as Libya where organizations may not recognize the value of the concepts and practices of IA as applied in Western societies.

The Libyan Commercial Code (LCC) 1953 requires Libyan public enterprises to have internal audit departments headed by directors. This particular code also compels public enterprises to appoint external auditors. Moreover, since the issuance of the Law No. 11 of the year 1996 by The General People's Congress (GPC), Libyan public enterprises are required to undergo audit by auditors general. However, unlike in the West, in Libya there are no professional standards or international professional bodies for IA such as the IIA, which results in organizations establishing their own guidelines on the practice of IA (Al-Kilani 2002; Almagory 1998). Therefore, this study is concerned with IA effectiveness within Libyan public enterprises. The research issues addressed by the present study are outlined within this introductory chapter. In addition, the basic elements of the research plan are presented. This chapter outlines background to the research problem; research questions; research objectives; study motivations; theoretical perspectives and research methodology; study scope; and, finally, the structure of the ensuing thesis chapters.

1.2 Background to the research problem

The professional practice of IA commenced around 1941 in the USA. Before the 1950s, IA focused on financial audit and was heavily involved in the review of financial statements. Since 1941 the IIA has played an important role in developing and enhancing the professional stature of internal auditors (Yee et al. 2008). Although IA has become a crucial function within organizations, academic researchers have tended to focus on external audit as an organizational control function, while ignoring IA (Gendron & Bedard 2006). More specifically, IA effectiveness has not been extensively studied and, to date, there has been relatively little research conducted concerning IA effectiveness (see Al-Twajjry, Brierley & Gwilliam 2003; Albercht et al. 1988; Arena & Azzone 2009; Cohen & Sayag 2010; Mihret, James & Mula 2010; Mihret & Yismaw 2007; Mizrahi & Ness-Weisman 2007; Yee et al. 2008). According to Mizrahi and Ness-Weisman (2007, p. 188): 'There is relatively little in the literature regarding the measurement of IA effectiveness in the public sector'. Moreover, some authors suggest that the function may not always be effective (Al-Twajjry, Brierley &

Gwilliam 2003; Crockett & Albin 1995; Mihret, James & Mula 2010; Mihret & Yismaw 2007; Montondon 1995; Financial Reporting Council 2011).

Despite scholars' attempts to investigate IA effectiveness, there is no generally acknowledged guide or tool for this purpose (Arena & Azzone 2009). The literature also indicates that no generally accepted approaches to assess IA effectiveness exist as yet (Mihret, James & Mula 2010). For this reason, the limited previous research which addresses the issue of IA effectiveness has used different approaches in investigating IA effectiveness. For instance, Haniffa and Cooke (2002) studied the influence of environmental factors on IA practice. Al-Twajjry, Brierley and Gwilliam (2003) and Yee et al (2008) used ISPPA—established by the IIA—as a guideline to investigate and determine IA effectiveness, while Arena and Azzone (2009), Elliott, Dawson and Edwards (2007) and Mihret and Yismaw (2007) developed their own models to determine IA effectiveness.

The evidence from the limited literature, nevertheless, suggests that IA effectiveness is probably influenced by the context in which IA operates. According to Mihret, James and Mula (2010, p. 235):

‘Conclusions on the dominant or ideal focus of IA cannot be drawn from the existing limited literature. This is because the scope of prior studies is restricted to private sector companies. Also, the studies were not aimed at explaining variations in IA’s dominant orientation—and possibly implications of IA effectiveness’.

Therefore, several academic studies (Al-Twajjry, Brierley & Gwilliam 2003; Anderson 2003; Arena & Azzone 2009; Goodwin 2004; Mihret & Yismaw 2007; Yee et al. 2008) have advocated further research and the need for a more comprehensive study of the issue of IA effectiveness. Thus, examining IA effectiveness in developing countries could contribute to address the gap in the literature. Nevertheless, some of the literature (Al-Twajjry, Brierley & Gwilliam 2003; Crockett & Albin 1995; Mihret, James & Mula 2010; Mihret & Yismaw 2007; Montondon 1995; Financial Reporting Council 2011) highlights that in order for IA to be considered as a value adding service to organizations it should adhere and comply with ISPPA established by the IIA. ‘The mission of IIA is to provide dynamic leadership for the global profession of internal auditing’ (Institute of Internal Auditors 2011f). Therefore, Al-Twajjry, Brierley and

Gwilliam (2003) state that ISPPIA are an effective indication to determine IA effectiveness.

Co-operation between the internal and external auditor is also considered an important factor that impacts on IA effectiveness. Arena and Jeppesen (2010) indicate that the coordination and co-operation between the internal and external auditor is becoming one of 'intellectual jurisdiction', where external auditing, as the superior profession, controls the knowledge base of internal auditing but allows internal auditors to practise IA as they please. This also impacts on the value IA can add to the organization through reduced external audit fees (Al-Twajry, Brierley & Gwilliam 2004; Eliot & Korpi 1978; Felix et al. 2001; Haron et al. 2004; Ho & Hutchinson 2010; Krishnamoorthy 2002; Prawitt et al. 2012; Zain, Subramaniam & Stewart 2006). While internal auditors are increasingly contributing to the work performed by external auditors (Burnaby & Klein 2000), external auditors also assist in the development of internal auditors primarily by serving as a market for recruitment of internal auditors (Al-Twajry, Brierley & Gwilliam 2004; Albercht et al. 1988; Arena, Arnaboldi & Azzone 2006; Mihret, James & Mula 2010; Ziegenfuss 2000).

Management support is also considered an important factor that impacts on IA effectiveness (Albercht et al. 1988). Mihret and Yismaw (2007) and Mihret and Woldeyohannis (2008) also contend that management support to IA is considered as a determinant of IA effectiveness and it is identified as one of the factors that bode well for a good IA department profile (Mihret 2009). Albercht et al. (1988) find that the visible support of top management to IA is the most important factor that enhances IA effectiveness. In addition, the IIA's Standards for Professional Practice of Internal Auditing (1100–Independence) state that internal auditors should have the support of senior management and of the board so that they can gain the cooperation of auditees and perform their work free from interference (Institute of Internal Auditors 2011d).

The extent to which employees and management are aware of having effective IA may influence its effectiveness as a value adding service. Although IA has become an important part of organizational structure as a value adding service (Al-Twajry, Brierley & Gwilliam 2003; Arena & Azzone 2009; Bou-Raad 2000;

Coram, Ferguson & Moroney 2008; Enyue 1997; Goodwin 2004; Mihret, James & Mula 2010; Yee et al. 2008), employees and management in developing countries tend to not recognize the value of the concepts and practices of IA as applied in Western societies (Al-Twajjry, Brierley & Gwilliam 2003; Mihret 2009).

Following the approach of previous research (e.g., Al-Twajjry, Brierley & Gwilliam 2003; Albercht et al. 1988; Arena & Azzone 2009; Cohen & Sayag 2010; Mihret, James & Mula 2010; Mihret & Yismaw 2007), institutional theory and Marx's (1978) theory of the circuit of industrial capital are employed in the present study to address the issue of IA effectiveness by identifying two groups of factors considered to be important for effective IA. These relate to ISPPIA and other external factors influencing IA effectiveness. Specifically, the main objective of this study is to examine current perceptions of IA directors, administrative affairs managers, financial affairs managers, chief executive officers and external auditors about the effectiveness of IA by identifying seven factors that impact on IA effectiveness. The first four factors relate to ISPPIA established by the IIA, namely, independence; competence; scope of internal auditing work; and performance of internal auditing work. The fifth factor relates to co-operation between the internal and external auditor. The sixth factor relates to management support and, finally, the seventh to an awareness of the benefits of internal auditing (see Figure 1). This approach, which is adopted for the present study, possibly offers a more comprehensive set of IA effectiveness indicators.

1.3 Research question

As outlined thus far, this study aims to obtain the perceptions of participants (IA directors, administrative affairs managers, financial affairs managers, chief executive officers and external auditors) regarding the IA effectiveness. Previous studies (Al-Twajjry, Brierley & Gwilliam 2003; Arena, Arnaboldi & Azzone 2006; Arena & Azzone 2009; Christopher, Sarens & Leung 2009; Conor & Jenny 2007; Coram, Ferguson & Moroney 2008; Goodwin 2004; Mihret, James & Mula 2010; Mihret & Yismaw 2007; Yee et al. 2008) have recommended the need for future research on IA effectiveness. More specifically, Al-Twajjry, Brierley and

Gwilliam (2003), Mihret, James and Mula (2010), Mihret and Yismaw (2007) and Yee et al. (2008) suggest the need to focus on IA in developing countries. Therefore, this research arises out of the need to study IA effectiveness. Because IA has become an integral part of modern business, the internal auditor's role is becoming increasingly important to organizations in achieving their objectives. With the rapid growth of the public sector and resultant serious problems concerning organizational control and supervision, management needs to continually evaluate the activities of every section of their organization that impact on achieving efficiency and protecting assets (Yee et al. 2008). This is important particularly in developing countries where capital is wasted or devalued because of inefficiencies, fraud, corruption or the protection of favoured relationships.

As indicated earlier, internal audit departments have been established in Libyan public enterprises to evaluate the activities of organizations as a service to management. Despite the importance of shedding light on IA effectiveness in various economic activities in Libya, no formal guidelines have been provided to manage internal audit departments. Furthermore, most previous studies have focused on external audit (Daruish 2004; Elmasallati 1995). Therefore, it is apparent that there is a need for research on the IA function generally, and IA effectiveness specifically, within the Libyan context where there are no international professional bodies for IA such as the IIA. Thus, due to the limited research conducted concerning IA effectiveness, the growing importance of IA in organizations, and the possible influence of some factors on IA practices (Al-Twajjry, Brierley & Gwilliam 2003; Arena, Arnaboldi & Azzone 2006; Arena & Azzone 2009; Christopher, Sarens & Leung 2009; Conor & Jenny 2007; Coram, Ferguson & Moroney 2008; Gendron & Bedard 2006; Goodwin 2004; Mihret, James & Mula 2010; Mihret & Yismaw 2007; Yee et al. 2008), this study aims to fill the gap in the literature regarding IA effectiveness. Therefore, the overarching research question of this study is:

Research Question (RQ): To what extent is the internal audit function in Libyan public enterprises perceived to be effective?

1.4 Objectives of the study

The present study aims to obtain the opinions of participants regarding the role and effectiveness of internal audit in Libyan public enterprises. It introduces a new perspective for the evaluation of internal audit effectiveness by identifying two groups of factors that impact on audit effectiveness. In other words, it interprets the perceptions of participants regarding IA effectiveness by identifying seven factors that impact on IA effectiveness. The first four factors relate to the ISPPA established by the IIA, namely, independence, competence, scope of internal auditing work, and performance of internal auditing work. The fifth factor relates to co-operation between the internal and external auditor. The sixth factor relates to management support and, finally, the seventh to an awareness of the benefits of internal auditing. In addition, it provides recommendations and suggestions on how IA effectiveness could be improved in the future.

1.5 Study motivations

The value-adding role of IA presumes IA is effective (Mihret, James & Mula 2010), therefore, there is the need for effective internal audit departments to assist organization achieves their goals. Nonetheless, there is limited previous research which addresses the issue of IA effectiveness. In addition, limited previous research has used qualitative approach (Gramling et al., 2004). In other words, most prior studies in internal auditing utilized either experimental or survey method, or mixed method (survey and archival). Only a small number of researchers looked at the interaction between IA and the audit committee from a qualitative perspective. The limited prior research concerning IA effectiveness, together with the growing importance of IA in organizations, provides the primary motivations for this study. With the global financial crisis of 2008-2009, internal auditing becomes especially important in safeguarding the rate of return on capital and ensuring that capital is not wasted or devalued (Yee et al. 2008). It seems that recently, academic researchers have tended to focus on internal audit. For the year 2010, Emerald listed Mihret, James and Mula (2010) as one of the Ten most popular articles for Pacific Accounting Review. In addition, due to the possible influence of factors in the IA milieu on IA effectiveness (Al-Twaijry, Brierley &

Gwilliam 2003; Mihret, James & Mula 2010; Mihret & Woldeyohannis 2008; Yee et al. 2008), this study addresses the issue of IA effectiveness by identifying two groups of factors—those related to ISPPIA; and other external factors influencing IA effectiveness.

To date, there has been scant research regarding IA in Libya (Al-Kilani 2002; Alhsadi 2007; Daruish 2004), and this is the first known study to research issues concerning the role and effectiveness of IA in enterprises operating in the manufacturing, banking and insurance sectors in Libya where there are no national corporate governance guidelines informing organizations how to manage their internal audit departments. As mentioned earlier, contrary to the West, there are no international IA professional bodies such as the IIA in Libya, resulting in organizations establishing their own guidelines on the practice of IA (Alhsadi 2007; Almagory 1998). The Libyan Association of Accountants and Auditors (LAAA), which was established by the Law No. 116 of 1973, requires an external auditor to be registered as a chartered accountant with the LAAA and he/she must hold a bachelor's degree in accounting from a university. In addition, they must have at least five years' experience in practical training at an accounting office (Libyan Government 1973a). However, internal auditors have no defined or formal code of professional ethics and standards for professional qualifications. Moreover, there are no professional examination requirements or professional training programmes for internal auditors. They base their practices mainly on their accounting education (Daruish 1990). Another study conducted by Al-Kilani (1988) finds that the IA role is limited to the detection of fraud, with the emphasis on examining accounts before payment, collecting income, and checking petty cash claims. Therefore, in developing countries such as Libya, a study of IA practice, as embedded in its broader context and with identification of factors that enhances or inhibits its effectiveness, could enable an understanding of IA's potential to support organizational performance and thereby assist national economic development.

In line with the new trends of Libyan society towards encouraging domestic and foreign investment, establishment of a stock exchange and adoption of international accounting standards by the banking sector and stock market, there is

a need to investigate the role of the accounting and auditing profession in the Libyan environment (Alhsadi 2007). Typically, those who follow the reality of financial accounting in the Libyan environment tend to emphasize the weakness of Libyan experience, especially in the professional field (Al-Kilani 2002; Daruish 2004). It should be noted that in October 2009 The Libyan Stock Market recognized the Arab Certified Public Accountant (ACPA) certificate offered by the Arab Society for Certified Accountants (ASCA) and the University of Cambridge International Examinations, and accredited ACPA to be equivalent to international professional certificates, namely CPA and CA, for audit practice licensing purposes¹ (The Arab Society of Certified Accountants 2011).

1.6 Theoretical perspectives and research methodology

Institutional theory and Marx's (1978) theory of the circuit of industrial capital are employed in this study. Following recent IA studies (Al-Twajjry, Brierley & Gwilliam 2003; Arena, Arnaboldi & Azzone 2006; Arena & Azzone 2007; Mihret, James & Mula 2010), institutional theory is employed to explain the influence of these concepts on IA effectiveness. Following recent IA studies (Mihret, James & Mula 2010; Yee et al. 2008), Marx's (1978) theory of the circuit of industrial capital will serve to illuminate the concept of an added assurance and production process for Libyan public enterprises and provide a perspective on the extent to which the IA function fits into the wealth creation processes of enterprises and society. These theories descend from political economy and, therefore, share similar foundations. Institutional theory and Marx's theory enable understanding of IA practices as a part of organizational systems and can explain the role and effectiveness of IA as a value adding service in organizations (Al-Twajjry, Brierley & Gwilliam 2003; Mihret, James & Mula 2010; Yee et al. 2008).

¹ ACPA certificate is accredited by the University of Cambridge International Examinations and it was recognized by several Arab countries. The ACPA program was developed in accordance with the accredited accountant qualification curriculum issued by the United Nations Conference on Trade and Development (UNCTAD). The ACPA examinations are organized in 36 centres in different major Arab cities. Upon successful completion of the ACPA program, the students attain the ACPA certificate qualifying them to practice professional accounting and auditing in addition to granting them ASCA membership.

This study addresses the research questions by conducting research based on a qualitative research approach to support the theoretical development called for in the literature, as well as the need to validate empirically the claims of academic commentators and consultants. Semi-structured interviews were conducted with IA directors, managers of administrative affairs, managers of financial affairs, chief executive officers, and general auditors. The study covers Libyan public enterprises operating in the manufacturing, commercial banking, and insurance sectors. The findings are based on the results of interviews with participants, as well as reviews of relevant documentary evidence.

1.7 Study scope and delimitation

This study does not *measure* IA effectiveness, but aims to interpret the perceptions of participants regarding IA effectiveness. The answers to questions 1-7 introduce the perceptions of the participants regarding IA effectiveness. Furthermore, the thesis does not study external auditors' reliance on IA work. Rather, it explores the external auditors' opinions about IA effectiveness. In addition, it is restricted to the manufacturing, commercial banking and insurance public enterprises, and focuses on internal audit effectiveness. In other words, it is a study about the profession of internal auditing. However, organization type characteristics were not used for the basis of analysis in this study as they were outside the scope of the research question. It is not a study of specific organisations. The selection of the three types of enterprises merely ensured the presence of internal audit practice. The study also does not include private enterprises. Therefore, the findings of the study are not necessarily generalizable to private enterprises.

1.8 Expected contributions

The study is expected to make contributions to IA theory and practice. The points that follow explain how the study contributes in several ways. First, as mentioned earlier, the limited previous research which addresses the issue of IA effectiveness has used different approaches in investigating IA effectiveness, resulting in mixed findings. Therefore, this study attempts to shed light on issues regarding IA

effectiveness by identifying factors that augment or inhibit IA effectiveness. Specifically, this study incorporates a factor not identified by prior research that may influence IA effectiveness, namely, awareness of the benefits of having internal auditing. This possibly fills part of the gap in the IA literature and provides a useful outcome by indicating priority areas that internal audit departments need to focus on to achieve high levels of effectiveness. Mihret and Yismaw (2007) indicate that future research would be welcome to fully understand the level of IA effectiveness in the public sector by defining other factors affecting IA effectiveness.

Secondly, due to the lack of IA research and the fact that the limited previous IA research has focused mainly on developed countries, this study provides empirical evidence from a developing country that may contribute additional insight to the literature and enhance understanding of the global configuration of the IA profession, particularly in Libya where there has been relatively little research conducted regarding IA (Al-Kilani 2002; Alhsadi 2007; Daruish 2004). As mentioned, the absence of professional standards and guidelines for internal auditors in Libya means organizations have their own internal guidelines on the practice of IA (Alhsadi 2007; Almagory 1998). Thus, by conducting research on IA in Libya, this study will enhance the understanding of IA effectiveness in this country where the environment differs from that of industrialized Western economies which are predominantly market-driven. In other words, during the last 40 years, the Libyan economy has not been considered a market economy because the users of accounting and auditing information have been predominantly the state and state agencies. After the Libyan revolution on 17 February 2011 there is no doubt that this picture will change to become similar to Western market economies where private investors and creditors are among the major users of accounting information. Furthermore, the results of this study could have policy implications for the IIA and the new Libyan government.

Third, the study extends IA research using Marx's (1978) theory of the circuit of industrial capital. This extends the theory's use to areas beyond financial accounting, management accounting, and accounting regulation (Yee et al. 2008). In other words, in line with Yee et al. (2008) and Mihret, James and Mula (2010),

this study is the third to extend Bryer's (1994; 1995; 1999; 2006) works by studying IA within the framework of Marx's (1978) theory of the circuit of industrial capital. A Marxist 'classical economics' perspective allows the researcher to consider the broader social benefits of IA, including raised living standards, a reduction in fraud and corruption; increased employment, and alleviation of poverty, particularly in developing countries where the capital is wasted or devalued because of inefficiencies, fraud, corruption or the protection of favoured relationships. Yee et al. (2008) argue that this theory can explain the role and IA effectiveness as an added assurance in relation to the production process in organizations. Therefore, this study contributes to the literature by establishing a theory-based link between IA effectiveness and an added assurance in relation to the production process.

Finally, the majority of previous research which addresses the issue of IA effectiveness has used quantitative research and has used questionnaires for data collection. This study contributes to knowledge regarding IA effectiveness by using qualitative data because in qualitative studies researchers do indeed dig deep to acquire a complete understanding of the phenomenon (Leedy & Ormrod 2005). Therefore, using qualitative research (interview data collection) for this study facilitates an in-depth examination and investigation of the factors affecting IA effectiveness.

1.9 Organization of chapters

The remainder of the dissertation is organized into seven chapters. The structured approach to presenting the thesis is shown in Figure 1.2

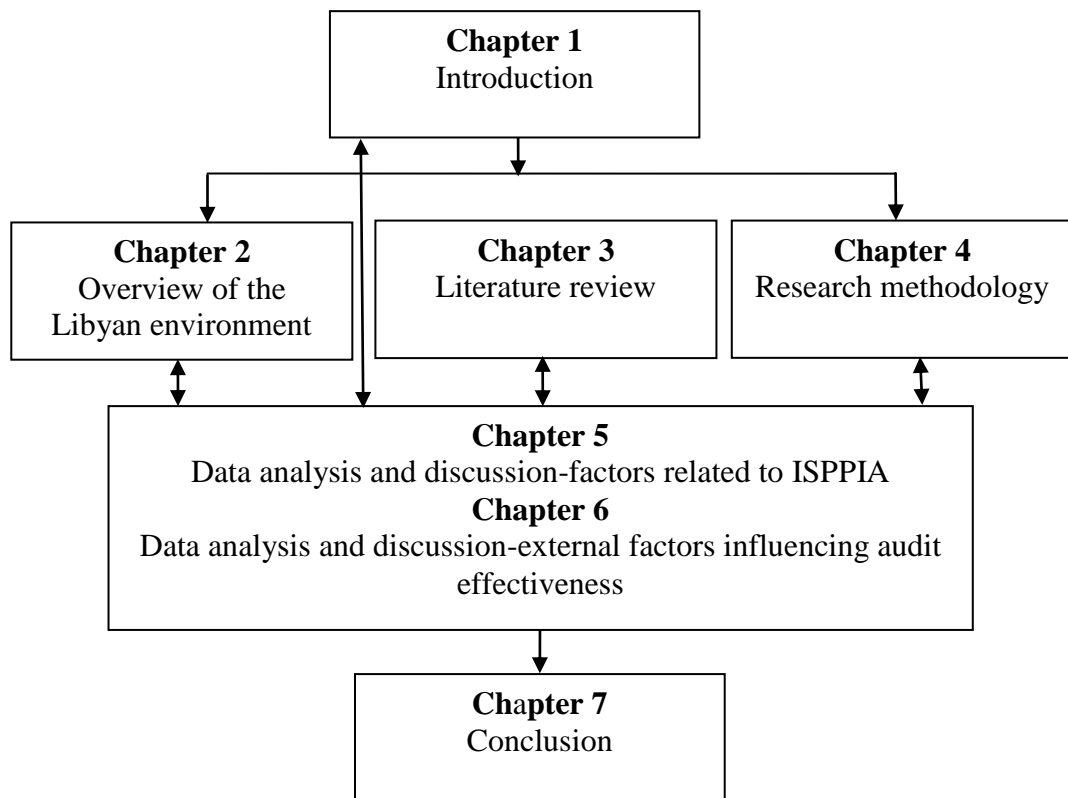


Figure 1.1 Structure of thesis

Following this introductory chapter, Chapter 2 provides a brief overview of the Libyan environment, which is fully updated to take into account the Libyan social and political revolution of 2011. Chapter 3 sets the scene for the thesis by providing a review of the IA literature and of the theories employed in the study. The chapter discusses the theories adopted and then reviews the IA literature within the framework of these theories. Specifically, institutional theory and Marx's (1978) theory of the circuit of industrial capital are reviewed first. The literature on IA effectiveness and related methodological issues are then reviewed in light of the theoretical perspectives adopted. This chapter also presents a review of prior research that investigates the factors that augment or inhibit IA effectiveness.

Chapter 4 provides details of the research methodology employed in the thesis. It discusses methods and approaches chosen, data collection procedures, and the data analysis techniques employed. Chapter 5 presents the results of a detailed analysis of the interviews regarding the first group of factors which relate to

ISPPIA. The purpose of this analysis is to answer the first four subsidiary questions posed in this study.

Chapter 6 presents the results of a detailed analysis of interviews regarding the other three external factors influencing IA effectiveness, namely, co-operation between the internal and external auditor, management support, and awareness of the benefit of having effective internal auditing. The purpose of this analysis is to answer the last three subsidiary questions RQ5, RQ6 and RQ7 formulated in this research study. Chapter 7 then summarizes the thesis; provides major conclusions drawn; offers a number of recommendations; outlines implications of the results to the literature and practice; highlights potential limitations of the study; and suggests future research directions. Finally, overall concluding remarks are presented.

1.10 Conclusion

Internal audit is considered as a value-adding activity in contemporary organizations. In order for IA to be considered a value-adding service to organizations it must be effective. However, the internal audit function may not always be effective. Nonetheless, there has been relatively little research conducted concerning IA effectiveness. The evidence from limited literature suggests that currently there is no generally accepted approach to assess IA effectiveness and no generally acknowledged guide or tool for this purpose. To fill part of this gap in the internal audit literature, this study aims to interpret the perceptions of participants regarding IA effectiveness by identifying seven factors that impact on IA effectiveness. The first four factors relate to the ISPPIA established by the IIA, namely, independence, competence, scope of internal auditing work, and performance of internal auditing work. The fifth factor relates to co-operation between the internal and external auditor. The sixth factor relates to management support and, finally, the seventh to an awareness of the benefits of internal auditing. Institutional theory and Marx's (1978) theory of the circuit of industrial capital are employed. A qualitative method is used to collect and analyse data with a view to answering the overarching research question: to what extent is the internal audit function in Libyan public enterprises perceived to be

effective. The next chapter provides a brief overview of the social, political, economic, and legal environment of Libya.

CHAPTER 2 AN OVERVIEW OF THE LIBYAN ENVIRONMENT

2.1 Introduction

The main purpose of this chapter is to provide an overview of environmental characteristics within Libya in order to provide an insight into the country's social, political and economic context. However, overall, there are very few sources which provide information about the Libyan environment and most of these references are in Arabic languages. Over the past few decades, Libya has witnessed many changes in the state administration which have affected all sectors, including the public sector. Therefore, it is important to provide the reader with background information about Libya and to describe the environment within which Libyan public enterprises operate. This background information may be helpful in explaining perceptions of the role and effectiveness of internal audit held by the participants of this study in the Libyan context.

The chapter is divided into six main sections. The first section deals with Libya's social and political environment; and the second section outlines a brief history of Libya. The third section provides an overview of the development of the Libyan economy, followed by Section Four which outlines the professional status of accounting and auditing in Libya. The fifth section presents the development of the Libyan banking sector and, finally, the chapter concludes with a brief summary of the chapter.

2.2 The social and political environment of the context

2.2.1 Geographical Location and Population

Libya is a developing Arab state located in the North central part of Africa with an area of 1,759,540 square kilometres (1,092,882 square miles)—which ranks it as the fourth largest state in Africa and the fifteenth largest in the world. It is approximately one half the size of Europe or one quarter the size of the United States of America. It is bounded on the north by the Mediterranean Sea, on the

east and south east by Egypt and Sudan, on the south and southwest by Chad and Niger, on the west by Algeria and on the northwest by Tunisia. Therefore, it has a Mediterranean coastline nearly 1,800 kilometres long (1,118 miles), from Tunisia in the west to Egypt in the east (for more detail see Otman & Karlberg 2007). However, approximately, 90 per cent of Libya's land area is unoccupied with 94.73 per cent being desert or semi-desert, consisting of sandy areas and two areas of hills and mountains rising to a maximum of 3,000 feet above sea level, 3.94 per cent agricultural and 0.29 per cent forests (Infoplease 2005; Terterov & Wallace 2002). These geographical characteristics create an unbalanced demographic situation where most of the population of the country is centred in the main coastal cities such as Tripoli (the capital of Libya), Benghazi, Misratah, AL-Zawia and Darnah (Ahmad & Gao 2004). The last official census, which was conducted in July 2010, recorded that the population of Libya was 6,294,944 as at that date (Countries of the World 2011).

2.2.2 Language and religion

In Libya, Arabic is the official language and legislation requires that all signs and legal documents be Arabized, although, many Libyans understand English and/or Italian languages. Islam is the chief religion, which provides spiritual guidance for the individual and a base for government policy. Despite this, other groups do have the freedom to practise their own religion (Ahmad & Gao 2004).

2.3 A brief history of Libya

The history of Libya is the history of the oldest civilizations which have existed for more than six thousand years in the North Africa-Mediterranean Region. These include the Phoenicians, Carthaginians, Greeks, Romans, Vandals, Byzantines and Islamic civilizations. The roots of human settlement in Libya extend historically as far back as 8000 BC. This period left evidence of human settlement in Libya through a wealth of paintings and engravings left on stones inside mountain caves that are generally located in the southern part of Libya. The Greeks and Romans also left impressive ruins at Cyrene, Leptis Magna and Sabratha (Otman 2007).

In 1551 the Ottoman Turks occupied the country, and the Libyan provinces remained part of their empire. Following the Italo-Turkish War in 1911, Italy invaded Libya and, despite the subsequent period of many years of fierce resistance, the country became an Italian colony. In 1934, Italy adopted the name 'Libya' (used by the Greeks for all of North Africa, except Egypt) as the official name of the colony, which consisted of the provinces of Cyrenaica, Tripolitania and Fezzan (Terterov & Wallace 2002).

As a result of the Second World War the British and French shared control and a separate British military government was established in Cyrenaica and Tripoli. During the same period the French military administered the Fezzan region, performing functions similar to those of the British elsewhere in the country (Abouziied 2005). However, on 21 November 1949, the General Assembly of the United Nations passed a resolution stating that Libya should become independent before 1 January 1952. When Libya declared its independence on 24 December 1951, it was the first country to achieve independence through the United Nations and one of the first former European possessions in Africa to gain independence (Infoplease 2005; Otman 2007; Terterov & Wallace 2002). From Benghazi, Idris Senussi led the team negotiating independence with the United Kingdom and the United Nations. On 24 December 1951 a National Congress elected Idris as King of Libya, after which Idris King proclaimed the independence of Libya from the United Kingdom as a sovereign state (Anderson 1982).

On 1 September 1969, while Idris King was in Turkey for medical treatment, he was deposed in a coup by a group of Libyan army officers under the leadership of Muammar al-Gaddafi. Thus, a new era in the history of Libya began in September 1969 when Muammar al-Gaddafi established a republic under the name Libyan Arab Republic (BBC NEWS 2011a). The history of Libya under the Gaddafi regime extended for a period of forty-two years, from 1969 to 2011. In 1976, Muammar al-Gaddafi renamed the Libyan state the Great Socialist People's Libyan Arab Jamahiriya, where Jamahiriya is a term coined by Gaddafi, usually translated as 'state of the masses' (Terterov & Wallace 2002).

In line with the Arab spring, major political protests began in Libya against Gaddafi's government on 17 February 2011, characterized by protests and

demonstrations against the regime of Gaddafi regarded generally as a repressive regime. The protests reportedly began after the arrest of Fathi Terbil, a lawyer representing victims of the Abu Salim massacre in which more than 1,200 political prisoners were gunned down by security forces after protesting against prison conditions (BBC NEWS 2011c). Victims' families challenged the regime's intention to arrest him and during the following week these protests gained significant momentum when Gaddafi responded by dispatching military and plainclothes paramilitary to the streets to attack demonstrators. Subsequently, demonstrations began in Albida city, east of Benghazi, demanding the overthrow of the Gaddafi regime. These demonstrations also spread to many cities to the west of Libya such as Misrata, Zawiya and Zentan.

On 5 March, the Libyan Interim National Transitional Council (LINTC) was established, which became the revolutionary government. The LINTC succeeded early on in controlling many of the coastal cities in the east and southeast areas, as well as three cities in the west of the country which raised the flag of Libya's independence in 1951 (The Libyan Interim National Council 2011). This flag was abolished by Gaddafi in 1969. The situation worsened with Gaddafi's violent response when he imported foreign mercenaries to defend his government and used aircraft to bomb rebels. As a result, the United Nations (UN) declared Security Council Resolution 1973 regarding a no fly zone over Libya to protect the civilian population of Libya. Dicker (2011) said:

‘The Security Council has risen to the occasion and given notice to Gaddafi and his commanders that if they give, tolerate, or follow orders to fire on peaceful protesters, they may find themselves on trial in The Hague. On 27 June 2011 the International Criminal Court (ICC) issued arrest warrants for Gaddafi, his son Saif al-Islam, and his brother-in-law Abdullah al-Senussi, head of state security for charges, concerning crimes against humanity’.

Therefore, on 27 June 2011 the International Criminal Court (ICC) issued arrest warrants for Gaddafi, his son Saif al-Islam, and his brother-in-law Abdullah al-Senussi, head of state security, on charges concerning crimes against humanity (International Criminal Court 2011). Then on 28 August most regions of the country, including the capital city Tripoli, were deemed free. On 16 September the majority of members of the General Assembly of the United Nations (by a recorded vote of 107 against to 22 in favour, with 12 abstentions) recognized the

LINTC in Libya as a transitional government and eligible for a seat in the international organization (United Nations 2011).

As the war entered its momentous final days with clear and evident decline in the number of locations occupied by loyalists, the last remaining stronghold of Gaddafi regime loyalists was the city of Sirt. On 20 October 2011 Gaddafi was captured by members of the Libyan National Liberation Army after his convoy was attacked by NATO warplanes as he attempted to flee. He was seriously wounded during his arrest, and died in custody less than an hour later (BBC NEWS 2011b). Sirt fell on the same day and, subsequently, on 24 October 2011 the official announcement of the liberation of Libya was made by the LINTC in Benghazi.

2.4 Economic development

Prior to the discovery of oil in 1959 Libya was one of the poorest countries in the world with a per capita income of about \$35 per year (UNESCO 1952). Similar to other Arab states, the Libyan economy was based on agriculture (Ahmad & Gao 2004) which was the backbone of the Libyan economy. It provided food and work for the majority of the population with 70% of the labour force being engaged in agriculture and animal husbandry (Nyrop 1973). In the industrial sector, production was limited to food industries such as canning fish and traditional industries carried out by families. These industries included carpets, simple home appliances, and other industries that depended mostly on agricultural production or animals, for example, canning tomatoes or spinning wool.

After Libya became independent in 1952, the economic situation and social development continued to frustrate the hopes of Libyan investors, as well as foreigners. The United Nations agreed to sponsor development plans, with an additional substantial funding by the UK and the US who wanted to maintain and use military bases in Libya (Fisher 1995). The Economic and Social Council (ECOSOC) of the United Nations adopted a resolution in the early 1950s declaring that Libya was in need of urgent assistance to improve its economy. ECOSOC also requested assistance from each of the specialized agencies to implement the necessary procedures (UNESCO 1952). Therefore, Libya adapted

to depending largely on foreign agencies and consultants, including experts from Britain in establishing their different systems (Ghanem 1982). For example, there were many foreign agencies (mainly from Britain and the United States) such as the Libyan Public Development and Stabilisation Agency; the Libyan American Reconstruction Commission; the Libyan American Joint Service; and the Libyan American Technical Assistance Service. However, with the discovery of oil in 1961, the country no longer needed to rely on foreign assistance.

The Libyan economy changed rapidly after the discovery and export of oil in October 1961. The discovery of significant oil reserves in 1959 and the subsequent income from petroleum sales enabled what had been one of the world's poorest countries to become extremely wealthy, as measured by per capita Gross Domestic Product (Otman 2007). To describe how oil revenues developed the Libyan society and enhanced its economic development, Sanger (1975, pp. 413-4) points out that:

‘The cities had become construction camps with noisy bulldozers levelling buildings and cement trucks pushing through the traffic jams with loads for the ever-hungry building cranes which dominated the skyline. In and around the chief cities and towns rose block after block of new housing ... Hospitals of standard design were being built in half-dozen lots ... The giant campuses of the Universities of Tripoli and Benghazi were the most impressive in Africa Above many side streets and garden suburbs the tall chimneys of new factories rose behind the minarets, their dark smoke clouds proof of the boom in cement, reinforcing wire, plumbing fixtures, textiles, food processing and, most successful of all, the drive to expand electricity’.

In 1962, oil began to take a leading role in the field of Libyan exports, and in 1963 the Libyan economy achieved a surplus of commercial balance of about 35 million Libyan dinars for the first time (Ahmad & Gao 2004). The state revenue from oil increased from approximately £L87.5 million in 1965 to £L400 in 1969.

In 1980 the industrial countries started to move towards reducing their dependence on oil from Organization of Petroleum Exporting Countries (OPEC), resulting in a reduction in price and volume of oil produced by OPEC countries. As a result, Libya's income from oil decreased and in the early 1970s the government began a renewed drive for economic development (Aagnaia 1997). Therefore, to improve the national economy, the Libyan Government implemented different development plans funded by oil revenue. One important aim was to reduce the country's dependence on the oil sector to achieve a greater

degree of self-sufficiency and self-reliance. Thus, the attention over the last three decades has been directed to the non-oil industrial sectors.

Since 1969, the industrial sector has gained the support of Libyan decision-makers. At the end of the 1970s, the Libyan economy became completely centrally planned and controlled by the government. Consequently, all activities became state-owned, and the private sector was completely abolished until 1989. The Libyan government developed and approved two plans. The first plan covered a five-year period (1981-1985); followed by second five-year plan (1986-1990). Over 15 billion Libyan dinars were spent on these two development plans, and about 5 billion Libyan dinars was spent on the industrial sector (Libyan Secretariat of Planning 1991). This support started with the establishment of 25 public companies operating in heavy manufacturing which produced commodities such as tractors, buses, trucks, steel pipe, plastic, cement, batteries, tyres, chemicals and electronics (Aгнаia 1997).

During the 1990s, the manufacturing public sector was reorganized and divided into five subsections, namely, electrical and engineering industries; food production industries; cement industries; chemical industries and basic metallurgical industries. The Industry Secretariat is responsible for supervising all the manufacturing companies, which employ about 40 percent of the Libyan workforce (Libyan Commercial Industrial and Agricultural Chamber 2002). Manufacturing was a development challenge that was to be unquestionably accepted and tackled in order to find substitute resources for oil as a source of public revenue. However, the manufacturing public sector in Libya has not done so well in both quality and standardization dimensions. It has not been successful in mobilising resources and efforts for the research and development of quality consciousness of products or services (Libyan Commercial Industrial and Agricultural Chamber 2002).

Libyan industrial enterprises are mostly public enterprises (state-owned), and controlled and supervised by government institutions. These organizations are financed in different ways in relation to their activity and, in 2002, there were over 190 public enterprises in various fields (Libyan Commercial Industrial and Agricultural Chamber 2002). Despite legislation in 1992 (the Law No. 9 on

partnerships) which provided a new basis for individuals to engage in manufacturing, agriculture, professional service and other ventures as sole owners, public enterprises are still dominant in the Libyan economy (Otman 2007). Therefore, the Libyan economy is not considered a market economy per se, as the users of accounting and auditing information are predominantly the state and state agencies. This picture is different from Western market economies where private investors and creditors are among the major users of accounting information (Ahmad & Gao 2004). Libyan public enterprises do not seek to make a profit.

The objective of Libyan public enterprises is to offer services and goods to the public rather than to make a profit. However, Libyan public enterprises have faced many problems. In a study conducted by the Industrial Research Centre (2008) on management efficiency and productivity in a number of Libyan industrial organizations, the following obstacles were identified. First, the performance of organizations is poor due to weaknesses in education, training, experience and professional qualifications of staff. Second, the organizations suffer from inadequate authority and lack of clear demarcation of duties and responsibilities. Third, there are problems in the storage systems in terms of poor conservation of raw materials used in the manufacturing process in Libyan public enterprises operating in the manufacturing sector. The storekeepers do not possess the requisite scientific knowledge of storekeeping. It is also observed that production is hampered because the incoming and outgoing operation of raw materials is slow due to non-availability or short supply of some of the materials. For example, sometimes it takes an unusually long time to procure deliveries of imported items. Fourth, it is observed that in a number of cases there is no regular maintenance of machinery, and maintenance generally occurs only when there is a breakdown. Fifth, a poor communication system between various levels of employees is evident.

2.5 The professional status of the accounting and auditing in Libya

2.5.1 The accounting and auditing environment in Libya

In 1952, when Libya became independent, there was no accounting education or training available locally. Therefore, there was a shortage of individuals qualified in accounting and auditing. As mentioned earlier, most of the business firms depended upon foreign accounting firms from Italy and the UK (Ahmad & Gao 2004). This situation continued even after the independence of the country because of the limited number of accountants. During this era, there were just sixteen students who graduated from universities in 1949, and there were no PhD holders in the country (Gurney 1996). Many foreign agencies from the UK and the USA established themselves in Libya to carry out various projects. These agencies were managed by non-Libyans and, through them, the British and Americans implemented their own accounting models, significantly influencing the accounting system in Libya (Buzied 1998). Therefore, laws which currently regulate the accounting and auditing profession in Libya are derived from the British and American accounting and auditing standards (Bait El Mal 1990). The first financial organization established in Libya was the State Accounting Bureau (SAB).

In 1955 the SAB was established by the law No. 31 of 1955 under the responsibility of the Ministry of Treasury. The SAB played a key role in the development of an accountancy profession in Libya (Ahmad & Gao 2004). Under Law No. 79 of 1975 the SAB became responsible directly to the Revolutionary Command Council (RCC) to guarantee its dependence. According to law No. 79 of 1975, the function of the SAB is to exercise effective control over public resources in terms of (1) audit of government revenues; (2) audit of government expenditures; (3) audit of government obligations; and (4) Reporting of audit findings. In addition, article 18 of this law states that the SAB is responsible for examining and auditing the accounts of the state, organizations and public agencies (Libyan government 1955).

In 1974 the General People's Committee for Control (GPCC) replaced the SAB through the introduction of Law No. 88 of 1974. The GPCC was responsible for

reviewing LBE in terms of financial and management audit. However, after issuance of Law No. 11 in 1996 by the GPC, the GPCC separated into two organizations which are the General People's Committee for Financial Audit (GPCFA) and the General People's Committee for Management Audit (GPCMA). Under this Law Libyan public enterprises are required to undergo audit by auditors general (Libyan Government 1996). These auditors are assigned by the GPCFA to review public organizations. Due to the increased number and size of accounting firms, where there are no professional standards and international professional bodies, there was an urgent need to set up a professional body to take the responsibility for developing a general framework of accounting. Therefore, Law No. 116 of 1973 was issued to organize the profession of accounting and auditing in Libya. This law led to the establishment of the LAAA.

The LAAA was established in June 1975 with the aim of organizing and improving the conditions of the accounting profession and raising the standards of accountants and auditors professionally, academically, culturally and politically and to be involved in organizing and participating in conferences and seminars related to accounting (Ahmad & Gao 2004). The primary professional qualification of accountancy in Libya is membership of the LAAA. Auditors must be members of the LAAA to practise. Accountants who want to qualify as members must meet the following requirements: (1) hold Libyan nationality; (2) have a bachelor's degree in accounting; (3) have five years experience in accountancy-related jobs in an accounting office after obtaining the bachelor's degree; (4) be active in political and civil rights; and (5) be of good conduct, reputation and respectability commensurate with the profession (Libyan Association of Accountants and Auditors 2010). However, the LAAA has failed to achieve its objectives of holding and participating in activities such as research, conferences, seminars, continued education and training programmes, and following recent developments in the profession through accounting publications to improve the status of the profession and its members (Ahmad & Gao 2004). Table 2.1 shows the number of registered members of the LAAA.

TABLE 2.1
Registered accountants in the Libyan Association of
Accountants and Auditors

Types of membership	Number
Accountants in practice	945
Assistant accountants in practice	307
Assistants who are not in practice	117
Total	1369

Source: (Libyan Association of Accountants and Auditors 2010)

2.5.2 Legal Requirements

In Libya, as in many other countries, an attempt has been made to regulate accounting practice through direct governmental laws and regulations. Thus, the significant impacts on accounting and auditing in Libya have come from a) the Commercial Code (LCC); b) the Law Rules in Respect of Trades and Commercial Companies and Supervision Thereon; c) the Law Organization of the Accounting Profession in Libya; and d) The Libyan Income Tax Law.

2.5.2.1 The Libyan Commercial Code

LCC, issued on November 28 1953, is the first legislation to cover particular topics related to the accounting and auditing profession in Libya. For instance, article 573 of the LCC requires every corporation's board of directors to prepare an annual report, including an income statement and a balance sheet, but there is less emphasis on producing information for internal managerial use. The financial statements are to be reported to the general assembly of shareholders for approval (Libyan Government 1953). Article 583 of this law indicates that a copy of an approved balance sheet and profit and loss account must be submitted to the Commercial Register within thirty days of its approval. This is to be accompanied by the directors' report and auditing board's report. Furthermore, the LCC enforces public enterprises to appoint external auditors, but without any terms regarding the external auditor's professional qualifications. To protect the independence of the Auditor and the possibility of being subjected to arbitrary dismissal, the LCC requires a necessity issuance decision of the Court after

hearing the findings of the auditor for the validity of the dismissal decision (Libyan Government 1953).

2.5.2.2 Law Rules in Respect of Trades and Commercial Companies and Supervision Thereon

Law rules in respect of trades and commercial companies and supervision thereon No. 65 issued in May 1970 is complementary to articles of the commercial law referred to above. Articles 13, 25 and 26 of this law state that nominating an auditing board is only required when a company's capital reaches five thousand dinars (Libyan Government 1970a). Also, this auditing board consists of three employed members and two members who act as reserves in the case of sickness or other absence. In addition, the members are nominated by the General Assembly of Shareholders which has the right to choose them from non-participants (Libyan Government 1970a). They are also required to be of Libyan nationality, be qualified, and have experience in accountancy and financial affairs. The General Assembly of Shareholders fixes the annual bonus for the controllers whose term of office is three years, with the possibility of being re-employed (Libyan Government 1970a). But the Law did not specify the quality qualifications required and necessary practical experience.

In 1970, the executive regulation of Law No. 131 was issued regarding supervision and control of insurance companies. It requires external auditors who are assigned to audit insurance companies to hold a bachelor degree in economics and have experience of more than five years or be a member of the Association of Accountants and Auditors Arab, or the holder of a certificate from one of the institutes or foreign accounting associations (Libyan Government 1970b). However, the development of the accounting and auditing profession began after issuance of Law No. 116 of 1973 which organizes the profession of accounting and auditing in Libya.

2.5.2.3 Law No. 116 of 1973 Organization of the Accounting Profession in Libya

Before issuing Law No. 116 of 1973, there was no specific law which required that the financial statements of business be certified by an independent auditor.

Different tax laws have only required financial statements from the taxpayer, as well as other attached documents to be signed by the legal representative of the taxpayer, for example, a chartered accountant (Bait El-Mal, Smith & Taylor 1973). The introduction of law No. 116 of 1973 led to increased attention to the accounting and auditing profession (Ritchie & Khorwatt 2007) and the same law (Article 53) established the LAAA (Libyan Government 1973b). This Law comprises the following sections: the establishment of the LAAA, registration of accountants, exercise of the profession, fees, pension and contribution fund, responsibility of accountants and auditors, penalties and general and transitional provisions (Libyan Government 1973b). Therefore, the accounting profession has become limited to those registered with the LAAA. In other words, an accountant in Libya cannot practise the auditing profession in the country unless he/she is registered as a chartered accountant with the LAAA (Libyan Government 1973b).

2.5.2.4 The Libyan Income Tax Law

The Libyan Income Tax Law No. 64 of 1973 has had a major impact on accounting practice in Libya (Al-Kilani 1988; Bait El-Mal, Smith & Taylor 1973). For example:

1. Article 55 states that deductible donations to charities must not exceed 2 per cent of the taxpayer's net income (Libyan Government 1973a).
2. Article 56 indicates that establishment costs may be depreciated against revenues over three to five years using the straight-line method (Libyan Government 1973a). In this respect the Law 'has followed the French law which allows the deduction of capital expenses from revenues and even permits the deduction to be made in one amount'(Al-Kilani 1988, p. 130).
3. Article 59 Stipulates the following: where the accounts for a year have been closed with a loss, the loss (or taxable losses) balance shall be carried forward for a maximum of five years from the year of the loss (Libyan Government 1973a).
4. Article 64: depreciation should be based on the straight-line method (specified rates for different types of assets are given) and on the historical cost of the asset (Libyan Government 1973a).

5. Article 65 states that no distinction is made between operating income and extraordinary income. The Law provides that the profit resulting from the sale of a business or any of its tangible or intangible assets shall be deemed to be operating income (Libyan Government 1973a).

After this brief review of some Libyan laws and regulations, it seems that most of these laws/regulations focus on accounting and external audit practices. However, there is no attention to internal audit practices and there is a lack of laws and regulations which address the organization of the profession.

2.6 Development of the Libyan banking sector

The Libyan banking sector navigated numerous stages as part of the economic occupation. In general, the development of Libyan banking can be divided into six historical periods. Each period is characterized by the appearance of certain aspects of the development of banking activity which, in turn, is characterized by specific qualities. The following sub-section outlines these stages.

a. 1868-1940

Modern banks in Libya appeared in the second half of the 19th century, which characterized a general improvement in the Libyan economic condition. Such improvement required the establishment of financial institutions to serve an economy dominated by agriculture. Therefore, in this period, the Ottoman rule established an agricultural bank in 1868 in Benghazi; and another one in Tripoli in 1901 which had several branches spread across the state. Then the Ottoman bank opened another two branches in Libya: the first commenced business in Tripoli in 1906 and lasted until the year 1913; and the second one in Benghazi in 1911 continued until the Italian occupation (Benkato 1981). These banks were conservatively managed and subject to supervision from their home countries. However, the development of the Libyan banking system dates back only to the beginning of the Italian colonization.

Prior to Italian military invasion (in 1911), the Bank of Rome opened its first branch in Tripoli on 25 April 1907, followed by another branch in Benghazi on 15

September 1907. Then the third branch opened in Darnah in July 1912 (Ehtawish 2006). Besides its banking operations, the Bank of Rome played the role of Central Bank by issuing notes and coins to underpin its authority (EI-Baiah 1980). After the Italian invasion (in 1911), several Italian banks opened branches in Tripoli, namely: the Bank of Napoli, the Bank of Sicily and the Bank of Italia, along with two local banks—the Saving Bank and Bank of Tripoli (Otman 2007).

b. 1940-1951

During this period, Italian occupation expired at the end of the Second World War when Italy exited from Libya. As a result, all the Italian banks in Libya were closed and the currency of Italian Lire was replaced by a different unit of value (Al-Kilani 1988). After the Second World War, Libya was placed under British and French military administration. The British military department took over administration of the country and, in early 1943, Barclays Bank opened two branches: one in Tripoli and the other one in Benghazi. The French military department took over administration of the Fezzan, and then opened the Bank of Algeria (Central Bank of Libya 2006). These three states ruled independently and formed financial and economic relationships and implemented their own systems and procedures in relation to export and import regulations and currency. Despite the states of Tripoli and Cyrenaica being subjected to the rule of British colonialism, each state had its own currency. In Cyrenaica, the Egyptian pound replaced the Italian lira (Central Bank of Libya 2006). However, in Tripoli, British Military Currency was covered by the sterling pound on behalf of the occupation authorities. As in Fezzan, the French authorities were using the old Algerian franc, which was issued by the Algeria Bank. The colonial banks' lending policies were confined to banking operations within the limits of safety of depositors' funds and stability in the system (EI-Baiah 1980).

c. 1951-1962

In this period, Barclays Bank continued their operations in Tripoli and Cyrenaica and enjoyed a monopoly power with eight branches located in various parts of the country (Central Bank of Libya 2006). After independence the three Italian banks, which were closed due to the Allies prevailing in North Africa, resumed their

activity in the country once again. In addition, four other banks, namely, the British Bank for Middle East in 1952, the Arab Bank in 1952, the Bank of Egypt in 1954, and the Tunisian-Algerian Real Estate Bank in 1955 entered the Libyan banking market (Benkato 1981). On 24 December 1951, Currency Law No. 4 came into force. It was the first financial law in Libya's modern history and the primary legal step towards regulation of the Libyan banking system. Under the Libyan Currency Law No. 4 of 1951, the Libyan Currency Committee commenced operations. The committee's tasks were issuing currency, investment of accumulated currency reserves and redeeming the three currencies which were circulating in the country—namely the British military Lira in the province of Western Region, the Egyptian Pound in the province of Eastern Region, and the Algerian Franc in the province of Southern Region. The head of this Committee was Mr Ruder from the Bank of England. After one year the Committee issued the first Libyan currency (Blowers & McLeod 1952).

d. 1962-1970

This period is considered as one of the most important periods in the development of the Libyan banking system. By issuing Law No. 4 of 1963, the Central Bank of Libya (CBL) replaced the National Bank of Libya and it was given the right of currency issue and assumed responsibility for maintaining monetary stability and the external value of the Libyan currency (EI-Baiah 1980). The CBL was also given full power to conduct inspections on national and foreign banks operating in Libya, with the ability to impose appropriate penalties. In addition, the important point in Law No. 4 of 1963 was that the share of Libyan citizens in foreign banks' capital operating in Libya should be no less than 51% which, hence, implies the Libyanization process (Central Bank of Libya 2006).

The process of Libyanization was accepted by Sicily Bank, Tunisian-Algerian Bank and the British Bank of the Middle East. Consequently, those procedures led to the change of names of those banks which were converted into Libyan stock corporations: Sicily Bank became known as Sahara Bank, the Tunisian-Algerian Bank was renamed African Banking Corporation and the British Bank of the Middle East was given the new title of North Africa Bank. However, other foreign banks ignored the policy of Libyanization. As a result, the CBL could not achieve

its objectives. In other words, CBL failed to perform as required due to its inability to Libyanize the other foreign banks, namely, Rome Bank, Barclays Bank and Naples Bank (Central Bank of Libya 2006). On 1 September 1969, the emergence of the new political regime (Al Fatah Revolution) accompanied many of the political and economic changes in Libya. Therefore, on 23 November 1969, the Revolution Command Council issued the decision relating to the conversion of all foreign banks operating in Libya to stock companies (Ehtawish 2006).

e. 1970-1993

This period witnessed the issuance of Law No. 153 of 1970 by the Libyan Government for the nationalization and reorganization of all foreign banks. Accordingly, all banks operating in Libya became state-owned, while foreign banks and companies were suspended from performing any type of banking operations. Also, this Law created the integration of all banks operating in Libya into five Libyan commercial banks state-owned by CBL (Central Bank of Libya 2006), namely, 1) Al-Wahda Bank: established in 1970 by the nationalization of the Bank of Al-Qafilah Al-Ahli, the Corporation of African Banking, North Africa Bank, the Commercial Bank, and the Alnahda Arab Bank; 2) Al-Gumhouria Bank: founded in 1970 in accordance with the decree to nationalize Barclays Bank; 3) Umma Bank: established in 1969 by the nationalization policies by merging the Bank of Rome; 4) Sahara Bank: founded in 1964 by the nationalization of the America Bank and Cicely Bank; and 5) The National Commercial Bank: founded in 1970 through the merger of the departments of the commercial banking operations in the Central Bank of Libya, Al-Istiklal Bank and Al-Orubah Bank (Ehtawish 2006). After issuing Law No. 103 in December 1970, relating to the nationalization of all banking in Libya, commercial banks now fall under the administration of the Libyan Government and are devoted to serving the Libyan national economy. This led to an increase in the level of management in the banking system which expanded banking services by opening many branches in all regions, with the number of branches increasing from 53 branches at the end of 1980 to 280 branches at the end of 2009 (Otman 2007). The names of these commercial banks and the number of their branches as at January 2010 are presented in Table 2.2.

TABLE 2.2
Commercial banks and number of its branches

Bank	Numbers of Branches
National Commercial Bank	56
Wehdah Bank	76
Sahara Bank	41
Jamhoria Bank	107
Total	280

f. 1993-2005

The period from 1993 to 2005 witnessed major developments in commercial banks in improving the level of banking services through diversification and provisions of services to citizens. The commercial banks also contributed, along with other sectors, in playing a vital role in the development of the national economy through granting loans and providing credit facilities for the production and economic sectors, individuals, finance projects and foreign commerce programs (Central Bank of Libya 2006). The promulgation of the Banking Law No. 1 of 1993 was an important cornerstone in this period because the development of the commercial banks increased after issuance of the Law No.1 of 1993 by CBL (Otman 2007).

Article 51 of Law No.1 of 1993 states that the main aims of the commercial banks are to finance development plans and create or contribute to corporate and economic projects (Libyan Government 1993). In addition, Banking Law No. 1 of 1993 places many obligations on commercial banks. For example, Article 57 of this Law states that each bank must maintain a reserve of capital of no less than 25% of the net before the announcement of profits. According to this article the bank must also keep amounts equivalent at least to all of its obligations payable in Libya, as well as an amount equal to the bank's capital paid (Libyan Government 1993). Furthermore, Article 64 indicates that each bank all year round should offer, in all its offices and branches and in a visible place, a copy of the last revised budget, and publish it in a local newspaper. Article 94 of Law No. 1 of 1993 has placed general rules of control and supervision on the commercial banks. It also identifies some of the duties of the commercial banks (Libyan Government 1993). However, empirical evidence shows that the commercial

banks' operations were undeveloped and that banks were still engaging in limited and traditional operations (Alhsadi 2007). Furthermore, there are increasing levels of fraud and corruption in the banking market. As a result, some customers and investors favour foreign banks operating outside the country, which has affected the commercial banks' operations and precluded them from important financial resources (Ehtawish 2006).

This Law also allowed the establishment of private banks. As a result some private banks have been established, namely, Bank of Commerce and Development, Aman Bank for Commerce and Investment and Alejma'a Alarabi Bank. However, most private banks in Libya are small and not particularly successful (Otman 2007). Figure 2-1 shows the structure of the Libyan commercial banks.

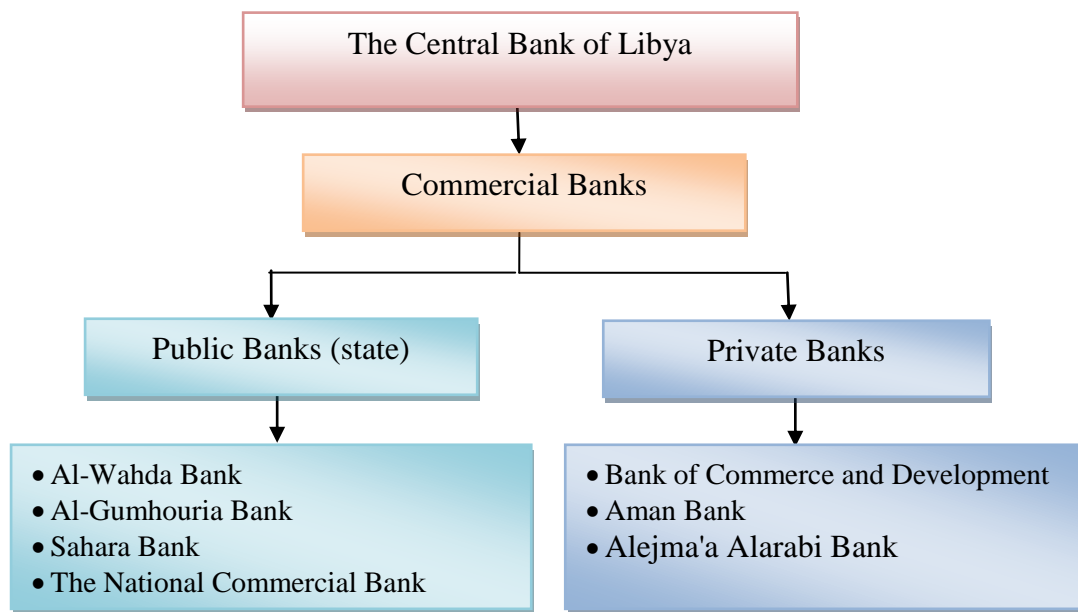


Figure 2.1 the structure of the Libyan Commercial Banks

2.7 Chapter summary

This chapter shows that Libya is a third world country with a small population covering a vast area—most of which is desert. Arabic is the only language, and Islam is the only religion. The country has been subjected to a number of foreign powers and independence was acquired only as recently as 1952.

Economic and social development is a very recent phenomenon, starting with the discovery of oil by the early 1960s. Since then a number of social and economic plans have been undertaken. At the end of the 1970s, the Libyan economy became completely centrally planned and controlled by the Government. However, oil still represents a main contributor to the Libyan economy. In industry, hundreds of public manufacturing sites have been built up during the period 1970-1990, with over five billion Libyan dinars being spent on this sector.

Prior to 1956, there was no reliable banking or monetary system in the country. The banking sector consisted of many branches of foreign banks and, founded in 1956, the Bank of Libya was the first national state bank. In order to enhance the functions of the banking system, many banking laws were introduced from the 1960s to the 1990s. The most important steps taken in the 1970s were the Libyanization and the nationalization of the banking system.

The accounting and auditing profession in Libya is influenced and derived from the British and American accounting and auditing standards. This is due to the huge impact of these two countries on the profession through several channels such as oil companies, aid agencies, construction companies and accounting and auditing education systems. The auditing profession in Libya is organized by the Law No. 116 of 1973. Some of these laws that relate to the accounting and auditing profession and its practices were issued by the Libyan Government. However, unlike the West, in Libya there are no professional standards or international professional bodies for IA such as the Institute of Internal Auditors (IIA), which results in organizations establishing their own guidelines on the practice of IA. Despite the importance of shedding light on IA effectiveness in various economic activities in Libya, no formal guidelines have been provided to manage internal audit departments. Therefore, this study provides insights on IA in Libya and whether the internal audit function is perceived to be effective, thereby enhancing practitioners' understanding of the merits and limitations of IA in Libya. The following chapter provides an important foundation for the thesis by reviewing the relevant academic and professional literature and the theories employed in the study.

CHAPTER 3 LITERATURE REVIEW

3.1 Introduction

IA has become an integral function in helping organizations achieve their objectives and protect their assets. There is an increasing awareness of the worth and function of IA and the value-added role it can play in modern organizations (Al-Twaijry, Brierley & Gwilliam 2003; Arena & Azzone 2009; Bou-Raad 2000; Coram, Ferguson & Moroney 2008; Goodwin 2004; Institute of Internal Auditors 2011d; Mihret, James & Mula 2010).

Al-Twaijry, Brierley and Gwilliam (2003) explain that there are two benefits in having an internal audit department within organizations. First, it improves organizational operations and manages risk. Second, it helps an organization in the prevention and detection of mistakes or fraud, and the safeguarding of assets. Nonetheless, IA's role and its effectiveness have not been extensively studied. In other words, to date, there has been relatively little research conducted concerning IA effectiveness, especially when compared to the amount of research conducted on external audit (e.g., Al-Twaijry, Brierley & Gwilliam 2003; Albercht et al. 1988; Arena & Azzone 2009; Cohen & Sayag 2010; Mihret, James & Mula 2010; Mihret & Yismaw 2007; Mizrahi & Ness-Weisman 2007; Yee et al. 2008). Moreover, some authors suggest that the function may not always be effective (Al-Twaijry, Brierley & Gwilliam 2003; Crockett & Albin 1995; Mihret, James & Mula 2010; Mihret & Yismaw 2007; Montondon 1995; Financial Reporting Council 2011) and suggest that it is important for internal auditing to comply with ISPPA to be considered a value added activity.

This chapter provides an extensive background to the research by reviewing the relevant academic and professional literature. It provides a review of the literature on the role of IA and its effectiveness and draws on institutional theory and Marx's theory of the circuit of industrial capital. Therefore, this chapter is divided into six main sections: 1) theoretical perspectives; 2) the role of IA and its effectiveness; 3) ISPPA; 4) co-operation between the internal and external

auditor; 5) management support; and 6) awareness of the benefits of effective internal auditing.

3.2 Theoretical perspectives

Neoclassical economic theories such as agency theory (Adams 1994) and transaction cost theory (Spraakman 1997) may not sufficiently inform IA research (Mihret, James & Mula 2010). For instance, the theories presume a developed market economic setting and a large volume of transactions. However, often sophistication of the market system and the volume of transactions depend on the level of economic development across countries (Reed 2002). This situation limits the ability of the theories to inform IA research in a diverse range of settings. Agency theory is not directly transferable to state-owned firms. It is not clear who the principal is (the public?) the public may not have only one definable interest as such. It would be hard to measure any divergence of interests between managers and the public. More generally, Mandel (1976) has effectively criticized Alchian and Demsetz (1972) earlier version of agency theory from the perspective of Marxist economics. Furthermore, neoclassical economics assumes that an organizational phenomenon is driven by individuals' pursuit of maximizing self-interest (Watts & Zimmerman 1978, 1986, 1990). Therefore, neoclassical economic theories may not sufficiently explain IA's development and operation in varied settings (Mihret, James & Mula 2010). Marxism and institutional theory criticize this assumption and maintain that 'Individual behaviour, whether as a consumer or producer of goods, cannot be abstracted from the social context in which the behaviour takes place' (Hula 1984, p. 199).

Institutional theory (Barley & Tolbert 1997) and Marx's theory (Avineri 1970) recognize the importance of cultural and social determinations as a major influence on decision-making (Mihret, James & Mula 2010). With this understanding, this study employs a combination of institutional theory (DiMaggio & Powell 1983) and Marx's (1978) circuit of industrial capital. Mihret, James and Mula (2010) employ a combination of the two theories in a theoretical framework that is beginning to emerge in empirical research. These theories descended from political economics and, therefore, share similar

foundations. As such, they provide the basis for studying organizational phenomena embedded in broad social, political and economic settings (Deegan 2006; Mihret, James & Mula 2010). Therefore, institutional theory and Marx's theory enable an understanding of IA practices as a part of organizational systems and illuminate the link between IA and the achievement of organizational goals (Mihret, James & Mula 2010). According to Mihret, James & Mula (2010, p. 232) :

'The concept of institution as applied in institutional theory refers to an "organizational field", which comprises several organizations or industries. Thus, it could be argued that while Marx's thinking on society focuses on changes in society at large, institutional theory concerns changes in parts of society as well'.

3.2.1 Institutional theory

Institutional theory proposes that the survival of an organization depends not only on achieving production efficiency but also on its conformity to societal norms of acceptable practice (DiMaggio & Powell 1983; Meyer & Rowan 1977). To illustrate conformity, DiMaggio and Powell (1983) identify three types of isomorphism: coercive, normative, and mimetic. DiMaggio and Powell (1983) and Meyer and Rowan (1977) both tried to answer the question: What makes organizations so similar? They find that organizations become homogeneous in the same field because they need to confirm social rules. They define organizational isomorphism as the resemblance of a local organization to other organizations in its environment or field. DiMaggio and Powell (1983, p. 148) defined an organizational field as:

'Those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products'

Institutional theory explains how organizational structures and practices are shaped through changes induced by institutional pressures. Institutional theorists consider organizations as members of an organizational field, which comprises several organizations or industries that are interrelated in some way. This interrelation leads organizations to influence others (Mihret, James & Mula 2010). DiMaggio and Powell (1983) suggest that organizations in a structured field respond to an environment that consists of other organizations responding to their

environment. As a result of institutional pressures and a desire to categorize themselves with other organizations in a similar environment, organizations tend to adopt similar characteristics. DiMaggio and Powell (1983, p. 147) argue 'bureaucratization and other forms of homogenization emerge, out of the structuration (Giddens 1979) of organizational fields'. DiMaggio and Powell (1983, p. 148) state:

'The structure of an organizational field cannot be determined a priori but must be defined on the basis of empirical investigation. Fields only exist to the extent that they are institutionally defined. The process of institutional definition, or 'structuration', consists of four parts: an increase in the extent of interaction among organizations in the field; the emergence of sharply defined interorganizational structures of domination and patterns of coalition; an increase in the information load with which organizations in a field must contend; and the development of a mutual awareness among participants in a set of organizations that they are involved in a common enterprise'.

Isomorphic processes can increase internal organizational efficiency because organizations are rewarded for being similar to other organizations in their fields. This similarity can make it easier for organizations to transact with other organizations, to attract career-minded staff, to be acknowledged as legitimate and reputable, and to fit into administrative categories that define eligibility for public and private grants and contracts (DiMaggio & Powell 1983). In the context of establishing internal audit departments within organizations, coercive isomorphism relates to those pressures applied to establish internal audit departments (Al-Twaijry, Brierley & Gwilliam 2003). Arena, Arnaboldi and Azzone (2006) indicate that institutional theory provides a means of understanding the conforming and legitimating processes which affect the development of IA.

Normative isomorphism develops from increased proficiency within organizations, and it arises when institutional changes occur due to an organization's recognition of professions (DiMaggio & Powell 1983). DiMaggio and Powell (1983) state that two aspects of professionalization are important sources of isomorphism: firstly, the formal education and legitimation in a cognitive based course produced by university specialists; and, secondly, training programs produced by professional institutions. Therefore, universities and professional training institutions are important for the development of organizational norms among professional managers and their staff within

organizations. Similarly, in internal auditing this proficiency comes about by internal auditors firstly undertaking courses in internal auditing at university level and then qualifying as a Certified Internal Auditor (CIA) or establishing a chapter of the IIA in their particular district. This has the potential to raise the profile of both IA and the IIA in that locality and increase the momentum for the diffusion of IA activity to similar establishments. A likely consequence of the resultant increased proficiency within companies is enhanced conformity to IIA standards (Al-Twaijry, Brierley & Gwilliam 2003). With this perceived isomorphism the internal auditing activities would be established in line with the IA profession (in the form of the IIA) to illustrate the IIA's and internal auditors' proficiency and knowledge and how others can similarly benefit (Abbott 1988). The status and prominence of internal audit departments would thus be ensured—which would, subsequently, encourage other organizations to adopt ISPPA. Thus, the IIA would have the ability to accelerate the process of institutionalization by the dispersal of internal audit departments in all sectors of the economy (Al-Twaijry, Brierley & Gwilliam 2003; DiMaggio & Powell 1983).

Fogarty (1996) writes that one of the prime characteristics of institutional theory is its ability to contrast genuine achievements of organizations against what their structures may suggest to the external environment should be achieved. However, organizations may exhibit to the external environment that they are operating in line with what is expected by the external environment when, in fact, this is not the case (Meyer & Rowan 1977). Institutional theory explains that organizations sometimes engage in decoupling, that is, actual organizational practice may differ from what the external facade of an organization suggests (Al-Twaijry, Brierley & Gwilliam 2003). Subsequently, decoupling may occur when organizations display to the business world that they are operating in a perceived manner internally, when in the view of the external environment they are in fact falling short of those expectations (Meyer & Rowan 1977).

Thus, Al-Twaijry, Brierley and Gwilliam (2003) conclude that the actual operations of internal audit departments are decoupled from the expectations of how they operate and that prescribed by ISPPA. They also infer that ISPPA is not influenced by departments and, equally, internal audit departments have only

a limited influence on work carried out by ISPPA. They also believe, therefore, that the tasks performed by internal audit departments do so without verification from outside agencies—which enables them to function according to their own business processes. Thus, organizations may have internal audit departments, but these may not necessarily function in accordance with ISPPA guidelines. Therefore, this study draws on isomorphic processes suggested by institutional theory to investigate IA effectiveness.

Institutional theory is considered suitable for IA research for various reasons. Firstly, the theory encompasses IA practices which are a part of organizational phenomena. Secondly, it helps to explain organizational phenomena without assuming a limited set of organizational goals—unlike agency and transaction cost theories, which are both predicated on the assumption of shareholder wealth maximization. Thirdly, it could support audit research in developing countries where the equity market is underdeveloped (Mihret, James & Mula 2010). Prior research suggests that institutional theory has validity in IA research, both in developing countries (Al-Twajry, Brierley & Gwilliam 2003) and developed countries (Arena, Arnaboldi & Azzone 2006). Furthermore, according to Mihret, James and Mula (2010, p. 228):

‘Institutional theory has several implications relating to the possible context-dependence of IA effectiveness. For example, in organizations that are exposed to high risk, one might expect mimetic pressures to contribute to the development of IA. This is because organizations, as part of their efforts to manage risk, may establish internal audit departments by emulating practices of other organizations’.

Based on the above discussion, institutional theory is deemed to be the most relevant for this study and, more specifically, it is considered to be appropriate for IA research. Marxist theory explains that the demand for IA could support institutional theory’s implication for IA practice.

3.2.2 Marx’s theory of the circuit of industrial capital

Karl Marx (1976; 1978; 1981) explains that capital is increased by continuous generation of surplus-value (profit). However, capitalism in Marx’s view requires control of the valorisation process: control of the process of production and the ‘labour process’ to maximize the rate of profit (Bryer 1994; Bryer 1995; Bryer

1999; Bryer 2006). The capitalist creates value by using capital to buy commodities and then transforming them to other commodities for sale at higher prices (Mihret, James & Mula 2010). This value is created in the production process. Most important to Marx's (1976) perspective is the labour theory of value. As Marx (1976, p.316-317) indicates:

'We know however from what has gone before that the labour process may continue beyond the time necessary to reproduce and incorporate in the product a mere equivalent for the value of the labour power. For this, six hours alone would be sufficient: but the process lasts longer, say for twelve hours. The activity of labour power, therefore, not only reproduces its own value, but produces value over and above this. This surplus-value is the difference between the value of the product and the value of the elements consumed in the formation of the product, in other words the means of production and the labour-power'.

Therefore, the theory illuminates the concept of value which arguably is consistent with the new definition of internal auditing stated by the IIA that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (Institute of Internal Auditors 2011c). Yee et al (2008, p. 151) state that:

'The aim of operational auditing is to improve organizational efficiency and effectiveness through constructive criticism. The concept of constructive criticism ties in very well with the traditional Marxist values of growth and improvement through criticism and self-criticism propounded by twentieth-century Marxist scholars such as Louis Althusser'.

According to Marx's perspective, the main force of production is the human being herself/himself including the different competencies in terms of knowledge and skills available (technology) to transform nature into commodities—the social organization of production. IA is identified as a value adding service to organizations emerging out of labour process control. Therefore, from the perspective of Marx's theory, IA can be viewed as an important element of labour process control (Mihret, James & Mula 2010).

For labour process theorists, IA is an integral part of the labour process control by which modern managers discharge their accountability to social capital for several reasons. Firstly, IA helps ensure the integrity of financial reports. Secondly, it helps ensure the accuracy of the reported rate of return on capital. Clearly, the work of IA is still not completely separate from accounting and external audit (Mihret, James & Mula 2010; Yee et al. 2008). As mentioned earlier, IA is of benefit to organizations in two ways: the first arises from the conventional audit

of financial systems and controls which focus on the prevention and detection of irregularities either from mistakes or fraud; and the second is performance audit, which concerns the ongoing economy, efficiency and effectiveness of various aspects of the organization (Al-Twajiry, Brierley & Gwilliam 2003). In addition, the key role of internal control systems lies in providing accountability of senior management to the capitalist; and management accounting serves to ensure accountability of workers to management via the chain of command (Bryer 2006). Furthermore, IA is an important tool in mitigation of wastage of capital by deterring fraud (Raghunandan & Mchugh 1994). This, in turn, leads to maximizing return on capital because owners of businesses invest in machinery and systems of control to increase productivity to achieve their overriding aim of maximizing return on capital or, in Karl Marx's words, 'the rate of profit' (Bryer 2006). Therefore, the auditor's role is the prevention of adverse consequences of failing to meet these requirements and objectives.

Furthermore, from the perspective of Marxist theory, capital is described as wasted or devalued when it is unable to support existing production facilities and employment levels. The following quotes from Marx (1978, pp. 205-6) gives some indication as to how Marx thought capital could waste or devalue:

'If they [commodities] are not sold within a definite time, then they get spoiled, and lose, together with their use-value, the property of being bearers of exchange-value. Both the capital value contained in them and the surplus-value added to it are lost'.

As Marx's theory purports, modern auditing aims to both safeguard and increase the rate of return on capital. Accordingly, the IA function from the perspective of Marx's theory is important to correct situations where the capital is wasted or devalued because of inefficiencies, fraud, corruption or the protection of favoured relationships. In such situations, some or all of the surplus-value contained in products may not be realized through their sale—and some of the capital may even be lost. This shrinks the firm size with adverse implications for wage rates and employment levels (Yee et al. 2008). As an example, the accounting rule of writing goodwill off against reserves was used in the UK in the 1980s so that the Thatcher Government could hide the payment of dividends out of capital and run down the nation's manufacturing capital stock (Bryer, 1995). Yee et al. (2008) concur with this notion as they used a predominantly Marxist economic theory

perspective in their empirical study of the IA role and IA effectiveness in Singapore. As Yee et al. (2008) explain, the focus on agency theory by Western researchers has resulted in the unfortunate effect of focusing only on IA benefits for the organizations' short term bottom-line. By contrast, a Marxist 'classical economics' perspective allows the research to consider the broader social benefits of IA. Yee et al. (2008) state that frequently a Marxist 'classical economics' perspective allows us to consider the broader social benefits of IA, including raised living standards, a reduction in fraud and corruption, increased employment and alleviation of poverty.

Therefore, as institutional theory, the Marxist perspective is more important for developing countries where competent IA services have the capacity to improve the rate of return on capital of business enterprises. This could in turn contribute to a reduction in corruption and the alleviation of poverty. It could also maximize employment levels and increase wage rates and production levels (Yee et al. 2008). Katz and Kahn (1966) define effectiveness as maximizing return to the organization. In addition, Marx's (1978; 1981) approach is based on the understanding that capitalism is beset with periodic overproduction and crises. Therefore, IA can play an important role in assisting organizations to improve their efficiencies and devote their operations to areas of high consumer demand both before and during an industry crisis (Yee et al. 2008). This minimizes wastage and devaluation as much as possible under the circumstances. According to (Yee et al. 2008, p. 155):

'A Marxist definition of IA might be as follows: An independent assurance activity designed to protect the integrity of and contribute to the expansion of the circuit of industrial capital so that the surplus-value in products might be fully realized through their sale and that capital might not waste'.

Based on the above discussion, IA is consistent with the traditional Marxist emphasis on improvement through criticism and self-criticism and the unhindered development of the productive forces (Mihret, James & Mula 2010; Yee et al. 2008). Lenin's famous formula that socialism equals electrification (forces of production) plus the soviet workers' cells (relations of production) seems especially prescient here. IA effectiveness adds a value adding service to organizations and maximizes return to the organization. In other words, in order for IA to be considered a value adding service to organizations it must be effective

(Al-Twajjry, Brierley & Gwilliam 2003; Institute of Internal Auditors 2011a; Mihret, James & Mula 2010), and from the Marxist perspective this is defined as ensuring that capital earns the minimum acceptable rate of return on each part invested and that capital wastage does not occur (Mihret, James & Mula 2010; Yee et al. 2008). Yee et al (2008) concur with this notion as they used a predominantly Marxist economic theory perspective in their empirical study of the IA role and IA effectiveness in Singapore. Mihret, James and Mula (2010) also employ Marx's theory of the 'circuit of industrial capital' to develop propositions on antecedents and organizational performance implications of IA effectiveness. Prior research also suggests the theory has validity in IA research in relation to both developing countries (Mihret, James & Mula 2010) and developed countries (Yee et al. 2008).

3.3 The role and effectiveness of internal audit

3.3.1 The role of internal audit

Traditionally, the internal auditor has had significant responsibility for examining and reporting internally on the integrity of the firm's accounting and financial reporting systems (Kwon & Banks 2004). However, in recent years the literature indicates that the role of the IA function has changed in response to shifts in global business practices. Such changes created opportunities for IA to provide consulting services to management and assist boards of directors to manage risk (Mihret, James & Mula 2010). Hass, Abdolmohammadi and Burnaby (2006) reviewed the American IA literature and established that the literature indicates a paradigm shift in the activities performed by internal auditors. They state that IA in the USA has shifted its orientation to a value-adding one. The study finds that the main message from the American IA literature is that the question of how IA activities create value in an organization is of critical importance. The authors highlight that before the enactment of the Sarbanes-Oxley Act (SOX) of 2002, IA services were focusing on detection rather than prevention. However, after the issuance of the Sarbanes-Oxley Act (2002), IA changed its emphasis to a compliance approach. In other words, the role of internal audit in corporate

governance through its services to the board of directors has strengthened after the Sarbanes-Oxley Act (Mihret, James & Mula 2010).

A review of European IA literature by Allegrini et al (2006) and a review of the Asia Pacific IA literature by Cooper, Leung and Wong (2006) generally confirms this paradigm shift. McNamee and McNamee (1995) also explain that the IA role has changed through three major stages. The first transformation of internal auditing began in the 1940s. In this phase the role of internal IA focused mainly on checking transaction and records. In the 1940s, the internal auditor was a partner in improving the business processes and creating greater wealth by continuously working with management to ensure policies and procedures were followed. Since the 1990s, IA has become a value adding service to organizations including assisting organizations in the management of risk by using sophisticated risk modelling, statistical sampling, computer assisted audit techniques, and focusing on total quality management as part of the audit process.

Thus, before the 1950s, IA activities focused on financial audit and, more specifically, were heavily involved in the review of financial audits. However, the IIA's Standards for Professional Practice of Internal Auditing (responsibilities of internal auditing) presently suggests a broad and all-encompassing role for IA:

‘The objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. The internal auditor is concerned with any phase of business activity where he can be of service to management. This involves going beyond accounting and financial records to obtain a full understanding of the operations under review’ (Institute of Internal Auditors 2000b, p. 3).

Therefore, the Institute of Internal Auditors (2011c) now defines internal auditing as:

‘---an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes’.

It can be argued that this definition highlights two important issues. The first one is that internal auditors should be independent. Secondly, internal auditing is an appraisal function for the organization's activities to help staff and management in performing their duties and ensuring adequate internal control. According to this

definition also, internal auditors should play a relevant role in evaluating and improving the effectiveness of the risk management process. The definition also presents both assurance and consulting activities as key components of the IA function. Goodwin (2004) states that the new definition of internal auditing has shifted its focus on the IA function to add value by improving the operations of the organization and by evaluating and improving the effectiveness of the organization's risk management, control and governance processes. Therefore, the new definition of internal auditing has changed the role of internal auditors to a value added and consulting function to management. This statement also implicitly reflects the Marxist understanding of internal auditing, namely that modern operational auditing seeks to increase the rate of return on capital, that is, to value add (Yee et al. 2008). The development stages of the IA definition as issued by the IIA are summarised in Figure 3.1

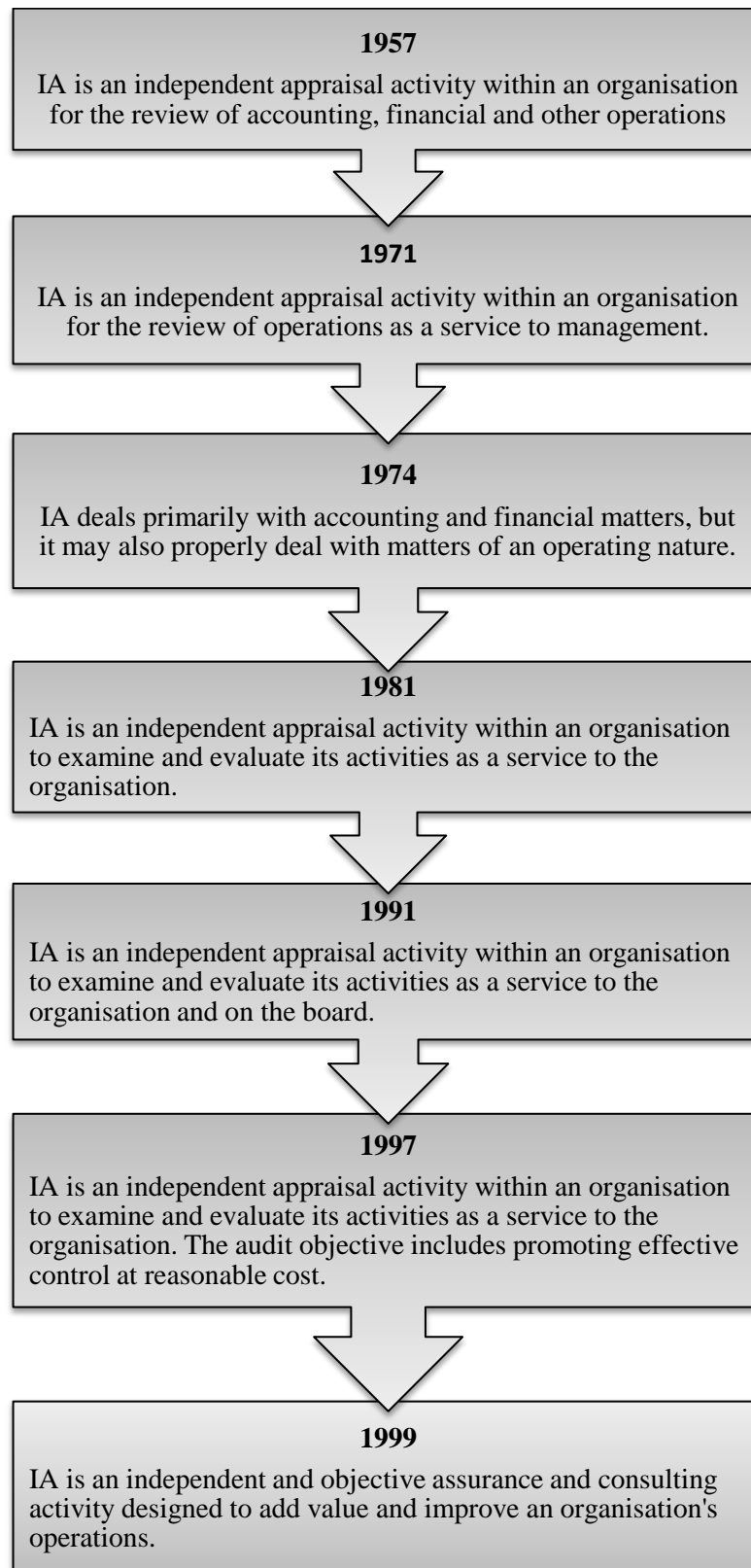


Figure 3.1 the development stages of the IA definition

Based on the discussions above, the literature shows the IA function has shifted from traditional to contemporary and, recently, IA has become an important part

of organizational structure as a value adding service (Al-Twajry, Brierley & Gwilliam 2003; Arena & Azzone 2009; Bou-Raad 2000; Coram, Ferguson & Moroney 2008; Enyue 1997; Goodwin 2004; Rupšys & Boguslauskas 2007a; Sarens & De Beelde 2006; Yee et al. 2008). Internal auditors can be considered as the ‘Sentinels of the Board’ through their unique position. For example, they are an independent service and report directly to the board of directors, and have the right to access all information in every part of the organization. Therefore, stakeholders will benefit from having a strong IAF which will provide value to the other cornerstones of corporate governance (De Smet & Mention 2010). Despite all this, in practice, internal auditors may be falling short and scholars express serious reservations regarding the effectiveness of the internal auditor’s role (Van Peurseem 2004). Therefore, in order for IA to be considered as a value adding service to organizations, it must be effective (Al-Twajry, Brierley & Gwilliam 2003; Mihret, James & Mula 2010).

3.3.2 Internal audit effectiveness

Mihret, James & Mula (2010) state that the value–adding role of IA presumes that IA is effective, therefore, IA effectiveness should be studied to assess the value-adding potential of IA. There are two basic reasons why it is important to examine IA effectiveness. One is that it is an indication of the quality of performance and can describe whether or not the IA function is performing in a satisfactory manner. The second is that the examination can serve as a motivator for an individual or an organization to improve their performance. Mizrahi and Ness-Weisma (2007) maintain that, in general, there are two important tools for achieving managerial accountability in the policy-making process, namely, evaluation and auditing. Nonetheless, as explained earlier, to date very few academic studies have been conducted on IA effectiveness, and despite the general undercurrent in relation to an IA paradigm shift, research has provided mixed findings on IA effectiveness (Mihret, James & Mula 2010), and has assessed IA effectiveness differently.

For example, Al-Twajry, Brierley and Gwilliam (2003) studied the development of IA in the Saudi Arabian corporate sector by using an institutional theory perspective, and taking a sample of 135 companies listed on the Saudi Stock

Exchange. They highlighted that it is important for internal auditing to comply with ISPPIA to be considered a value added activity. Therefore, they used questionnaires and interviews to assess the extent of compliance of IA practices with ISPPIA in terms of quality of IA staff; quality of IA work; an appropriate corporate environment; and support of top management to examine IA effectiveness. The results of this study show that IA in the Saudi Arabian corporate sector is ineffective and it is not a value adding service to organizations. IA work in the Saudi Arabian corporate sector was mainly focused on checking reliability of financial records, compliance with rules and regulations, as well as evaluation and examination of internal controls. The study's results also highlighted that managers sometimes do not implement the recommendation of internal audit departments. Further, the results indicate that IA may sometimes be decoupled, that is, the function may not operate in compliance with ISPPIA—despite stakeholders' expectations of compliance. However, Al-Twaijry, Brierley and Gwilliam (2003) focused solely on the Saudi Arabian corporate sector. Furthermore, data was collected only from IA directors within organizations. The authors suggest that future research is necessary to evaluate IA effectiveness accurately, because factors used in this study may have acted to reduce the value of IA.

Goodwin (2004) makes a comparison between the role of IA in the public and private sectors in Australia and New Zealand. The author highlights that while there is no requirement for private sectors in Australia and New Zealand to establish an internal audit department, the Australian Stock Exchange (ASX) encourages large companies to do so. However, the requirement to establish an IA function in the Australian public sector is not straightforward because of differing State legislation. On the other hand, within the public sector in New Zealand there is no requirement for IA function. The results suggest that internal auditors in the public sector are less likely to report to the chief of financial affairs than those in the private sector. Although the two sectors often outsource IA work, public sector organizations are more likely to use an external auditor for these services. Furthermore, there does not appear to be any significant difference between internal auditors in the two sectors in terms of their interaction with external auditors.

Mihret & Yismaw (2007) studied IA effectiveness in public sector higher educational institutions in Ethiopia. The study attempted to introduce a new perspective for evaluation of IA effectiveness by using a model which consisted of four potential factors which may impact on IA effectiveness, namely, IA quality, management support, organization setting and auditee attributes. The results indicate that IA is ineffective in terms of proficiency, planning, recommendations and limitations to the scope of work. Furthermore, the study revealed that audit quality and management support are the two most important factors influencing IA effectiveness respectively. These researchers also suggest a need for future research to fully understand IA effectiveness in the public sector by identifying other variables affecting IA effectiveness. Their study also focused solely on one public sector—higher educational institutions in Ethiopia.

Yee et al. (2008) studied the role and effectiveness of IA in Singapore. They studied the perception of Singaporean managers on IA practice. Specifically, they considered whether IA is viewed as a partner with management or as a watchdog for routine compliance mechanisms. In contrast to prior research, this study applied Marxist economic theory to the IA function. Furthermore, in contrast to Saudi Arabia (Al-Twaijry, Brierley & Gwilliam 2003) and Ethiopia (Mihret & Woldeyohannis 2008; Mihret & Yismaw 2007), Yee et al.'s (2008) overall findings were that 1) the IA function in Singapore is improving and has become an integral part of organizations' structures as a value adding service; 2) in general, managers are satisfied with IA; and 3) the IA function can play a value adding role in modern organizations by expanding its scope of services to embrace operational areas. As Yee et al. (2008) explain, IA may allow a company to improve its efficiency so that during times of economic downturn it is their competitors who suffer the greatest share of loss of surplus-value and capital. According to Marx (1981), in equilibrium, profit-making companies all earn a general rate of profit on invested capital but in times of downturn firms try to force losses on to their competitors. They also recommend the need to explore the role and effectiveness of IA in the Middle-East, because in a developing country the IA function might be important in ensuring that capital is not wasted through inefficiency, fraud or corruption.

Cohen and Sayag's (2010) study explored the determinants of IA effectiveness by developing a model of its determinants. The model consists of six potential factors which may impact on IA effectiveness, namely, the sector of the organization; professional proficiency of internal auditors; quality of audit work; organizational independence; career and advancement; and top management support. They state that IA effectiveness is an important concept rarely examined in the academic literature. In the few studies dealing with IA effectiveness, mostly there was a concentration on the external auditor and whether the external auditor utilizes the work of the internal auditor. The results of Cohen and Sayag's (2010) study suggest that there are very high correlations between perceptions of top management support and IA effectiveness. In other words, their study emphasizes the importance of perceived top management support for the effectiveness of IA; and the results indicate positive relationships between greater quality of the auditing work, and greater organizational independence and IA effectiveness. However, no significant correlations were found between the variables of professional proficiency, career advancement and auditing effectiveness. The authors indicate that future research should consider organizational independence and the quality of the auditing work as determinants to dimensions of IA effectiveness.

Mihret, James and Mula (2010) apply institutional theory and Marx's (1978) theory of the 'circuit of industrial capital' to relevant theoretical and empirical literature to develop propositions and suggest a research agenda on the antecedents and organizational performance implications of IA effectiveness. Similar to that of Al-Twaijry, Brierley and Gwilliam (2003), their study employed compliance with ISPPIA as an indicator of IA effectiveness. It relates to the normative standards (IIA standards) that internal auditors are expected to follow. The authors suggest that the dynamics prevailing in an IA setting impact on IA effectiveness. The extent of internal audit's level of compliance with ISPPIA could serve as an additional approach to assess IA effectiveness. They also indicate that empirical testing should not require the adoption of a hard-core positivist mindset or an exclusive focus on agency theory.

Arena and Azzone (2009) state that, in light of recent changes in the role of the internal audit function, their study attempts to identify the organizational drivers of IA effectiveness in Italian companies. They indicate that the importance of IA has increased in recent times because of its links to the internal control-risk management system. Their study proposed a model to measure IA effectiveness that included IA effectiveness as a dependent variable; and resources and competencies of internal audit team; the audit processes and activities; and the level of interaction between IA and audit committee as independent variables. The results of this study suggest that internal auditors need to create new skills to perform activities that are more closely related to risk management, because risk management needs auditors who are able to deal with different sources of risk and who are also able to increase managers' confidence in risk management and control. The results of this study also explain that IA effectiveness is influenced by the characteristics of IA, the audit processes and activities, and the organizational links. Arena and Azzone (2009, p. 43) state that:

'Internal audit effectiveness increases in particular when the ratio between the number of internal auditors and employees grows, the chief executive officer is affiliated to the Institute of Internal Auditors, the company adopts control risk self-assessment techniques, and the audit committee is involved in the activities of the internal auditors'.

Furthermore, the authors highlight the need for more detailed analysis of the internal auditor's competencies in order to understand which specific skills can influence internal auditors. Major IA studies relating to the role and IA effectiveness are summarised in Table 3.1.

TABLE 3.1
Summary of key relevant literature on IA effectiveness

Study	Method	Sample	Study focus and findings/conclusions
Al-Twaijry, Brierley and Gwilliam (2003)	Questionnaire survey and interviews	145 companies	This study examined the development of IA in the Saudi Arabian corporate sector by using institutional theory perspective, taking a sample of 135 companies listed on the Saudi Stock Exchange. This study employed compliance with ISPPA as an indicator of IA effectiveness. Therefore, it used questionnaires and interviews to assess the extent of compliance of IA practices with ISPPA. The study indicated that IA in the Saudi Arabian corporate sector is ineffective and it is not a value adding service to organizations. IA work was mainly focused on checking reliability of financial records, compliance with rules and regulations, as well as evaluation and examination of internal control
Goodwin (2004)	Questionnaire survey	120 organizations	This study made a comparison between the role of IA in the public sector and those in the private sector in Australia and New Zealand. The results have indicated that internal auditors in the public sector are less likely to report to the chief of financial affairs than those in the private sector. It concludes that although the two sectors have often outsourced IA work, public sector organizations are more likely to use an external auditor for these services. Also, there does not appear to be any significant difference between internal auditors in the two sectors in interaction with external auditors.
Cooper, Leung and Wong (2006)	Literature review	N/A	This paper reviewed the IA literature of the Asia Pacific region. This study concludes that the role of the IA function is changing from a more financially-oriented role to becoming an important tool in controls and risk assessment throughout the last two decades. Also, the IA function has shifted to a value-adding orientation.
Allegrini et al. (2006)	Literature review	N/A	This study reviewed the European IA literature. The study aimed to document how the IA function is changing in response to the shifts in global business practices. The review concludes that there is a paradigm shift in the activities performed by internal auditors. The study also concludes that this is changing because of the challenges facing IA such as significant advances in information technology and increasing complexity of business transactions.

TABLE 3.1(continued)
Summary of key relevant literature on IA effectiveness

Study	Method	Sample	Study focus and findings/conclusions
Mihret and Yismaw (2007)	Case study	1 organization	The study was aimed at identifying factors influencing IA effectiveness using a model developed for the analysis based upon a case study of a large public sector higher educational institution in Ethiopia (university). The study concludes that IA effectiveness is strongly influenced by IA quality and management support. In contrast, organizational setting and auditee attributes do not have a strong impact on IA effectiveness.
Yee et al. (2008)	Interviewees	25 organizations	This study is a survey of 83 senior, middle and junior managers of 25 Singaporean organizations to identify their perceptions regarding the role and IA effectiveness. The result of this study indicates that Singaporean senior and junior managers consider IA as a business partner role. However, mid-level managers described internal auditing activities as ‘watchdog’ activities. The study concludes that IA is enhanced when relationships between auditors and auditee are established based on a cooperative and participative approach, as opposed to an independent and prescriptive appraisal approach.
Arena and Azzone (2009)	Questionnaire survey	153 companies.	The study aimed to identify the adoption and characteristics of IA in Italian companies in the context of changes in the politico-economic setting. Based on data from 153 Italian companies. The study finds that (a) internal audit team characteristics, (b) IA processes and activities, and (c) the organizational effectiveness, all impact on IA effectiveness.
Cohen and Sayag (2010)	Questionnaire survey	292 organizations	This study is a survey of organizations’ general managers and their internal auditors aimed at examining IA effectiveness in Israeli organizations. The results of this study affirm the importance of perceived top management support for IA effectiveness. The authors highlight the need for future research to focus on the perceptions of organizational independence and the quality of the auditing work for examining IA effectiveness.
Mihret, James and Mula (2010)	Theoretical and empirical literature Study	N/A	This study attempted to provide a theoretical foundation for the study of IA effectiveness through developing propositions and suggesting a research agenda on the antecedents and organizational performance implications of IA effectiveness. The study argued that IA effectiveness is influenced by the dynamics prevailing in an IA setting. Also the association between organizational performance and with internal audit’s level of compliance with the ISPPA could be used to assess IA effectiveness.

It appears logical to argue that there is a difference and a gap in the limited previous research which addresses the issue of IA effectiveness. It has provided mixed findings on IA effectiveness because it has utilized different criteria, as well as focusing on mixed sectors (public sector, private sector and government ministries). As mentioned earlier, ‘there are differences in status between IA in the two sectors’ (Goodwin 2004, p. 640). In addition, the nature and characteristics of the public sector differ from the private sector in terms of size, abilities and legislation and laws, especially in developing countries such Libya. In addition, it has used different theories. The literature, however, indicates that few generally-accepted approaches to assess IA effectiveness exist as yet (Mihret, James & Mula 2010). The evidence from limited literature, nevertheless, suggests that IA effectiveness is possibly influenced by the context in which IA operates. According to Mihret, James and Mula (2010, p. 235):

‘Conclusions on the dominant or ideal focus of IA cannot be drawn from the existing limited literature. This is because the scope of prior studies is restricted to private sector companies. Also, the studies were not aimed at explaining variations in IA’s dominant orientation—and possibly implications of IA effectiveness’.

Therefore, several academic studies (Al-Twaijry, Brierley & Gwilliam 2003; Anderson 2003; Arena & Azzone 2009; Goodwin 2004; Mihret & Yismaw 2007; Yee et al. 2008) have advocated further research and the need for a more comprehensive study of the issue of IA effectiveness. Exploration of IA effectiveness in developing countries could contribute to reducing the gap in the literature.

Based on the approaches of previous research (e.g., Al-Twaijry, Brierley & Gwilliam 2003; Albercht et al. 1988; Arena & Azzone 2009; Cohen & Sayag 2010; Mihret, James & Mula 2010; Mihret & Yismaw 2007) the present study interprets the views of participants regarding IA effectiveness by identifying seven factors that impact on IA effectiveness, namely, independence, competence, scope of work, performance, co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing. Subsequently, both the professional and academic literature on these factors is discussed next.

3.4 International Standards for professional practice of internal auditing

3.4.1 The Institute of Internal Auditors

Since its foundation in 1941, the IIA has played an important role in organising the profession. The IIA is the primary international association for the profession. With more than 170,000 members in 165 countries and territories, it is also an important source of information and guidance for the internal audit profession. The IIA has adopted a statement of responsibilities, standards of Professional Practice, a code of Ethics and a programme of auditor certification. This has encouraged the best possible performance of internal auditing and developed the profession to promote a high degree of professionalism among internal auditors and their departments within organizations (Ratliff et al. 1996).

The IIA Internal Auditing Standards Board conducted a comprehensive review of the Standards and released the revised Standards in October 2010. The new framework of ISPPA consists of three types of standards: 1) attribute standards that focus on organizations and the personnel performing the IA function; 2) the performance standards addressing the nature of IA services and providing quality criteria on how to measure these services; and 3) the implementation standards providing guidance applicable in specific types of engagements (Institute of Internal Auditors 2011d). However, the ISPPA include four general standards, namely, the independence of internal auditing department from the activities audited; the professional proficiency of internal auditors and due professional care; the scope of internal auditing work; and the performance of internal auditing work. These standards have been used by several scholars (Al-Twajjry, Brierley & Gwilliam 2003; Albercht et al. 1988; Anderson 1983; Cohen & Sayag 2010; Glazer & Jaenicke 1980; Mihret, James & Mula 2010; Mihret & Yismaw 2007; Sawyer, Dittenhofer & Scheiner 1988) to examine IA effectiveness.

The standards of accountants and auditors established by LAAA cannot serve as valid indicator of internal audit effectiveness due to the low level of these standards. In other words, these standards do not cover all aspects of audit practices. For example, internal auditors have no defined or formal code of professional ethics and standards for professional qualifications. Moreover, there

are no professional examination requirements or professional training programmes for internal auditors. The professional standards of accountants and auditors in the Libyan context and established by LAAA deal with some aspects similar to that of ISPPIA, such as independence and performance. Therefore, ISPPIA is a valid indicator of internal audit effectiveness in the Libyan context. The ISPPIA play an essential role in determining the responsibilities of internal auditors and the IA activity. The purpose of the ISPPIA is to:

‘delineate basic principles that represent the practice of internal auditing, provide a framework for performing and promoting a broad range of value-added internal auditing, establish the basis for the evaluation of internal audit performance and foster improved organizational processes and operations’ (Institute of Internal Auditors 2011d).

By conducting the 2006 global Common Body of Knowledge study, the IIA has attempted to better understand IA practices throughout the world (Hass, Abdolmohammadi & Burnaby 2006), and ISPPIA is an effective tool to study IA effectiveness (Al-Twajjry, Brierley & Gwilliam 2003). Mihret, James and Mula (2010) suggest that the use of ISPPIA provides a better proxy measure of IA effectiveness because it helps measure IA effectiveness by examining IA systems and processes, plus they argue that a positive association between compliance with ISPPIA and organizational goal achievement could be an additional indicator of IA effectiveness. The high quality of IA work can be understood in terms of the degree of compliance with formal standards which will improve IA effectiveness (Cohen & Sayag 2010). Therefore, IA effectiveness can be increased by adhering to the professional standards developed by the IIA and their auditing standards. The four general ISPPIA are discussed in detail next.

3.4.2 The independence of internal audit departments

The concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/her review and appraisal and not to be under undue pressure from any party to the extent that this could bias his/her opinion. The IIA’s Standards for Professional Practice of Internal Auditing (glossary) defines independence of internal auditors as:

‘The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels’(Institute of Internal Auditors 2011b).

Independence of IA has been identified by the IIA, the American Institute of Certified Public Accountants (AICPA) and others as crucial to the viability of the IA function. The IIA has issued a number of attribute standards under which the IIA explored the issue of independence in the ISPPIA, more specifically, the Standard 1100 Independence and Objectivity. This standard states ‘the internal audit activity should be independent in performing their work’. The standard 1100 states:

‘Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner’ (Institute of Internal Auditors 2011d).

A large body of research has examined auditor independence, but this has been predominantly in the context of external audit (Gendron & Bedard 2006). In other words, limited prior research has focused on internal auditor independence. In the few studies dealing with IA effectiveness, they have mostly concentrated on the external audit and whether the external auditors utilize the work of the internal auditors (Cohen & Sayag 2010). However, recently, there has been more attention to issues associated with the independence of IA (Christopher, Sarens & Leung 2009; Stewart & Subramaniam 2010). This growth in research, as explained earlier, relates to the way the role of IA is gradually being transformed from primarily being concerned with checking the propriety of transactions and records and a systems evaluation approach, to becoming a value-adding service with a broader scope of activities, including assisting organizations in the management of risk. Subsequently, the role of IA has developed to a pre-eminent position of advising the board of directors, although tensions remain between this consulting role and the need for independence (Mihret, James & Mula 2010).

IA services derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Stewart & Subramaniam 2010). Vanasco, Skousen and Santagato (1996) point out that without independence the desired results of internal auditing cannot be realized. Therefore, the position of IA in an organization is bounded; it is a corporate unit that should have a large degree of autonomy and independence in order to perform its activities in a proper manner (Arena & Azzone 2009), and the independence of IA activity is a prerequisite to providing a wide range of IA services (Institute of

Internal Auditors 2011d). Similarly, Clark, Gibbs and Schroeder (1981) find that the independence of the internal audit department is the most important criteria influencing IA services. Bou-Raad (2000) believes that the strength of an internal audit department is assessed according to the level of IA independence from management and from other operating responsibilities. Independence of internal auditors increases the internal auditor's effectiveness because this independence may reduce the level of conflict between loyalty to the employer and loyalty to specific managers, and gives auditors an encouraging work environment in which they can perform their task without pressure. Thus, internal auditors should be sufficiently independent from the auditee to be able to conduct their work objectively and without interference (Cohen & Sayag 2010). Therefore, a key characteristic of an effective internal audit department is the independence with which it operates. Based on this understanding and to answer the question of this study, the following initial subsidiary question is formulated:

RQ1: To what extent is the internal audit function in Libyan public enterprises independent of management?

To achieve the appropriate degree of independence, the IA director should be linked and report directly to the board of directors. Attribute Standard 1110 relating to direct interaction with the board states that the chief executive auditor must communicate and interact directly with the board (Institute of Internal Auditors 2011d). Furthermore, Attribute Standard 1110 discusses organizational independence based on the level to which the chief audit executive reports. Under interpretation the standard states that organizational independence is effectively achieved when the chief audit executive reports functionally to the board. The standard indicates that the chief audit executive must confirm the organizational independence of the IA activity to the board at least annually. The reporting level of the internal audit department is one of the important determinants of the independence of the department, as suggested in previous studies (e.g. Abedl-Khalil, Snowball & Wragge 1983; Chapman 2001; Schneider 2003); and the ideal situation for internal auditors' independence is to report to the highest level in their organization. Clark, Gibbs and Schroeder (1981) find that the level to which IA reports was an important criteria influencing the objectivity of their work. Abedl-Khalil, Snowball and Wragge (1983) state that the administrative level to

which the IA directors report is a significant determinant of the external auditors' evaluation of the internal audit department's independence. Thus, it can be argued that the level to which the department reports can be an indicator of both its independence and its position within the organization. This can also be an indicator of the extent of its ability to act independently of the individuals responsible for the functions being audited. Therefore, the level to which the internal audit department reports has a significant impact on internal auditor's independence—which includes internal auditors being able to state their opinions freely.

Internal auditors should be at liberty to state their opinions without any bias or restrictions. Although complete independence is literally impossible because internal auditors are organizational employees (Yee et al. 2008) and not outsiders (Gay & Simnett 2007), an independent frame of mind is essential (Christopher, Sarens & Leung 2009), and internal auditors should have the ability to make 'tough' recommendations without fear or favour (Mihret, James & Mula 2010). Sawyer (1988) also argues that internal auditors should be independent in order to perform their duties and should state their opinions freely without any bias or restrictions. In other words, internal audit departments should be free to include any audit findings in their reports. Furthermore, the IA report should encompass any risks that may have a negative impact on the organization. According to ISPPA (2060—Reporting to Senior Management and the Board), IA reports must include significant risk exposures and control issues, including fraud risks, fault, wrongdoing and errors (Institute of Internal Auditors 2011d). Thus, internal auditors must be alert to the existence of other significant risks. Therefore, internal audit reports may have a direct impact on the decisions and the action adopted by management (Bou-Raad 2000). In order to apply this concept here, internal auditors should be independent of those they report on.

However, to be independent to state their opinions freely without any bias or restrictions, IA directors should be appointed and removed by a higher management level in organizations. According to ISPPA, independence is enhanced when the organization's board of directors concurs with the appointment or removal of the directors of internal audit departments (Institute of

Internal Auditors 2011d). Read and Rama (2003) find that the independence and objectivity of the internal audit function is enhanced when the IA director does not have any fear about dismissal because of the actions taken by the internal audit department. Chapman (2001) comments that organizational independence refers to the placement of the IA function in the reporting structure so that it is free to determine the IA scope and perform IA work without interference.

Furthermore, the extent to which internal auditors have unfettered access to necessary information, people and records across the organization may impact on the desired level of independence. Al-Twaijry, Brierley and Gwilliam (2003) state that unrestricted access to documentation and unfettered powers of enquiry are important aspects of independence and IA effectiveness. In addition, Mihret and Yismaw (2007) indicate that, to achieve effective audit work, auditors are required to have full and unrestricted access to all activities and records and properties, and be provided with cooperation from the auditee. Furthermore, Joseph and Raghunandan's (1994) study suggests that an internal auditor's position within an organization is strengthened if internal auditors have unrestricted access to an effective audit committee.

3.4.3 Competence of internal auditors

For IA to be effective, internal auditors need appropriate competence to perform their work satisfactorily (Burnaby et al. 2009). This view is supported by Al-Twaijry, Brierley and Gwilliam (2003) who suggest that the staffing of internal audit departments and the management of its staff is vital to the effective operation of IA, and that unless they possess the necessary competencies the power of internal auditors may be diminished. Mihret, James and Mula (2010, p. 240) also support this view by stating that 'technical competence and continuous training are considered essential for effective internal audit'. Libby and Frederick (1990) indicate that experience is an important tool in enhancing auditors' knowledge. In addition, Bonner and Lewis (1990) state that years of experience is considered as an indicator of auditors' knowledge and expertise. Internal auditors require a wide range of competencies to achieve satisfactory performance in the various hierarchical positions within internal audit departments (Burnaby et al. 2009). Competence requires knowledge and professionalism that the auditor

should acquire from education, on-the-job training, and experience. Thus, legislators set requirements that must be met before people are qualified and entitled to perform audits (Paape 2007). Engle (1999) categorizes the most important benefits that will be realized from competent internal audit staff, namely, 1) staff will be able to conduct useful audits that effectively contribute to the achievement of organizational goals; 2) internal auditor's competence will increase the probability that external auditors use the work of internal auditors, leading to a potential reduction in the cost of external audits; and 3) internal auditors who are familiar with the organization under audit are in an ideal position to provide information about financial statements.

Internal auditors need to acquire a broad range of skills, for example, communication, interpersonal, knowledge of general business, and information technology and technical knowledge of auditing (Hass, Abdolmohammadi & Burnaby 2006; Mihret & Woldeyohannis 2008). According to ISPPA (1210-Proficiency), internal auditors must possess or obtain the knowledge, skills and other competencies needed to perform their responsibilities (Institute of Internal Auditors 2011d). This view is supported by Flesher and Zanzig (2000) who indicate that internal audit departments should have internal auditors who possess a variety of skills to enable them to undertake audits of areas beyond financial activities. Gramling and Myers (1997) find that certification of internal auditors is perceived as an indicator of competence. For example, internal auditors should have reasonable computer skill levels to carry out the audit tasks. Burnaby and Klein (2000) indicate that auditing has become increasingly complex as businesses globalize and information is stored in computers. Therefore, in this new environment of information technology, the ability of internal auditors to operate within this environment is essential. According to Bierstaker, Burnaby and Thibodeau (2001, p. 160):

‘Technology is already having a major impact on audit planning. For example, computers are used to generate client specific internal control templates to help identify strengths and weaknesses in a system’.

Furthermore, when internal auditors have professional proficiency such as adequate knowledge, professional membership, certification and training in electronic data processing systems, it would imply that they are competent to

monitor the quality of the internal control system (Fadzil, Haron & Jantan 2005). Therefore, over the years, numerous programs were designed in many countries (USA, UK, Canada, etc.) to improve the quality of internal audit professionals. For example, the IIA has provided relevant professional courses for internal auditors with a mandate that an individual must obtain a BSc degree; pass the professional examinations; obtain experience in the auditing profession; be committed to IIA's Code of Ethics; and complete the required continuing professional development programs. Furthermore, other professional organizations such as the AICPA offer professional development courses in internal auditing. In some cases, college and university faculties have developed courses in internal auditing to be offered on a limited basis. In addition, some companies have provided in-house courses for their internal auditors. Although education and training courses programmes in internal auditing differ from country to country and from one institution to another, internal auditing education can be described broadly as fitting into one of three forms, as follows:

1. *Part of a course.* Internal auditing is frequently taught as a relatively minor part of another accounting, auditing, or management course.
2. *Separate course.* Separate internal auditing course(s) may comprise a portion of a larger business, accounting, or auditing programme of study.
3. *Programme of study.* Development of internal auditing programmes as a separate course of study at either the undergraduate or postgraduate level is a growing practice. To a large extent, the spread of internal auditing programmes is attributable to the IIA's efforts to establish target schools (Foster & Greenawalt 1995, p. 32).

Internal auditors also need certain skills to maintain a good relationship with auditees. One explanation for internal auditor effectiveness may stem from how they communicate with others (Van Peurse 2005). The literature emphasizes the importance of the relationship between the internal audit department and the rest of the organization in determining the success or otherwise of internal audit departments (Al-Twaijry, Brierley & Gwilliam 2003). Hawkes and Adams (1995) find that internal auditing is enhanced when auditors and auditees establish a close rapport based on a cooperative relationship. Therefore, IA requires an understanding of the relationship it has with auditees (Keuning & Eppink 2004,

cited in Paape, 2007). Hassall, Dunlop and Lewis (1996) find that communication skills are the most important skills for auditors to learn. The way that these internal auditors communicate with others in their own working environment emerges as an important source of their influence. Listening and speaking clearly are examples of characteristics that are seen to be of singular importance (Van Peurse 2005). Furthermore, the auditors' own behaviours towards the auditee may be a cause of conflict. Therefore, the internal auditors should attempt to avoid any direct and unnecessary interference in the affairs of the auditee.

Based on this understanding, For IA to be effective, internal auditors need appropriate competence to achieve their work effectively (Burnaby & Hass 2009), and aspects such as education, training, experience and professional qualifications of the internal auditors influence IA effectiveness (Al-Twajry, Brierley & Gwilliam 2003). Thus, the following second subsidiary question is formulated:

RQ2: To what extent are internal auditors competent?

3.4.4 The scope of internal audit work

IA scope is another important factor that impacts on IA effectiveness. Al-Twajry, Brierley and Gwilliam (2003) state that the scope of IA work is a significant indicator of IA effectiveness—a viewpoint which is supported by ISPPIA. In general, audit work should cover all systems and activities in all departments and locations throughout the organization. The International Federation of Accountants (2007) states that the scope of internal audit functions varies widely and depends on the size and structure of the entity and the requirements of management. Nevertheless, internal audit activities may include the following:

1. Monitoring and reviewing internal control systems, and recommending improvements thereto;
2. Examination of financial and operating information. The internal audit function includes reviewing the means used to identify, measure, classify and report financial and operating information, and specific inquiry into individual items including detailed testing of transactions, balances and procedures;

3. Review of the economy, efficiency and effectiveness of operating activities, including non-financial activities of an entity;
4. Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements (The International Federation of Accountants 2007, p. 9).

The Committee of Sponsoring Organizations of the Treadway Commission (2011) defines internal control as:

‘A process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations’.

Fadzil et al (2005) find that scope of audit work significantly influences the information and communication aspect of the internal control system. A system of internal control consists of policies and procedures designed to provide management with reasonable assurance that the business entity achieves its objectives and goals. These policies and procedures are often called controls (Obeid 2007). The existence of effective internal controls can assist in ensuring that the aims and objectives of an organization will be met. This system will provide assurance that the organization will comply with regulations, laws, policies, plans and internal rules. However, the board of directors and senior management are responsible for establishing and maintaining a strong internal control system. Badawi et al. (2003) indicate that management is responsible for having an effective internal control system and ensuring that the internal control system is understood and respected within the organization. Management should have reasonable assurance that the system of internal control is able to prevent or detect any significant inaccurate, incomplete or unauthorized transactions. The system should be able to indicate any deficiencies in the safeguarding of assets and deviations from laws, regulations, risk management and the organization’s policies. This view is supported by Sarens and De Beelde (2006b) who state that the role of management is to evaluate the risks—risk management—and establish, operate and monitor the internal control system. However, internal auditors play

an important role in evaluating the effectiveness of internal control systems, and contribute to ongoing effectiveness. Maijoor (2000, p. 104) states:

‘For financial audits, the concept of auditing internal control systems is at the heart of the financial audit explosion. As a result of the rise of internal control systems, external audits are less focussed on auditing outcomes, and more focussed on auditing systems. In addition, internal control systems are now also becoming part of the regulatory systems. Many national corporate governance reports and reforms include recommendations for internal controls, and reporting on internal controls. A joint development with the rise of internal control is the increased public significance of internal auditors’.

Chambers, Selim & Vinten (1988) explain that the internal control system plays an important role in the internal audit function since the internal auditors are considered as experts in management controls. De Smet et al. (2010) indicate that the scope of the auditor’s activities and duties is expanding and nowadays includes a risk assessment which must provide assurance regarding the effectiveness of the organization’s internal controls. The authors also indicate that as auditors gain an understanding of management’s strategies, business processes and controls to mitigate business risks, it will become more likely that they will use this knowledge to allow them to determine internal control strengths and weaknesses.

The scope of IA is also expanding to determine whether the systems designed by management are adequate and effective and whether the activities audited comply with the appropriate requirements (Fadzil, Haron & Jantan 2005). The IIA’s Standards for Professional Practice of Internal Auditing (2120–Risk Management) state that the IA activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, regulations and contracts which could have a significant impact on operations and reports, and should determine whether the organization is in compliance (Institute of Internal Auditors 2011d).

Internal audit also needs to carry out appraisal of existing systems and be involved in the revision or development of new systems before implementation. The internal audit function should assist management in the evaluation of new

technology, especially in developing countries where the auditors' support in technical areas would arguably be more paramount than areas where the business practice remains relatively stable (Mihret & Woldeyohannis 2008). The IIA's Standards for Professional Practice of Internal Auditing (2130–Control) state that internal auditors should have an understanding of information system risks and the IA activities must assess whether the information technology governance of the organization sustains and supports the organization's strategies and objectives (Institute of Internal Auditors 2011d).

Thus, arguably, the IA function has undergone dramatic changes that have expanded its scope in ways that allow it to make greater contributions to the organization it serves. It has evolved from traditional roles of IA 'Traditional Protective Services' in terms of financial transactions to become a control which functions by examining and evaluating the adequacy and effectiveness of other controls in order to provide the management of an organization with information analyses and recommendations to assist it in achieving its objectives. Under this wider scope, IA assists management in areas of management of risk, operational audits, and traditional financial and compliance audits (Al-Twajjry, Brierley & Gwilliam 2003; Albercht et al. 1988). Albercht et al. (1988) state that IA may be perceived as effective in both the consulting role and the traditional financial audit role. This view is supported by literature (e.g. Al-Twajjry, Brierley & Gwilliam 2003; Arena, Arnaboldi & Azzone 2006; Institute of Internal Auditors 2011c). Furthermore, Mihret, James and Mula (2010, p. 236) state:

'It appears reasonable to consider that effective internal audit is characterized to a larger extent by a wider scope of services than a de-emphasis on financial and compliance audits'.

Based on this understanding, the following third subsidiary question is formulated:

RQ3: To what extent does the scope of internal audit work extend to all systems and activities at all management levels?

3.4.5 Internal audit performance

The performance of the IA function should be monitored to ensure it provides value to the organization and carries out its role economically, efficiently and in

accordance with best professional practice. In general, work performance involves internal auditors planning their audits, developing working programs, preparing time budgets for audit tasks, documenting all audit procedures in working papers and preparing internal audit reports. IA effectiveness is understood as the performance or efficiency of the tasks within the IA function (Santiso 2006). Performance is considered to be the most appropriate component in evaluating IA effectiveness (Rupšys & Boguslauskas 2007b) as it significantly influences the information and communication aspects of the internal control system (Fadzil, Haron & Jantan 2005). In line with various other researchers (e.g. Fadzil, Haron & Jantan 2005; Rupšys & Boguslauskas 2007b; Santiso 2006), IA work performance is considered a major element of ISPPIA. The performance standards of the IIA require the auditor to plan and perform the work such that he or she would be able to arrive at useful audit findings and forward recommendations for improvement (Institute of Internal Auditors 2011d). According to the definition of internal auditing (Institute of Internal Auditors 2011c), IA is expected to add value to organizations by effectively managing IA activity; reviewing operations and programs to ascertain the extent to which results are consistent with the organization's goals; establishing audit plans, reports and programs to achieve audit objectives; and determining appropriate and sufficient timeframes to achieve objectives.

The internal audit departments should prepare an audit plan that identifies IA's objectives and strategies, and the audit work they intend undertaking. Prior empirical research on IA effectiveness (Al-Twaijry, Brierley & Gwilliam 2003; Albercht et al. 1988; Mihret, James & Mula 2010) suggests quality of internal audit planning is an indicator of IA effectiveness. Mihret, James and Mula (2010) state that work performance is further operationalized into quality of internal audit planning and execution, and quality of internal audit reporting and follow-up. Planning is generally considered a vital audit activity and it includes preparing a strategic plan, annual plans and programs for individual audit assignments (Mihret & Yismaw 2007). According to ISPPIA, the IA director must establish risk-based plans consistent with the organization's goals to determine the priorities of the IA activity (Institute of Internal Auditors 2011d).

Time budgets are also a necessary management tool for evaluation of internal audit departments (Azad 1994). Santiso (2006) states that the timeliness of reports and the credibility of the audit findings are considered an indicator of IA effectiveness. Internal audit departments use time budgets, prepared in accordance with audit programmes, to plan and monitor auditing assignments. Furthermore, another important factor established by prior research (e.g. Al-Twajry, Brierley & Gwilliam 2003; Institute of Internal Auditors 2011d; Mihret & Yismaw 2007; Ziegenfuss 2000) is the importance of IA programmes to monitor internal auditor work performance.

Furthermore, IA programmes play an important role in the success of IA operations. Without these programmes, efforts may drift and be overly subjected to internal pressures (Brink & Witt 1982). IIA's Standards for Professional Practice of Internal Auditing (2240–Engagement Resource Allocation) state that internal auditors must develop and document work programs that achieve the objectives of IA (Institute of Internal Auditors 2011d). The standard requires internal auditors to establish procedures for identifying, analysing, evaluating and recording information during the audit engagement. The work program should be approved before its implementation. Furthermore, the audit programme should describe the objectives, as well as an outline of the audit work considered necessary to achieve them. In addition, in practice, work programmes should be supported by effective audit working papers. Ratliff et al.(1996) explain that working papers perform many functions that are important to successful audits: 1) working papers document evidence that assists in preparing the audit report; 2) they provide reference during the process of the audit that assists in planning information and provides a body of evidence; and 3) they can be used to evaluate the performance of the IA work. In highlighting the importance of working papers, the International Federation of Accountants (2011) explains that to determine the adequacy of specific work performed by internal auditors, it is suggested that the work should be properly supervised, reviewed and documented. Internal audit departments also need to prepare audit reports. Working papers can also assist in the planning and undertaking of subsequent years' audits and are especially valuable when there are many changes to the internal audit team.

The primary task of internal auditors is to review and report on the activities of their organizations. Internal audit reports provide reasonable assurance regarding the adequacy and effectiveness of the organization's internal control in achieving organizational goals. Fadzil, Haron and Jantan (2005) find that audit reporting of IA practices significantly influences the risk assessment aspect of internal control systems. Sawyer and Vinten (1996) state that one of the benefits managers have gained from internal auditing assistance is the reporting of weaknesses in internal control systems. The IIA's Standards for Professional Practice of Internal Auditing (2060–Reporting to senior management and the board) state that the chief audit executive must prepare audit reports and these reports must include significant risk exposures and control issues, including fraud risks, governance issues, and other matters requested by senior management and the board (Institute of Internal Auditors 2011d). Based on this understanding, the following fourth subsidiary question is formulated:

RQ4: To what extent is the performance of internal audit effective?

3.5 Co-operation between the internal and external auditor

Internal audit departments should maintain good co-operation with external auditors for mutual benefit. Such a relationship between the internal and external auditors is very important for both parties because, in this way, external auditors have the opportunity to increase efficiency and credibility of financial statements; and it enables internal auditors to obtain essential information in the assessment of risks control. Mihret's (2010) study revealed the importance of internal and external audit linkages; and Arena and Azzone (2009) and Goodwin (2004) state that a positive interaction between IA and external audit is very important for both aspects. The relationship between the internal and the external auditors assists the board of directors through its audit committee to effectively oversee the audit process and the financial reporting process (Braiotta & Marsh 1992). The board of directors, the audit committees, executive managers, internal auditors and external auditors are the cornerstones of effective corporate governance in organizations. Therefore, effective corporate governance should be maintained based upon a strong relationship between external auditors and the internal audit function. The

International Federation of Accountants (2007) highlights the need for coordinating the efforts of both internal and external auditors.

The importance of the relationship between internal audit and external audit is reaffirmed by the International Federation of Accountants (2007, p. 7) as follows:

1. 'The role of the internal audit function is determined by management or those charged with governance. The objectives of management and those charged with governance differ from those of the external auditor whose overall objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report on the financial statements in accordance with the auditor's findings. The objectives of the internal audit function vary according to the requirements of management or those charged with governance.
2. The internal audit function may achieve its objectives in a manner similar to that of the external auditor. Accordingly, certain aspects of the internal audit function's activities may be useful to the external auditor in determining the nature, timing and extent of audit procedures to be performed.
3. Notwithstanding its degree of autonomy and objectivity, the internal audit function is not independent of management or the entity. The external auditor has sole responsibility for the audit opinion expressed and, accordingly, that responsibility is not reduced by the external auditor's use of the work of the internal audit function'.

Therefore, there is no doubt neither party can do without the other; and the work and success of one party is crucial to the success of the other. As a result, the interaction between the internal and external auditors should contribute to IA effectiveness. However, a survey of external auditors in Saudi Arabia (Al-Twajry, Brierley & Gwilliam 2004) indicates that co-operation with the internal audit function is dependent on several factors, including the extent to which internal auditors are perceived to be trustworthy professionals who understand the external auditors' work; the extent to which internal audit staff are perceived as good professionals; and the extent to which internal auditors are independent.

Arena and Jeppesen (2010) indicate that the relationship between IA and external auditing is gradually becoming one of ‘intellectual jurisdiction’, where external auditing as the superior profession controls the knowledge base of internal auditing, but allows internal auditors to practise IA as they please.

Although management determines the role of internal auditing and its objectives differently from those of the external auditor (who is appointed to report independently on the financial statements), they share a common secondary objective, that is, ensuring the adequacy of the internal accounting control system (Pickett 2003). Figure 3.2 shows that co-operation between internal and external auditors is one that affects the work of both parties.

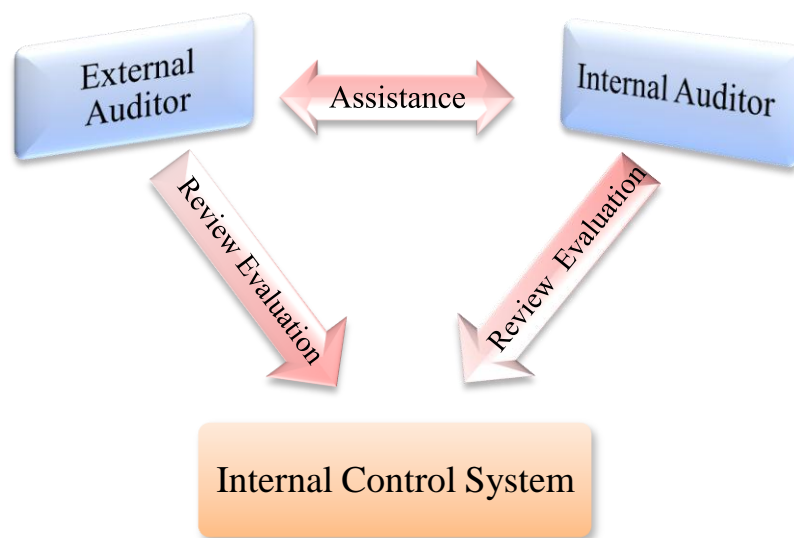


Figure 3.2 Co-operation between internal and external auditor
Source: (Frank 1980, p. 59)

Therefore, professional accounting bodies that represent both internal and external auditors have expressed interest in increasing the level of co-operation between the internal and external audit (Morrill & Morrill 2003) because co-operation between the internal and external auditors can provide total audit coverage more efficiently and effectively (Engle 1999). While internal auditors are increasingly contributing to the work performed by external auditors (Burnaby & Klein 2000), external auditors assist in the development of internal auditors by, inter alia, serving as a market for recruitment of internal auditors (Al-Twaijry, Brierley &

Gwilliam 2004; Albercht et al. 1988; Arena, Arnaboldi & Azzone 2006; Mihret, James & Mula 2010; Ziegenfuss 2000). Paape (2007, p. 72) states:

‘It is in the best interests of both external and internal auditors to closely cooperate and coordinate their activities. It will not only strengthen service payoff and reduce cost savings, but also demonstrate true grown up professionalism. It will also make the external audit job, of supervising both, easier’.

This relationship also impacts on the value IA can add to the organization through reduced external audit fees (Al-Twajjry, Brierley & Gwilliam 2004; Felix, Gramling & Maletta 2001; Haron et al. 2004; Krishnamoorthy 2002; Zain, Subramaniam & Stewart 2006). The results of Felix, Gramling and Maletta (2001) find that the contributes of internal audit to the financial statement audit is a significant determinant of external audit fees. They find that the greater the contribution made by internal audit, the lower the external audit fee. Zain, Subramaniam and Stewart (2006) indicate that two strategies can be adopted by external auditors in gaining support from internal auditors. The first approach entails having internal auditors work as subordinates under the direct supervision of the external auditor. The second strategy to save time and effort by external auditors is to rely on the relevant work carried out by internal auditors. Adams (1994) assumes that internal auditing, in common with other intervention mechanisms, helps to supervise external auditors and maintain cost-efficiency.

Internal auditors and external auditors should be able to access each other’s working papers, reports, plans and programmes to avoid any work duplication. Accordingly, the literature focuses on the need for co-operation and teamwork between internal and external auditors if internal auditing is to be effective (Al-Twajjry, Brierley & Gwilliam 2004; Arena & Azzone 2009; Goodwin 2003). The work of internal and external auditors should be coordinated to avoid any work duplication which, in turn, increases the credibility of the internal audit department. Therefore, the IIA’s Standards for Professional Practice of Internal Auditing (2050–Coordination) provide guidance pertaining to coordination with external auditors. Standard 2050 states:

‘The chief audit executive should share information and coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts’ (Institute of Internal Auditors 2011d).

In other words, the purpose of coordination and co-operation between the internal and external auditor is to ensure adequate total audit coverage and minimize duplication of effort. Including the external auditor in the planning process of the internal auditor is best practice for internal auditors. For example, sending the internal audit plan to the external auditor for her/his perusal may provide ideas and advice on ways to improve and develop IA plans. In addition, external auditors should make recommendations that help improve IA. Furthermore, the co-operation and co-ordination between external auditors and external auditors should be supported and managed by the IA director and the highest management level. Therefore, this study addresses the following fifth subsidiary question:

RQ5: To what extent is there co-operation between the internal and external auditor?

3.6 Management support

Management support is another critical factor that enhances IA effectiveness. In order for the internal audit department to be effective, the support of top management is absolutely critical. Boyle (1993) finds that the support of IA by top management was identified in his interviews as a critical validation of the fact that internal auditors should perform their work effectively. Mihret and Yismaw (2007) and Mihret and Woldeyohannis's (2008) studies in Ethiopia state that management support to IA is considered as a determinant of IA effectiveness. According to Mihret (2009), management support to IA is identified as one of the factors that bode well for a good IA department profile. In addition, Zain, Subramaniam and Stewart (2006) indicate that with the appropriate level and type of resources directed to the internal audit function, firms should subsequently reap the benefits in terms of the internal audit function aiding and supporting the external audit. Albercht et al. (1988) state that there are four factors that IA directors could develop to enhance IA effectiveness, namely, 1) top management support; 2) an appropriate corporate environment; 3) high quality internal audit staff; and 4) an appropriate corporate environment. The authors also highlight that the visible support of top management to the internal audit department may be the single most important factor that enhances IA effectiveness. Furthermore, Sarens and De Beelde (2006a) find that the overall acceptance and appreciation of IA

within the company is strongly dependent upon the support it receives from senior management. They also find indications that this support is related to the maturity of the internal audit function. Therefore, internal audit actively seeks this support by promoting and communicating its potential to add value.

The IIA's Standards for Professional Practice of Internal Auditing (1110–Organizational Independence) recognizes that internal auditors should have the support of senior management and of the board so that they can gain the cooperation of auditees and perform their work free from interference (Institute of Internal Auditors 2011d). According to this statement and based on above literature there is no doubt that top management support plays an important role in enhancing internal audit independence. Therefore, for effective work performance, internal auditors should have the support of top management and the board of directors. Management support is also important for an internal audit department to monitor management risk. Walker, Shenkir and Barton (2002) state that enterprise risk management may not succeed without strong support in the organization from senior management because internal auditors have primary responsibilities related to risk identification and assessment and they are likely to be interacting with senior management on risk management implementation issues. Furthermore, top management support is crucial to the success of a variety of initiatives. Top management support is shown by the motivation provided by top management to internal auditors. This may take the form of establishing education and training education programmes for their internal auditors, adequate budget for the internal audit department, bonuses and recompense for internal auditors and acceptance and implementation of internal audit recommendations. These forms of management support are discussed next.

One form of management support lies with top management establishing education and training education programmes for their internal auditors. The internal auditor should continue education and training programmes within the organization in order to carry out an effective audit. Continuing education programmes should supplement those areas where formal training and education are weak, as well as introducing internal auditors to specialism which might prove useful in her/his specific organization. Mihret, James and Mula (2010) indicate

that technical competence and continuous training are considered essential for effective IA. Engle (1999) explains that maximizing internal auditor competence should be the top priority of any organization. Therefore, organizations should direct their efforts towards periodically updating the knowledge and skills of internal auditors.

Furthermore, the financial support in terms of adequate budget for internal audit department is another form of management support. Mizrahi and Ness-Weisman (2007) indicate that without adequate budget—despite adequate independence—internal auditors are unable to perform their work properly. Furthermore, with higher qualified staff, it seems that the increase in budget is more significant than the increase in size (staff) (Paape 2007). Mihret and Yismaw (2007) state that autonomy on budgets is another sub factor relating to the organizational setting, as it entails resource implications. They find that the internal audit office of the university is not a budget centre, and evidence from interviews and questionnaire responses indicate this lack of authority for budget administration adversely influences performance of the internal audit office. Cohen & Sayag (2010, p. 301) state:

‘Management support for IA is thus important both in the abstract (managers must see the activity of the audit department as legitimate) and in ensuring that IA departments have the resources needed to do their jobs’.

Another form of management support lies in financial support in terms of bonuses and recompense. It could be argued that management support in terms of these financial incentives for the internal auditor staff motivates staff to work in this area and be more effective. In this connection, for example, Muller-Peters, Kern and Geibler (2001), cited in Göritz (2004), recruited members for a commercial market research panel through personal interviews and the authors established that 52% of interviewees who were offered the incentive had expressed an interest in becoming panellists and subsequently signed up.

The extent of top management acceptance and implementation of internal audit recommendations is also vital in achieving IA effectiveness. After issuance of the internal audit report, the senior management and board of directors should ensure that appropriate arrangements are made to determine whether action has been taken on IA recommendations or that management has understood and assumed

the risk of inaction. Burns, Greenspan and Hartwell (1994) find that management is more likely to comply with internal auditor recommendations and that an organization's internal auditors may enjoy a certain 'cruciality' if senior management is externally motivated to follow the recommendations of the internal audit department. Without such motivation, the internal auditor may not be in a position to influence management when management's actions are inappropriate. It appears that management's acceptance of the internal auditors' recommendations may enhance IA effectiveness. Therefore, the internal audit department may not be able to adequately and effectively achieve their work without the appropriate support of the body it is responsible to, whether this support is moral through the sufficient authorities vested in it or physical through the availability of all its needs. It appears that strong top management support, communicated throughout the company, is an absolute necessity in order to achieve IA effectiveness. Therefore, the following sixth subsidiary question is formulated:

RQ6: To what extent is internal audit operating under adequate management support?

3.7 Awareness of the benefits of effective internal auditing

As indicated earlier, in recent decades internal audit departments have become an important part of organizational structure as a value adding service (Al-Twaijry, Brierley & Gwilliam 2003; Arena & Azzone 2009; Bou-Raad 2000; Coram, Ferguson & Moroney 2008; Enyue 1997; Goodwin 2004; Mihret, James & Mula 2010; Yee et al. 2008). Nevertheless, organizations in developing countries tend to not grasp or recognize the value of the concepts and practices of IA as applied in Western societies (Al-Twaijry, Brierley & Gwilliam 2003; Mihret 2009). For example, Al-Twaijry, Brierley and Gwilliam's (2003) study finds that in the Saudi Arabian corporate sector there was less understanding of the internal auditor's role and this problem was exacerbated by a perceived lack of auditability. IA service will be fully utilized and their recommendation respected, accepted and implemented if organizations understand the importance of internal audit departments as a value adding service (Flesher & Zanzig 2000; Nagy & Cenker

2002). Adams (1994) also explains that management insight and awareness are important factors in maintaining a strong internal audit department.

To understand the internal audit department as a value adding service to organizations, both employees and management should be aware of the importance of the internal audit role in terms of providing consultation services. According to the definition of internal auditing stated by the IIA (see section 2.2.1), internal audit's *raison d'être* is to add value to organizations by providing a wide range of services including assurance and operational (performance) audits and consulting management on a variety of issues. The glossary to the ISPPA defines consulting services as an advisory and client related service activity, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization's operations (Institute of Internal Auditors 2011d). Anderson (2003) indicates that according to the new definition and the Professional Standards, consulting services include activities such as conducting internal control training, providing advice to management about the control concerns in new systems, drafting policies, and participating in quality teams. Therefore, IA is shifting towards a consulting orientation in these areas. Such changes create opportunities for IA to provide consulting services to management and assist boards of directors to manage risk (Allegrini et al. 2006; Cooper, Leung & Wong 2006). This view is consistent with the Marx's perspective that operational auditing can assist in the management of risk, consulting with management and the prevention of fraud and other wastage of capital (Marx 1978; Marx 1981) by increasing the rate of return on capital (Mihret, James & Mula 2010).

Employees and management also should be aware of the importance of the internal audit role in terms of assessing and testing risk management and control systems. It helps an organization to evaluate and improve the effectiveness of risk management, control and governance processes (Institute of Internal Auditors 2011c). Carey, Subramaniam and Ching (2006) indicate that internal audit is an important tool for company directors and senior management to gain advice on internal controls and risk management. Therefore, IA provides assurances in

controlling and generating reliable, appropriate reporting and classification of risks (Matyjewicz & D’Arcangelo 2004).

The outsourcing of internal audit services by organizations has recently received much attention (Barac & Motubatse 2009). It can be beneficial in improving IA effectiveness its advantages include: access to leading practices; better international and cultural coverage; reduction of costs; and providing flexibility and capturing innovation. However, motives for utilising internal audit outsourcing vary, and much of the debate is based on anecdotal evidence (Barac & Motubatse 2009; Carey, Subramaniam & Ching 2006). Prior research (Barac & Motubatse 2009; Fraser & Henry 2007; Hill & Booker 2007; Kalbers & Fogarty 1993; Quarles 1994; Van Peurseem & Jiang 2008) asserts that outsourcing routine activities of internal audit may not enhance the overall quality of internal audit, presents significant risks to independence—particularly if the outsourcing firm is also the external audit firm—threatens internal auditors’ job security, increases responsibilities, exposes important organization information and limits the continuous accessibility to internal auditors. Furthermore, there should be an understanding of the benefits of effective internal audit function as adding value by improving the operations of the organization. Yee et al. (2008) state that IA can assist a firm to improve its efficiency in operations during an industry crisis by ensuring that its capital experiences the least wastage and devaluation as is possible under the circumstances. This understanding leads to the following seventh subsidiary question:

RQ7: Are organizations in Libya aware of the benefits of effective internal auditing?

3.8 Chapter summary

This chapter has provided a review of the literature on the internal audit function. To that end, this review has attempted to arrive at a theoretical foundation for the study of IA effectiveness. It also draws on institutional theory (DiMaggio & Powell 1983) and Marx’s (1978) circuit of industrial capital. This chapter has shown that over the years, the internal audit function has grown and become an integral part of organizations; and the literature generally suggests that IA is

expected to add value in contemporary organizations. However, some of the literature highlighted that in order for IA to be considered as a value adding service to organizations it should be effective.

Limited research was found to have been conducted in the specific area of IA effectiveness. The evidence from some of this limited literature suggests that the IA function may not always be effective. The discussion in this chapter shows that there are no specific standards or recognized methods of evaluating IA effectiveness. Therefore, previous research has provided mixed findings on IA effectiveness, and has assessed IA effectiveness differently. This study aims to interpret the views of participants regarding IA effectiveness. Therefore, this chapter has also presented and explained the potential indicators of IA effectiveness by identifying seven factors that impact on IA effectiveness, namely, independence, competence, scope of work, performance, co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing within organizations. Therefore, the overarching research question of this study is:

Research Question: To what extent is the internal audit function in Libyan public enterprises perceived to be effective?

To answer the main question underlying this research study, the following seven subsidiary questions are formulated:

RQ1: To what extent is the internal audit function in Libyan public enterprises independent of management?

RQ2: To what extent are internal auditors competent?

RQ3: To what extent does the scope of internal auditing work actually extend to all systems and activities at all management levels?

RQ4: To what extent is the performance of internal audit effective?

RQ5: To what extent is there co-operation between the internal and external auditor?

RQ6: To what extent is internal audit operating under adequate management support?

RQ7: Are organizations in Libya aware of the benefits of effective internal auditing?

Figure 1.1 displays the conceptual model for the study. The following chapter outlines the research methodology employed in the study in order to explain the detailed procedures employed to collect data to address the research questions.

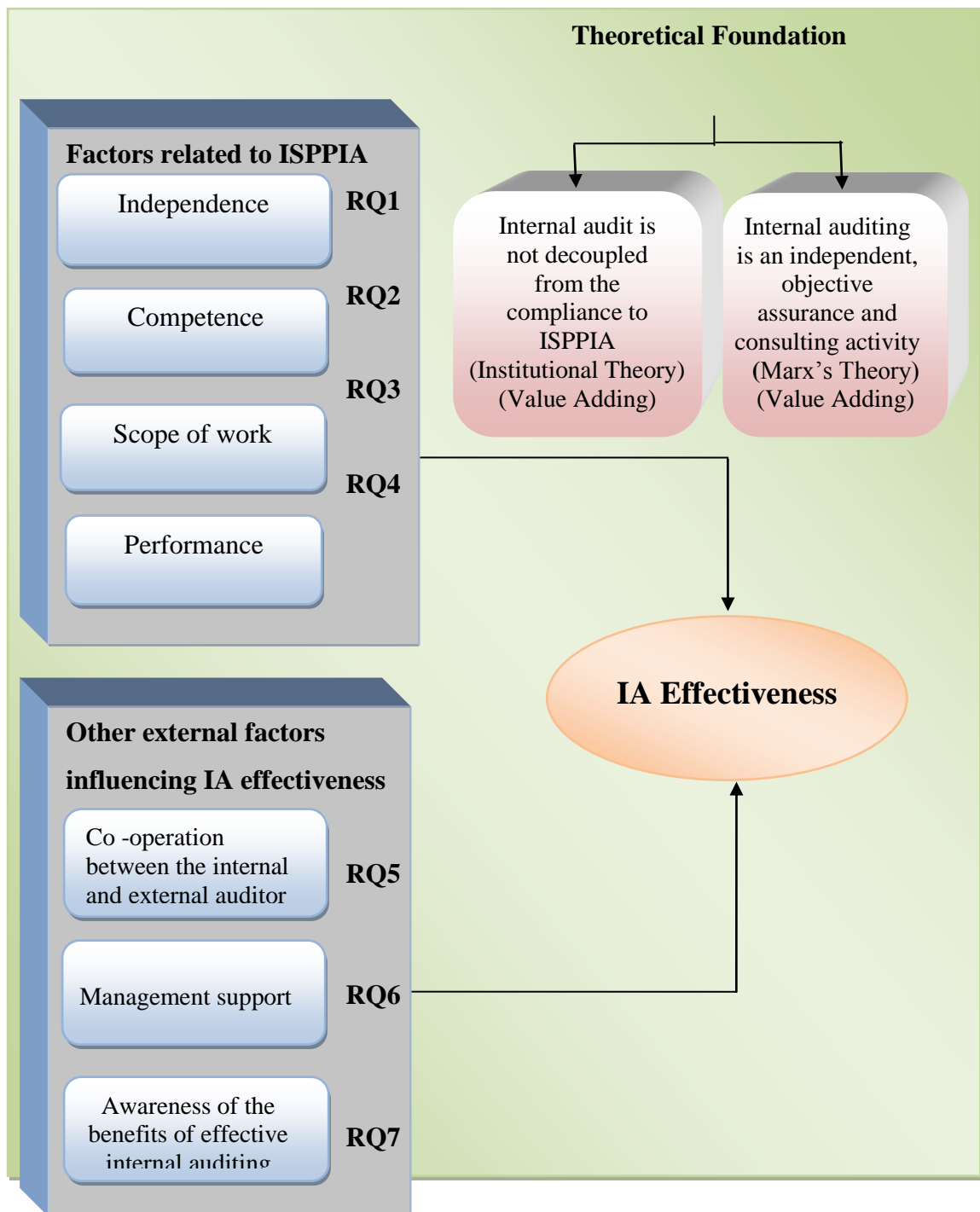


Figure 3.3 Conceptual Mode

CHAPTER 4 RESEARCH METHODOLOGY

4.1 Introduction

The literature review presented in Chapter 3 was helpful in developing the theoretical framework for this study and contributed to the selection of its methodology. This study addresses the research questions by conducting research based on a qualitative research paradigm methodology to support the prescriptive theoretical development called for in the literature, as well as the need to investigate in detail claims of academic commentators and consultants. This chapter outlines and explains the methodology employed to address the research question formulated in Chapter 1. It starts with an explanation of the research approaches, the target population, data collection, data analysis and, finally, a chapter summary is provided. The study employed a qualitative method, which is articulated in the following sections in this chapter.

4.2 Research approaches

There are two main approaches to research: quantitative and qualitative. The main difference between the two approaches is that qualitative research is based on in-depth information, whereas quantitative research depends on large amounts of numerical information that can be statistically analysed and then generalized. This study employs a qualitative research paradigm to enable understanding as to whether the internal audit function is perceived to be effective. It is worth mentioning here that this study is concerned with the profession of internal auditing. However, organization type characteristics were not used for the basis of analysis in this study as they were outside the scope of the research question. The selection of the three types of enterprises merely ensured the presence of internal audit practice.

4.3 Justifying selection of qualitative approach for the present study

Bryman (2001) views qualitative research as a research strategy that uses words rather than quantification in the process of data collection and analysis. Leedy and Ormrod (2005, p. 133) state that:

‘To answer some research questions, we cannot skim across the surface. We must dig deep to get a complete understanding of the phenomenon we are studying. In qualitative research we do indeed dig deep’.

Maxwell (1996) suggests that the purpose of qualitative methodology in conducting formative evaluations is to improve existing practice rather than simply assess the value of the programme or product being evaluated. Qualitative research provides a means through which a researcher can judge the effectiveness of particular policies, practices, or innovations (Leedy & Ormrod 2005). Taylor and Bogdan (1997) state that qualitative research helps researchers understand how people see things and examine how things look from different vantage points. Hence, a qualitative research strategy has been adopted for the purpose of this study. This was considered necessary because it offered the possibility of a more holistic understanding of the nature, context, and processes of internal audit practices from the point of view of the participants. Quantitative research appears narrow or structured in the sense that there will usually be clear guidelines, clear boundaries and limits for the researcher to adhere to (Miles & Huberman 1994). In contrast, qualitative research is more open-ended and flexible (Patton 1990).

A qualitative research paradigm was chosen for this research because the subjects under study operate in a complex real world environment. As mentioned earlier this study is a study about the profession of internal auditing. It aims to interpret the perceptions of participants regarding IA effectiveness. However, organization type characteristics were not used for the basis of analysis in this study as they were outside the scope of the research question. It is not a study of specific organisations. As a result, the scope of the information required cannot be used to study and investigate IA effectiveness. Yin (2003) states that the exploratory nature of a study of a phenomenon occurring in a complex real world environment requires flexibility to accommodate emerging new insights that come to light in the course of conducting the research. Qualitative research analysis, as a methodology that examines a contemporary phenomenon in its real-life context,

has an important role in researching the actual functioning of IA (Chua 1982). Using a qualitative research paradigm in this study allows for a greater variety of evidence to be collected within a complex behavioural context, providing greater opportunity for theory support or refutation; and for improving the quality of data collection and research findings. It also provides the opportunity to use replication logic which contributes to the external validity of the research (Flick 2002). The difficulty in containing or manipulating the independent variables makes quantitative statistical investigation difficult (Prakash 2000). In addition, the study required a qualitative research approach to provide clarification, insight, discovery and interpretation, rather than one suitable only for hypothesis testing.

The research questions for this study support the selection of the qualitative approach in order to find answers. Yin (2003) notes that the form of the research questions often indicates the appropriate research design. Otley and Berry (1994) suggest that qualitative research is important for more interpretive research. An interpretative approach can be particularly useful for answering the research questions. There has been an increasing demand in the past few years for more qualitative studies in order to gain a better understanding of accounting and auditing. Qualitative methodology in accounting research can make substantial contributions to the study of accounting and control systems in organizations (Covaleski & Dirsmith 1990; Hopper & Powell 1985; Hopwood 1983; Scapens 1990). Furthermore, in recent years, there has been an increase in the use of qualitative research not only in the accounting field, but also within the allied health professions and it has challenged the hegemony of positivism (Carpenter & Suto 2008; Nicholls 2009). As Nicholls (2009, p. 527) explains, 'It [is a] fact that as our professional training has brought us into university departments, more and more lecturers have become familiar with philosophy and the social sciences'. He added that it is generally accepted that a basic understanding of qualitative research can have a positive effect on our thinking and practice.

Qualitative research arguably follows a process of inductive reasoning by developing concepts (where theory is developed), thus, institutional theory and Marx's theory of the circuit of industrial capital are employed in this study. Institutional theory is employed to explain the influence of these concepts on IA

effectiveness (Al-Twajry, Brierley & Gwilliam 2003; Arena, Arnaboldi & Azzone 2006; Mihret 2009; Mihret, James & Mula 2010). Marx's theory of the circuit of industrial capital serves to illuminate the concept of an added assurance and production process and to provide a perspective on the extent to which the internal audit function fits into the wealth creation process of enterprises and society (Mihret, James & Mula 2010; Yee et al. 2008). These approaches arguably enable the researcher to answer the research questions posed in the current study. As the aim of the study is to obtain the opinions of participants regarding IA effectiveness, it seems clear that a qualitative approach was appropriate for achieving the aims of this study. Churchill and Iacobucci (2009) believe that the research methodology should be determined by the objectives of the study. Based on the abovementioned advantages of the qualitative approach, and the nature and objectives of the study, the researcher chose a qualitative method for this study.

4.4 The target population of the study

In the present study, the target population is Libyan public enterprises operating in the manufacturing, commercial banking and insurance sectors (37 public enterprises). However, as mentioned earlier, organization type characteristics were not used for the basis of analysis in this study as they were outside the scope of the research question. It is not a study of specific organisations. The selection of the three types of enterprises merely ensured the presence of internal audit practice. Although there has been an increase in the last ten years in the number of private sector firms in Libya, this study was conducted exclusively in Libyan public enterprises. There are two key reasons why the researcher chose to focus on Libyan public enterprises. Firstly, in developing countries there are differences between the public and private sectors in terms of laws and regulations. For example, public enterprises in Libya are required by law to establish internal audit departments and to be audited by auditors general. Secondly, private enterprises in Libya are unlikely to have an internal audit department because of their smaller size, plus there is no legal requirement to establish internal audit departments (Alhsadi 2007). Therefore, the researcher confirmed that most private enterprises would not have established internal audit departments. Yee et al (2008) find that the percentage of private companies with an internal audit department in

Singapore is lower than the percentage of listed companies. Zakaria and Selvaraj (2006) also find that most private institutions of higher education do not have an internal audit function. Furthermore, Goodwin (2004) finds differences between public and private sectors in terms of the requirement to establish an IA function, report to the chief of financial affairs, outsource IA work and their interaction with external auditors.

Because there are limited public Commercial banking and insurance firms in Libya, the study included the whole population (four Commercial banks and one insurance firm) to gather a sufficient number of responses to be used for interpretation. However, purposeful sampling was used to select the large state-owned manufacturing enterprises, based on the size of employment and size of capital. The total number of these public enterprises in the sample was eight. It should be noted that most sampling in qualitative research is neither probability sampling nor convenience sampling, but falls into a third category: purposeful sampling (Patton 1990, cited in Maxwell, 1996). Patton (1990, p. 169) states that in qualitative research, all types of sampling may be encompassed under the broad term of purposeful sampling. He writes that ‘qualitative inquiry typically focuses in depth on relatively small samples even single cases, selected purposefully’. Therefore, the number of Libyan public enterprises in this study was thirteen (eight industrial, four Commercial banks and one insurance company).

4.5 Qualitative data collection

Data collection usually involves one or more of the following data gathering methods: (1) interviews; (2) questionnaires; (3) observation; and (4) documentary analysis. The nature of the information required for this research indicated that questionnaires are not an appropriate means of collecting data for the present study. This study requires in-depth information. However, questionnaires do not offer the researcher the opportunity to probe for additional information, which means the answers have to be accepted as final. Since the aim of this study is to explore and interpret the opinions of participants regarding IA effectiveness, observation is also not an appropriate method for this study. Under these circumstances interviews were deemed to be the best possible way to obtain the

required data. Therefore, personal interviews and documentary evidence are utilized in the present study.

4.5.1 Personal interviews as a data collection method

Personal interviews and documentary analysis as data collection methods were utilized in the current study to gather more information regarding IA effectiveness. Interviews are one of the most effective data collection methods because an interviewer can communicate directly with the respondents (Yin 1989). Kumar (1996) also states that the advantages of the interview are that information can be supplemented and questions can be explained. Therefore, it is useful in collecting in-depth information and is more appropriate for complex situations. In addition, Nachmias and Nachmias (1992) explain that there are three advantages of using interviews in research. Firstly, they can range from being highly structured to unstructured, depending on the research problem under examination. Secondly, details and comprehensive information can be derived from them. Thirdly, they are flexible; allowing researchers to develop and clarify ideas which emerge during the interview and not just those that existed when the original research design was conceived. The major advantage of the interview is ‘adaptability, as a skilled interviewer can follow up an idea, probe responses and investigate aspects such as motives and feelings which a questionnaire cannot accomplish (Bell 2005). Interviews can also be of use outside the direct context of the research. For example, with the interviewee’s permission, they can be posted on websites if perceived to be of general interest to the public or to a subset thereof.

There are many types of interviews used as data collection methods, as suggested in the literature. Hitchcock & Hughes (1989) lists eight types of interviews as follows: structured interview; unstructured interview; survey interview; counselling interview; diary interview; life history interview; ethnographic interview; and conversations. However, from the literature review it emerged that researchers such as Creswell (2005); Kumar (1996); Kvale, (1996); Leedy and Ormrod (2005); Maxwell (1996); Patton (2002); and Saunders, Lewis and Thornhill (2003) have classified the interview into main three types, namely,

structured; semi-structured; and unstructured interviews. The qualitative data collection method in the current research was semi-structured interviews.

Semi-structured interviews are one of the main qualitative research instruments used in the exploration of more complex issues. It provides interviewees with the opportunity to speak frankly about what they believe. It also provides flexibility, thus, enhancing the reliability of the study (Kumar 1996; Maxwell 1996). In addition, it allows the researcher to use supplementary questions to explore and clarify specific issues other than those related to factors that directly impact on IA effectiveness. The researcher can learn by experience and add, modify or delete questions for subsequent interviews. Moreover, this method is considered an appropriate method to conduct exploratory discussions in order not only to reveal *what* and *how*, but also to place more emphasis on *why* (Saunders, Lewis & Thornhill 2000). Thus, semi-structured interviews have the potential to uncover issues that have not been considered previously. Saunders, Lewis and Thornhill (2000) state that semi-structured interviews and in-depth interviews provide the researcher with the opportunity to probe answers if the researcher requires further information from the interviewees or to build on their responses. Therefore, a semi-structured interview format was selected as the main method of gathering data, as this is seen as the most relevant research tool for this study.

The researcher chose participants who are in direct contact with the IA function and who are, therefore, the most influential parties in the IA function. In other words, participants were selected on the basis that they were either part of the audit process, in the financial function, or in administrative roles which brought them into direct contact with IA operations. Thus, semi-structured interviews were conducted with IA directors; managers of administrative affairs; managers of financial affairs; chief executive officers; and general auditors. These participants were considered to be the best interviewees because they are involved in decision making, and could be responsible for all organizational activities. Furthermore, these categories were chosen from the literature review findings.

Taylor and Bogdan (1997) state that in qualitative research, the researcher usually needs to establish exactly how many people she/he needs to interview to complete a study, but this is difficult if not impossible to determine with any degree of

precision prior to conducting the research. The size of the sample in an interview study is something that will nearly always be finalized towards the end of the research and not at the beginning. As Kvale (1996, p. 101) points out:

‘To the common question, how many interview subjects do I need, the answer is simply, interview as many subjects as necessary to find out what you need to know’.

Taylor and Bogdan (1997) also indicate that there is an inverse relationship between the number of participants and the depth to which the researcher can interview each one. The greater the number of interviews with each participant, the fewer participants the researcher will need in order to have enough data to write a research article, dissertation or monograph. The researcher planned to interview 65 participants, however, a total of 58 interviews were conducted. The number of respondents and their roles in their organizations is shown in Table 4.1. Interview participants’ profiles are summarized in Table 4.2.

TABLE 4.1
Number and Details of Interviewees

Position in the organization	Total No. of interviews
Chief Executive Officers	10
Directors of Internal Audit	13
Managers of Administrative Affairs	11
Managers of Financial Affairs	12
External Auditors	12
Total	58

TABLE 4.2
Interview participants’ profiles

No	Current Position	Organization Category	Years of Service		Educational Background
			Audit	Other	
12	Internal audit director	Manufacturing	22	5	BA degree
13	Internal audit director	Manufacturing	7	3	BA degree
14	External auditor	General People's Committee for Audit (GPCFA)	2		BA degree
15	External auditor	GPCFA	4		BA degree
16	External auditor	GPCFA	6		BA degree
17	External auditor	GPCFA	3		BA degree
18	External auditor	GPCFA	2		Master's degree
19	External auditor	GPCFA	7		BA degree
20	External auditor	GPCFA	4		BA degree
21	External auditor	GPCFA	3		BA degree

No	Current Position	Organization Category	Years of Service		Educational Background
			Audit	Other	
22	External auditor	GPCFA	2		BA degree
23	External auditor	GPCFA	5		BA degree
24	External auditor	GPCFA	8		BA degree
25	External auditor	GPCFA	4		Master's degree
26	Administrative affairs manager	Financial		10	BA degree
27	Administrative affairs manager	Financial		7	BA degree
28	Administrative affairs manager	Financial		14	Diploma in Management
29	Administrative affairs manager	Financial		7	BA degree
30	Administrative affairs manager	Financial		4	BA degree
31	Administrative affairs manager	Manufacturing		6	BA degree
32	Administrative affairs manager	Manufacturing		15	BA degree
33	Administrative affairs manager	Manufacturing		18	Diploma in Management
34	Administrative affairs manager	Manufacturing		11	Diploma in Management
35	Administrative affairs manager	Manufacturing		6	BA degree
36	Administrative affairs manager	Manufacturing		8	BA degree
37	Financial affairs manager	Financial*		9	BA degree
38	Financial affairs manager	Financial		14	Diploma in Accounting
39	Financial affairs manager	Financial		8	BA degree
40	Financial affairs manager	Financial		10	BA degree
41	Financial affairs manager	Manufacturing		12	BA degree
42	Financial affairs manager	Manufacturing		16	Diploma in Accounting
43	Financial affairs manager	Manufacturing		5	Master's degree
44	Financial affairs manager	Manufacturing		8	BA degree
45	Financial affairs manager	Manufacturing		9	Master's degree
46	Financial affairs manager	Manufacturing		7	BA degree
47	Financial affairs manager	Manufacturing		14	Diploma in Accounting
48	Financial affairs manager	Manufacturing		11	BA degree
49	Chief executive officer	Financial		10	Master's degree
50	Chief executive officer	Financial		8	PhD in Accounting
51	Chief executive officer	Financial		18	BA degree
52	Chief executive officer	Financial		14	Master's degree
53	Chief executive officer	Manufacturing		9	PhD in Engineering
54	Chief executive officer	Manufacturing		22	BA degree
55	Chief executive officer	Manufacturing		13	Master's degree
56	Chief executive officer	Manufacturing		17	BA degree
57	Chief executive officer	Manufacturing		14	BA degree
58	Chief executive officer	Manufacturing		11	PhD in Engineering

* 'Financial' is used in a generic sense to protect identity of the participants. It includes banks and insurance company.

4.5.1.1 Data collection instruments

The researcher developed an interview guide (cf. Appendices 2, 3, 4, 5 and 6) which contains certain guiding questions, while being flexible enough to delve deeper into issues that emerge during the course of each interview (semi-structured). In order to collect the necessary data for this study, six sets of data collection instruments were employed. *Instrument set A* (Appendix 2) was an interview guide for IA directors. Set B (Appendix 3) was an interview guide for managers of financial affairs. Set C (Appendix 4) was an interview guide for managers of administrative affairs. Set D (Appendix 5) was an interview guide for chief executive officers. Set E (Appendix 6) was an interview guide for general auditors responsible for these enterprises. Finally, Set F (Appendix 7) was a document review guide.

In the interview guide the researcher decided how to phrase questions and when to ask them. It reminded the interviewer what and how to ask the participants. An interview guide is useful because it gives sponsors a sense of what the researcher will actually cover (Taylor & Bogdan 1997). The interview guide was developed based upon the primary research objective and previous literature on IA effectiveness. The questions included in the interview guides were largely adapted from those used in prior research (mainly Al-Twaijry, Brierley & Gwilliam 2003; Arena & Azzone 2009; Institute of Internal Auditors 2011d; Mihret & Yismaw 2007; The International Federation of Accountants 2011; Yee et al. 2008). The first group of questions concentrated on obtaining views on the issue of internal audit independence. The second group aimed to collect interviewees' opinions regarding the scope of internal audit work. The third group sought to gather participants' opinions regarding the competence of internal auditors. The fourth group concentrated on obtaining views on IA performance. The fifth group included questions regarding the co-operation between the internal and external auditor. The sixth group concentrated on obtaining views on the issue of management support. The final group of questions in the interview guide aimed to capture the participants' opinion regarding the extent of awareness of the benefits of effective internal auditing. However, the researcher excluded some parts of questions in some interview guides for different participants. For example, the

researcher excluded some questions for managers of administrative affairs relating to internal audit financial work. The researcher was of the opinion that managers of administrative affairs may be unable to provide this type of information.

The first draft of the interview guides was formulated in the English language. In order to test and assess the validity and reliability of the interview guides, they were presented to the supervision team to solicit their comments. Input was sought from other experts, for example, PhD students and PhD graduates. The second draft of the interview guides was formulated in the Arabic language and presented to other experts in the English and Arabic language. Based on the feedback indicating that some questions contained double negatives (i.e. two negative words together expressing a positive meaning), these questions were subsequently reworded to avoid repetition and improve clarity of the question. Other questions also required rewording because they were overly complex and somewhat confusing. Others were completely removed.

4.5.1.2 Conducting the interviews

To produce effective results from research, risks to the participants should be taken into consideration. Matsuda and Silva (2005) state that the researcher should put certain protections in place to protect participants. Ensuring the consent of organizations was a necessary step in this study as human participants were involved in the interviews. Thus, it was considered ethical to formally obtain such permission. This procedure is also a requirement of the University of Southern Queensland's research ethics standards. According to requirements of the University of Southern Queensland (USQ), a researcher cannot commence research until approval has been obtained. Therefore, the research project received approval No. H10REA010 from the Human Research Ethics Committee (HREC) at USQ. HREC is responsible for reviewing the ethical acceptability of human research, advising on any ethical considerations for these proposals and ensuring compliance with regulatory and legislative requirements relating to human research.

The interviews were conducted over a period of six months. The main objective of conducting these interviews for this study was to consult the people involved to

seek their views regarding IA effectiveness. The researcher is a lecturer at Almergib University (Libya). Therefore, a letter was issued by Almergib University, and taken by hand to the Secretariat of Industry (SI) and Central Bank of Libya (CBL), seeking permission to obtain some general information about the firms upon which the selection of firms will be made. Within a few days, permission was granted and some general information was provided by the SI including: the number of manufacturing firms distributed by type of industry and geographical areas; the number of employees; the size of capital; date of existence; number of products produced; and also information about performance. After the selection of firms had been completed, contact and confirmation of their permission to commence the study was made with the SI and CBL to facilitate contact with the selected firms. After receiving permission from the organizations, consent forms were hand-delivered to prospective participants inviting them to participate in an interview. The consent form included the research ethics requirement; and was used to determine whether or not participants were willing to be interviewed. Subsequently, the researcher organized the interviews in consultation with the participants.

The researcher used the following methods to enhance the validity and reliability of the interview. Firstly, the researcher conducted all the interviews in person. No telephone or online interviews were conducted. Secondly, sufficient time was spent in face-to-face interaction with the participants to establish data reliability. Thirdly, the researcher briefed the participants on the purpose of the interview; clarified the procedures to be followed; and outlined the research ethics requirements of USQ that demand observance of participants' rights. Fourthly, the researcher made appointments for the interviews at the convenience of the participants and provided participants with a copy of the questions. This clarification of purpose of the study to participants was made to ensure that all participants had a similar understanding about the study, thus enhancing data reliability (Fowler 2008). Providing the participants of this study with a copy of the interview guide assisted them in preparing and providing possible responses to some of the questions. This practice saved time for both the participants and the researcher. For instance, asking managers of administrative affairs to describe the

qualifications of internal audit staff might have required a prior review of staff files.

Explanation of the standard of research ethics that the researcher was committed to uphold is also expected to establish data reliability by encouraging genuine responses from participants. The support and cooperation for this study were considerable. This support included the issue of permission and verbal orders from the chief executive officers to the managers of departments of the organization. Obtaining this support was important in order to overcome any potential obstacles posed by management routine and bureaucracy.

In order to encourage interviewees to talk freely and openly before and during the interviews the researcher kept in mind Robson's (2002, p. 274) advice:

- 1) Listen more than you speak. Most interviewers talk too much. The interview is not the platform for the interviewer's personal experience and opinions.
- 2) Put questions in a straightforward, clear and non-threatening way. If people are confused or defensive you will not get the information you seek.
- 3) Eliminate cues which lead interviewees to respond in a particular way. Many interviewees seek to please the interviewer by giving correct responses.
- 4) Enjoy it (or at least look as though you do). Do not give the message that you are bored or scared. Vary your voice and facial expression.

Throughout the interviews, the participants were extremely cooperative. The positive reaction of the participants in the study towards the questions and all interesting comments were noted and taken as an indication that the questions were meaningful and successful in as much as they provided the researcher with pertinent information based on several recommendations. Moreover, during the gathering of data for this study, no major problems arose during the interviews except that, as mentioned earlier, a number of the interviewees were chief executive officers who had extremely busy timetables. This situation required the researcher to change interview schedules many times to be able to meet them. It was necessary to redesign questions included in their interview guide in such a

way that it focused on the key areas, yet could be completed within about half an hour. In addition, there were specific time constraints for conducting the interviews with general auditors. This situation required conducting all interviews with general auditors between eight o'clock and nine in the morning.

In relation to the completeness of the interviews the strict adherence to interview preparation, pre-testing efforts to increase reliability validity and ensure the quality completeness of the data collected (Saunders, Lewis & Thornhill 2009). The interviews were pilot-tested with the first three respondents to observe the interaction with interviewees and to check the timing of the interview so it could be refined, if necessary, to increase validity and reliability. As a result of this process, additional questions were incorporated in subsequent interviews. In fact, much of the information in those early interviews set the stage for the remaining interviews. Furthermore, there was a need to make some changes to the interview guide since some questions identified as ambiguous were rephrased and redesigned and, in some exceptional cases, were dropped. In addition, the wording of some of the questions had to be changed to make them more meaningful and simple.

Interviews took place in the interviewees' offices and the interviews lasted 60 minutes on average; minimum and maximum durations were about 30 and 90 minutes respectively. Although some participants asked their secretaries not to allow people to enter during the meetings, and another put up a 'Do not disturb' notice, there were occasions when telephone calls or knocks on the door interrupted the interviews. This was probably unavoidable. The longest interviews were with IA directors. The interviewer read the questions as presented in the interview guides. The researcher carefully avoided giving an opinion on the issues discussed and care was always taken to follow the sequence of questions outlined in the interview guides. Leedy and Ormrod (2005) state that participants should be allowed to choose their own way of expressing their thoughts because a good interviewer is a good listener who allows participants to say what they want to say in the way they want to say it. Taylor and Bogdan (1997) state:

'In-depth interviewing requires a great deal of patience. Informants can talk at length about things in which you have no great interest. Especially during initial interviews, you should try to force yourself not to interrupt an informant even though you are not interested in a topic'.

In the current study the researcher took notes and digitally recorded the conversations during the interviews. When an interviewer's note-taking speed is slower than the interviewee's speech, it can cause some gaps where the interviewer attempts to catch up prior to moving on to the next question. Therefore, the researcher used a tape recorder to avoid these gaps. A tape recorder allows the interviewer to capture more than he/she could by relying solely on memory. Prior to commencing the interviews, all participants were informed that, if possible, the preference would be to tape record the interviews. However, to avoid reducing the quality and quantity of the data (Taylor & Bogdan 1997) digital recording was not used with some participants who preferred not to have the interview recorded. For example, respondents might not have provided genuine responses to some questions if they were unhappy with an interview being recorded. Yin (2003) states that a tape recorder should not be used when an interviewee refuses permission or appears uncomfortable by its presence. Therefore, at the commencement of each interview, interviewees were asked if they would allow the interview to be recorded in order to ensure that each interviewee was relaxed about the use of the tape recorder. Immediately after the interview, the full text of the interview was transcribed in the Arabic language using notes and the tape recording. Each night on the day the interviews were conducted, the researcher studied the notes and listened to the tapes to crystallize and process the information from the interview in his own mind and then transcribed the interview.

4.5.2 Documentary evidence

The researcher also reviewed relevant documents from the various documentary sources (see Appendix 7) to gain extra data related to the phenomenon being studied. Documents can provide evidence about personalities and conflicts between individuals (Brownell, 1995). The researcher used some documents to triangulate results.

For this study, in order to support the interview data and enhance the reliability of the derived findings, documents related to internal audit practice such as internal audit plans, internal audit programs, and internal audit reports were obtained. This technique is supported by many researchers (e.g. Hammersley & Atkinson 2007;

Leedy & Ormrod 2005; Silverman 2006; Yin 2003) and is regarded as one of the most effective means of gaining data to provide the researcher with a rich and valuable source of information.

4.6 Validity and reliability

In this study, broad consideration was given to the issues of internal and external validity. The researcher kept in mind the importance of maximizing the validity at every phase of the research process and was aware that by building sufficient controls into the research design, the likelihood of drawing valid conclusions would be enhanced. The third chapter of this study provided an extensive background to the research by reviewing the relevant academic and professional literature. Therefore, the researcher was able to develop a theoretical framework reflecting what is perceived to be effective IA. In the next chapter, the data analysis process combines evidence from different sources in a way that demonstrates the inter-dependence of evidence and enhancement of validity.

In this research, triangulation in terms of theory, data sourcing and investigation is employed to fulfil the validity of the research approach. As explained earlier (Section 4.5.2), the researcher used some documents to triangulate results. Triangulation is a method used by qualitative researchers to check and establish validity in their studies. Validity in qualitative research relates to whether the findings of a study are true and certain (Guion 2002). This served to enrich the data obtained via the interviews and helped consolidate the major themes that emerged. Yin (1994) indicates that document information is important for triangulation, in order to corroborate and add to the evidence from other sources, thereby increasing validity.

Validity in this research also relates to whether the findings of the study are true and certain: 'True' in the sense of the research findings accurately reflecting the real situation; and 'Certain' in the sense of the findings being backed by evidence. 'Theory triangulation' is used in this research incorporating people from different disciplines (Executive, Administrative and Accountant) and different positions. By addressing/targeting people from various departments, a high accuracy and comprehensiveness of data was sought by means of triangulation. A total of 58

people were interviewed in face-to-face meetings. These 58 people must be considered as not being totally random but, rather, as a purposeful sample since they were specifically targeted (Gay 1991).

Reliability refers to the consistency of data collection procedures so they can be repeated to produce similar findings. The objective is to ensure that if one researcher follows the same procedures as those followed by a different researcher and conducted the same research all over again, both data sets should produce similar results and conclusions (Yin 2003). Therefore, in order to enhance the reliability in this study, the researcher built a clear research design and adopted an appropriate methodology that gives high reliability. In collecting the data, and in order to enhance the reliability, the researcher used the fourth method in conducting the interviews, which was explained in Section 4.5.1.2. As mentioned earlier the researcher also used documentary evidence as an additional source to enhance the reliability of the data from the interviews, and to corroborate information from interviews.

4.7 Qualitative data analysis

This section provides a descriptive analysis of the data generated from the interviews with IA directors, chief executive officers, managers of administrative affairs, managers of financial affairs and external auditors in order to answer the research questions. Marshall and Rossman (2006, p. 154) state: ‘Qualitative data analysis is a search for general statements about relationships and underlying themes’. The key step in a qualitative study is analysing data, which helps to cope with the deluge of data that springs from field work (Sarens, De Beelde & Everaert 2009). However, data analysis is the most difficult aspect of qualitative research to communicate to others.

Researchers ask many questions, and record data, but they may encounter difficulties when they come to analysing their data. Taylor and Bogdan (1997) state that the reason why so many people find qualitative data analysis so difficult is that it is not fundamentally a mechanical or technical process—it is a process of inductive reasoning, thinking, and theorizing. Furthermore, the extensive data an interview yields often surprises the researcher and it creates a challenge for the

researcher in terms of interpreting the data (Creswell 2005). As Patton (2002, p. 432) states:

‘The challenge of qualitative analysis lies in making sense of massive amounts of data. Because each qualitative study is unique, the analytical approach. Because qualitative enquiry depends, at every stage, on the skills, training, insights and capabilities of the enquirer, qualitative analysis ultimately depends on the analytical intellect and style of the analyst’.

Analysing qualitative data is especially difficult because the strategies and techniques have not been well defined (Yin 2003). It has been argued that a qualitative approach can create problems of handling and analysing data. This is because it not only generates a large amount of data but also generates data in an unorganized and nonstandard format (Das 1983; Denscombe 2003). Saunders, Lewis and Thornhill (2000) also indicate that there is not a standardized approach to the analysis of qualitative data; phenomenologists, for instance, resist categorizing or coding their data, preferring to work from the transcripts of interviews. Sarens et al (2009) indicate that qualitative data collection generates numerous field notes containing a wide variety of impressions, comments and anecdotes written down by the interviewer during or immediately after the interviews. Thus, the process of qualitative data analysis is eclectic and there is no right way (Tesch 1990, cited in Creswell 2009). Patton (1990, p. 372) states:

‘There are no ways of perfectly replicating the researcher’s analytical thought processes. There is no straightforward test for reliability and validity. In short there are no absolute rules except to do the very best with your full intellect to fairly represent the data and communicate what the data reveal given the purpose of the study. This does not mean that there are no guidelines to assist in analysing data, but guidelines and procedural suggestion are not rules’.

Therefore, researchers spend a long time analysing their data.

The process of data analysis involves making sense of text and image data to form answers to research questions. Hence, data analysis requires that the researcher be comfortable with developing categories and making comparisons and contrasts. It also requires that the researcher be open to possibilities and see differing or substitute explanations for the findings (Creswell 1998). As a result, researchers develop their own method of analysing qualitative data (Taylor & Bogdan 1997). Despite some methodologies providing fixed guidelines for undertaking qualitative data analysis, others tend to avoid trying to restrict researchers to a particular limited doctrine and believe that the researcher should ascertain his/her

own individual approach to the research, without compromising fundamental beliefs, and chose one which best suits the area of research and is directed by the research questions themselves (Denzin & Lincoln 2005).

According to Midgley (2010), researchers apply a number of different analytical lenses in the attempt to discern what is meant in a text—implicitly as well as explicitly—and how that meaning was constructed. However, some research methodology scholars provide techniques to address this problem. A number of authors such as Creswell (1998, 2005); Denscombe (2003); Miles and Huberman (1994); Patton (1990, 2002); Saunders, Lewis and Thornhill (2003); Taylor and Bogdan (1997); Tesch (1990); and Yin (2003) have attempted to identify what they regard as the main elements of an analysis of qualitative data. These authors have provided many similar processes, as well as a few different processes, for the analytical phase of qualitative research. They prescribe a general analytical procedure for an analysis of qualitative data which can be managed and controlled:

- (a) Convert any rough field notes the researcher has made into some form of written record. The researcher should distinguish her/his interpretations and speculation from factual field notes.
- (b) Ensure that any material collected from interviews and documents or any other instrument is properly referenced. The reference should indicate who was involved, the date and time, the context, the circumstances leading to the data collection and the possible implication of the research.
- (c) Start coding the data as early as possible. This will involve allocating a specific code to each variable, concept or theme that the research wishes to identify. The code allows the researcher to store the data, retrieve it and reorganize it in a variety of ways.
- (d) When data is coded, the researcher can start grouping the codes into smaller categories according to patterns or themes which emerge. The researcher can use the conceptual framework to group them.
- (e) At various stages, write summaries of findings at that point in time.
- (f) Use summaries to construct generalisations which can confront existing theories or be used to construct a new theory.

- (g) Continue the processes until you are satisfied that the generalizations arising from the data are sufficiently robust to stand the analysis of existing theories or the construction of the new theory.

In the current study, analysis of the data generated from the interviews with participants was conducted using the general data analysis strategies advanced by these authors.

4.7.1 Conducting qualitative data analysis

Qualitative data is based on meanings expressed through words. In this study the process of qualitative data analysis was manual. In analysing the data according to the research themes, the interview questions were edited and coded. The interview text, hence, was manually analysed in accordance with the established themes to reach a general view which can represent the views of participants to that particular question. It would be wrong for qualitative research to allow the available software to drive the general research strategy (Berger, Beynon-Davies & Cleary 2004). Qualitative analysis software packages may be useful for organising data, but it is the researcher who must apply a development strategy to formulate the analysis (Myers 1997). Although the use of software packages may help to provide speed and flexibility to handle the large volumes of data, it can be influenced by theory and, as such, may push analysis in one direction with the result that some aspects of analysis might be a product of the technology used (Seale 2000). Using software packages in qualitative analysis has the potential to restrict and constrain the handling of different data types through their coding and linking processes (Berger, Beynon-Davies & Cleary 2004).

In order to analyse the data which were collected by using the technique of semi-structured interviews, the next steps were conducted. The first step involved organizing and preparing the data for analysis. In this step the researcher decided to conduct the analysis section-by-section as set out in the interview guide, which meant that it should start with the first section. Furthermore, answers from different participants were grouped by sections from the guide. Patton (1990) explains that the interview guide actually constitutes a descriptive analytical framework for analysis. This procedure enabled the researcher to concentrate on

all responses to each section more easily, and to identify specific concepts and ideas. Moreover, working through each question enabled a sense of the range of responses and of the relative degree of understanding of the area identified in the question to be assessed. For example, in response to the question relating to independence of internal audit, most of the responses mentioned that the board of directors has the right to make the decision to appoint or remove the IA director. However, others responded that it is the chief executive officer who has the right to make the decision to appoint or remove the IA director. The researcher transcribed all the interviews and responses by each participant to questions highlighted. The researcher left a wide margin in the left hand side of the pages that enabled the researcher to add assigning code phrase next to the relevant sentences.

The second step involved reading through all data. This step aims to gain a general sense of the information and to reflect on its overall meaning. The analysis required the researcher to be familiar with the data collected by listening to tapes, reading transcripts, studying notes and so on. This procedure enabled the researcher to identify all the key issues, concepts, and themes by which the data could be examined, referenced and rearranged according to the appropriate part of the thematic framework to which they related, and to find associations between themes with a view to providing explanations for the findings. All the interview drafts were read several times to become familiar with the responses and gain a deeper understanding about the information supplied by participants; and make some preliminary notes. Creswell (1998, p. 140) writes as follows: 'I personally favour reading through all collected data information to obtain a sense of the overall data'. This procedure is also advocated by Tesch (1990).

The third step entailed coding the data. After reading all the transcriptions carefully the researcher started with the most interesting and shortest interview. The object of the coding process is to make sense of text data; divide it into text or image segments; label the segments with codes; examine codes for overlap and redundancy; and collapse these codes into broad themes. Thus, this is an inductive process of narrowing data into a few themes (Creswell 2005). As suggested by the analytical protocol of Creswell (2005) and Miles and Huberman (1994), all

interview transcripts were coded. It is important to mention that it was not expected that the participants would use the same terms when expressing their opinions. This means that participants were in fact expressing the same view using different words. Furthermore, it was not expected that they would express their opinion in the same way as academics. Therefore, the researcher reduced the vast amount of data by coding. The data were coded and converted into tables and other formats.

The process of coding involved the following steps. Firstly, the researcher drew a bracket around sentences that seemed to describe one idea to reduce a vast amount of data for the final research report. Secondly, the researcher identified text segments. For codes, some words (phrase) were used as labels which were the actual words used by participants. In other words, the current research used sentences as a method of coding. Using sentences for coding data provides complete reliable and meaningful for data analysis (Milne & Adler 1999). Thirdly, the researcher placed boxes around those to be used as codes. Fourthly, a code phrase was assigned that accurately described the meaning of the text segment in the left margin. This approach leads to a reduction in the large number of responses identified by different participants to a smaller and more manageable number by minimising similar answers and classifying them under one main answer. Creswell (2005) states that the process of coding data is an important approach in reducing the data. It is reduced into codes that represent core elements, which are then described and demonstrated with excerpts from the data. Fifthly, after coding an entire text, a list of all code phrases was prepared. In order to reduce the list of codes, similar codes have been removed. Finally, based upon these coded data, the researcher performed structured write-ups (summaries) to identify and present the most important findings.

The resulting sample size is quite large and it might be interesting to recategorize the responses to the semi-structure questions so that they can be expressed as frequencies and ratios. This makes no claim to statistical generalisation and the central methodology of this research is not quantitative, but the degree of agreement and disagreement on issues is of interest. The answers from the interviews were recorded using Excel spreadsheets. The use of spreadsheets

allowed the researcher to organize data in an easy-to-read format and to see the degree of agreement/disagreement between the interviewees. Then answers were compared and contrasted. The researcher used tables, frequencies and percentages to analyse frequently-used words and statements.

4.8 Chapter summary

This chapter has explained the detailed research methodology employed in the study. It answers the question of why a qualitative approach was adopted. It has also discussed the population and sample and data collection procedures. Special attention was paid to issues of reliability and validity. In addition, data analysis was discussed in terms of procedures employed to understand the nature of the data. Furthermore, it outlined the procedures employed in qualitative data analysis. The next chapter presents the results of the data analysis.

CHAPTER 5: DATA ANALYSIS AND DISCUSSION- FACTORS RELATED TO ISPPIA

5.1 Introduction

This research investigates perceptions regarding IA effectiveness. The previous chapter explained the methodology employed to address the research questions formulated in Chapter 3. This chapter presents the results of a detailed analysis of interviews conducted with IA directors, administrative affairs managers, financial affairs managers, chief executive officers and external auditors regarding the first group of factors, which relate to ISPPIA. In other words this chapter addresses the first four subsidiary research questions (RQ1-4) underlying this study in order to answer the main research question. As mentioned earlier, this study focuses on internal audit effectiveness within public enterprises (commercial banking, manufacturing and insurance) within public enterprises. However, organization type characteristics were not used for the basis of analysis in this study. The selection of the three types of enterprises merely ensured the presence of internal audit practice.

The data collected from interviewees was analysed using the general data analysis strategies detailed in the previous chapter. As noted in chapter 4, in order to collect the necessary data for this study, five sets of interview guides were employed. The interview guides include sections which are related to the seven subsidiary questions underlying this research as follows: *RQ1* the independence of internal audit department; *RQ2* the internal auditors' competence; *RQ3* scope of internal audit work; *RQ4* the performance of audit work; *RQ5* co-operation between the internal and external auditor; *RQ6* management support; and *RQ7* the extent of awareness of the benefits of effective internal auditing. Qualitative data was analysed section by section as set out in the interview guide, commencing with the first section encompassing one factor in ISPPIA, namely, independence of internal audit (*RQ1*).

5.2 Participants' responses regarding independence of internal audit (RQ1)

This section is devoted to answering the first subsidiary question underlying this study. In other words, the purpose of this section is to analyse the views of participants regarding the independence of internal audit.

Libyan public enterprises have been required by Libyan Commercial Law 1953 to establish internal audit departments; therefore, all organizations under study have internal audit departments headed by directors. This is in line with results of studies in other developing countries such as Ethiopia (Mihret & Yismaw 2007), where regulatory requirements explain the rationale for establishing internal audit departments. Furthermore, Libyan public enterprises have been required by Law No. 116 of 1973 to undergo audit by auditors general (that is, the staff of GPCFA). This result contrasts with Goodwin's (2004) study which established that within the public sector in New Zealand there is no requirement to have an internal audit department.

As the first step in examining IA independence, the researcher reviewed the organizational chart of the organizations to establish the organizational position of the internal audit department within organizations. From the organizational structure of the organizations it is clear that internal audit departments are at the highest hierarchical level of the organization, which is the generally desired position for internal audit departments. Figure 5.1 depicts the ideal internal audit position within one organisation under study. It shows that the department of internal auditing seems to be linked directly to both senior management and the board of directors. The subordination of the internal auditing department to the board of directors enhances its independence and subsequent powers.

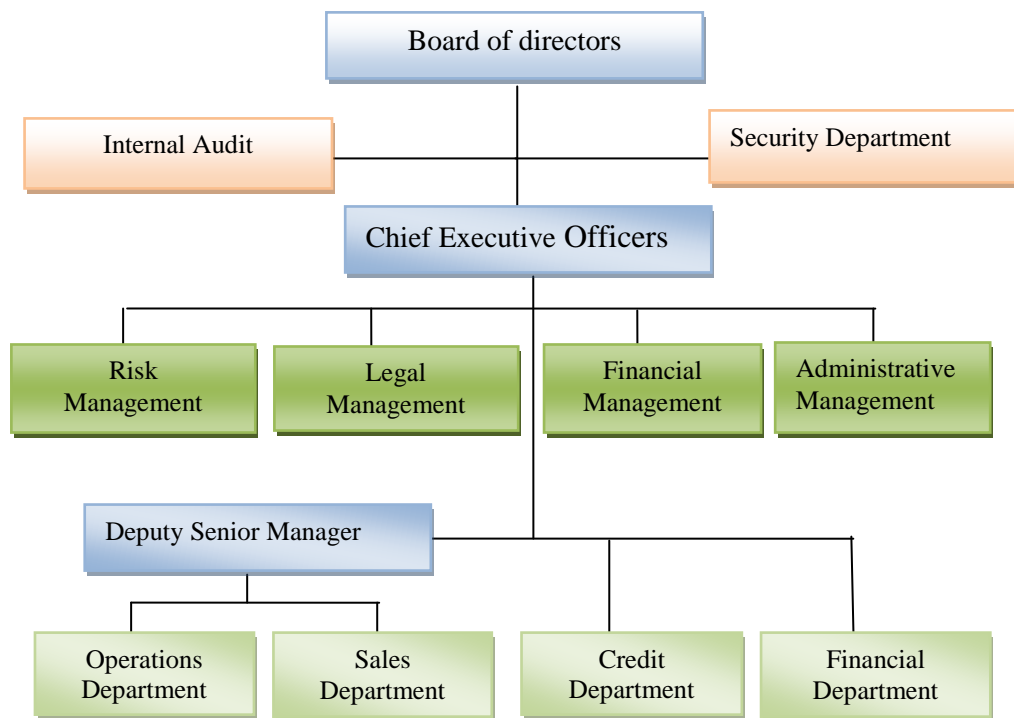


Figure 5.1 the organizational structure for one organization under study

Although IIA suggests that the internal auditors' activity must be independent in the performance of their work, there are factors which may affect internal auditors' independence, specifically, the position of the internal audit department within the organization; the internal auditors' communication with the Board of Directors; the level to which the internal audit reports; the decision of appointment or removal of the director of the internal auditing department; unrestricted access to personnel and all management information necessary for internal auditors to carry out their work; and the extent to which internal auditors decide what subjects will or will not appear in the audit work plan. The main characteristics of internal audit included in this study that may enhance the internal auditor's independence are summarized in Figure 5.2.

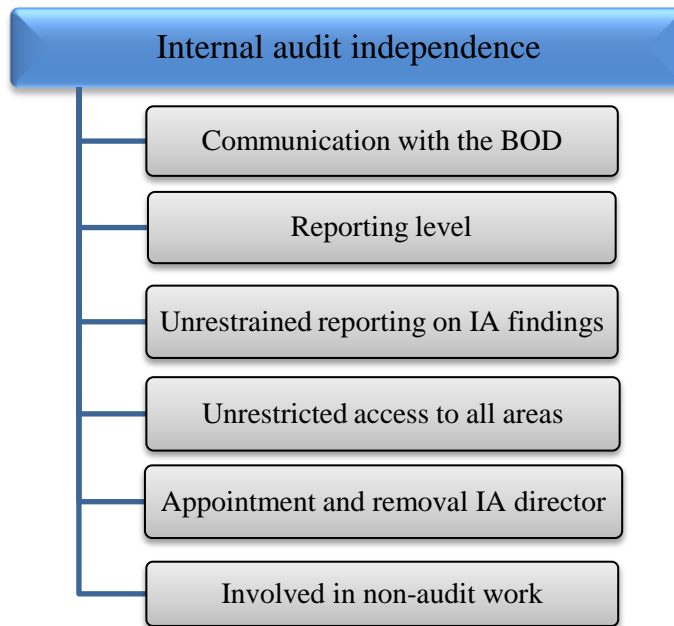


Figure 5.2 Characteristics of internal audit independence

Therefore, several questions related to these acts were included under section one of the interview guide to identify and establish whether, and how, internal auditors maintain their independence.

Direct communication between internal audit and board of directors enhances the independence of internal audit departments. Thus, the first question underlying independence was directed to IA directors, financial affairs managers and chief executive officers to establish whether their IA directors communicate and interact directly with the boards of directors. Although the organizational charts of the organizations showed that the position of the internal audit department linked directly to the board of directors, 87 per cent of IA directors and chief executive officers (20 out of 23) indicated that there is no direct link between IA directors and the boards of directors but, rather, their direct contact is with the chief executive officer who can contact the board of directors directly if necessary. The communication between IA directors and the board of directors is limited to following up the decisions of the board only, and to sending a copy to the department of internal audit to enable them to monitor the implementation of decisions, and thus prepare reports indicating the extent to which the various departments should implement recommendations and to clarify decisions to

enable preparation of these reports for the chief executive officer to submit to the board of directors. As one IA director (participant 10) mentioned:

‘We do not have communication or meeting with board of directors, but we have regular meetings with the chief executive officer. Because we do not attend the board of directors meetings the chief executive officer presents the internal audit department reports on behalf of our department’.

This statement is confirmed by a chief executive officer (participant 55) who indicated:

‘It is not necessary for the board of directors to be contacted and consulted directly with internal audit director. Because we meet the board regularly and our responsibility to arise the internal audit work to the board’.

The IA director should have direct communication with the board of directors to ensure its independence, and provide a means for the IA director and the board of directors to keep each other informed on issues of mutual interest (Institute of Internal Auditors 2011d). The subordination of the internal audit department to the board of directors enhances its independence and subsequent powers. It also provides the necessary support for implementing IA recommendations and provides the board of directors with an efficient tool in understanding and reviewing operations within the organization (Yee et al. 2008). Zain and Subramaniam (2007) find that the communications and meetings between the heads of the internal audit function and audit committees in Malaysian public corporations are limited. However, Goodwin and Yeo (2001) find that a strong interaction between the audit committee and the internal audit function in Singapore. While the degree of independence may be enhanced by the internal auditing department’s organizational position, it does not guarantee independence (Paape 2007). Therefore, another question was asked relating to internal audit reporting.

As mentioned earlier, previous IA research found that the level to which the internal audit department reports to is a significant determinant of the department’s independence. Ideally, the internal audit function reports to the highest level of management or to those charged with governance (The International Federation of Accountants 2007; Yee et al. 2008). The IA director should have freedom to report to every senior manager and board of directors. Therefore, participants were asked to indicate whether or not internal audit

departments prepare audit reports; which management level they submit their audit reports to; whether or not they review/discuss those reports at this management level; and the extent to which internal audit is free to include any audit findings in their audit reports. In all public enterprises and among those interviewed, IA directors, financial affairs managers, chief executive officers and external auditors recognized that the internal audit departments prepare and submit audit reports. As noted, from the organizational structure of organizations, it is clear that the positioning of internal audit departments at the highest levels of the organization impacts on reporting levels. According to the participants' responses, internal audit departments are responsible to the chief executive officer and the board of directors, thus reports are submitted to both these levels of management, and discussed with the chief executive officer. When asked by the chief executive officer to discuss reports with the board, IA directors will do so, as well as responding to board queries in relation to the reports. This occurs annually when they prepare annual reports for the board of directors. In other words, internal audit reports may be discussed by the board once a year and more specifically, at the end of the financial year. As one of the IA director (participant 3) commented:

‘As internal auditors we are responsible to the chief executive officer and the board of directors, therefore, it is natural to submit our report to them. Also internal audit charter indicates to that internal audit department has to submit internal audit report to both chief executive officer and the board of directors’.

A draft of the internal audit charter has been viewed by the researcher. In this connection, the Chief Executive Officer of one organization (participant 51) commented as follows:

‘Internal audit department prepares a report for me every month. They also are required to prepare a report for the board of directors every year’.

Based on the above, it seems that internal audit departments mostly report to the chief executive officer rather than the board of directors. This statement is confirmed by external auditors. As one of external auditors (participant 21) stated:

‘We always in our reports recommend that the internal audit departments should report directly to the board of directors rather than reporting to the chief executive officer in order to maintain the independence of the internal audit department’.

Vinten (1999) defined the organizational independence as the situation that will allow the internal audit activity to fulfil its function with effectiveness. This view is supported by ISPPA under Attribute Standards. According to Attribute Standard 1110 namely organizational independence;

‘The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity’ (Institute of Internal Auditors 2011d).

The external auditing standards, ISA 610 explained that, ideally, internal auditing would report to the highest level of management and be free of any other operating responsibilities (The International Federation of Accountants 2011). Burnaby, Powell and Strickland (1994) conducted a study of 123 companies in eleven countries. One of the questions of the study was ‘to whom does the internal audit department report’ and they find that more than 60% of the companies report to the board of directors and the chief executive officer. Zain and Subramaniam (2007) find that a need for clear reporting lines between the heads of the internal audit function and audit in Malaysian public corporations.

Internal auditors should be able to state their opinions freely without any bias or restrictions. Read & Rama (2003) find that the independence and objectivity of the internal audit function is enhanced when the IA director does not have any fear about dismissal because of actions taken by the internal audit department. Although 50 per cent of the chief executive officers (5 out of 10) agreed with the statement that internal audit departments are free to include any audit findings in their audit reports, 85 per cent of IA directors (11 out of 13) expressed the view that internal audit findings such as fraud are not included in the internal audit reports but these reports may include points of weakness within the organization. This, however, depends on discussions with the chief executive officer, because the process of internal audit requires agreement from the chief executive officer. According to the IA directors’ responses, in most cases, chief executive officers prefer not to include issues such as fraud in the internal audit report as they perceive such reporting as having a negative effect on the reputation of their organization. As one IA director (Participant 9) comments:

‘Although the internal audit has to include any audit findings in their audit reports such as fault, fraud, wrongdoing, and mistake because one of the most

important aims of internal audit department is to safeguarding of assets however, in fact we have to discuss [with] the chief executive officer and obtain agreement regarding above issues before including it in final internal audit report’.

In addition, one of the chief executive officers (Participant 58) explained:

‘I can say that the internal auditors have work and tried hard for safeguarding assets and to evaluate the potential for the occurrence of fraud fault, wrongdoing, and mistake. But we prefer internal audit report to be clean from above issues because it has indirect adverse effect on the organization’.

This result is consistent with the result of Ponemon’s (1991) study which indicated that IA directors believe that the disclosure of fraud is unlikely, especially if this action leads to the dismissal of. Furthermore, Sawyer (1995, p. 47) argued that:

‘Complete independence is an unattainable goal. After all, executives of the enterprise pay the auditors and support the audit activity. But practical independence is possible and essential. And this helps bring respect for the internal auditors. But there is one further step needed to make respect real. That is fear’.

Expressing a very similar viewpoint, 92 per cent of external auditors (11 out of 12) do not believe internal auditors are always in a position to report faults, frauds, wrongdoing, mistakes and the like because of the perception that internal audit departments report to chief executive officers rather than boards of directors and, thus, administratively belong to the chief executive officer’s unit of the organization.

This result is contrasted with Al-Twaijry, Brierley and Gwilliam (2003) who find that only 11 per cent of IA directors did not believe they were free, in all instances, to report faults, frauds, wrongdoing or mistakes.

In order to perform their work efficiently and effectively, internal auditors need to have unfettered access to necessary information, people and records across the organization. The IA director should have direct access to every manager including the executive director, the top director and the audit committee. The results of Joseph and Raghunandan’s (1994) study suggested that IA would be effective if internal auditors have unrestricted access to all aspects of activity in the organization. Therefore, another important factor considered in this study that may impact on the desired level of independence is the ease of unrestricted access to documentation and people, and unfettered powers of enquiry. Thus, an audit

process of all management levels in the enterprise should establish any potential conflict of interest that may threaten the independence of the internal auditors. For example, conflicts of interest may occur between senior management level and internal auditors because senior management levels do not want to be part of the audit process. Therefore, IA directors, chief executive officers and external auditors within the organization were asked to indicate whether or not they had unrestricted access to personnel and whether they had access to all management information needed to carry out their work.

Seventy-one per cent of the participants (25 out of 35) agreed that internal auditors do not have full access to all necessary information and aspects of activity within the organization. According to the participants' responses, internal auditors have full freedom to audit documents related to financial operations. One IA director (Participant 3) commented:

‘Although internal audit manual indicates that internal auditors can review any bank records financial and other records in the head office and in other branches, we cannot investigate and carry out any queries with any other staff in any position in the bank’.

The researcher has reviewed the charter of internal audit department for some organizations and one clause (in Section 5.3) indicated that ‘auditors have the right to access the books, records and accounts of a company’. However, responses to the same question indicate that in many cases internal auditors are required to gain approval from chief executive officers. One Chief Executive Officer (Participant 55) indicated:

‘Although the charter of internal audit department gives the internal audit department the right to access to area of organization, sometimes internal audit cannot access or review some operation of senior management which may contain confidential information management’.

Additionally, 67 per cent of external auditors (8 out of 12) stated that most internal auditor work focused on financial operations, thus, internal auditors may not have the right to review areas of departments in operations unrelated to financial operations. In this connection, one of the external auditors (Participant 7) stated:

‘Traditionally, the work of internal auditors related to financial operations in particular. So I think they have not the right to access to departments which are nonfinancial. The internal auditors as I see they may not able to subject the senior management to the audit processes’.

This result is consistent with Al-Twajry, Brierley and Gwilliam's (2004) study which found that 44 per cent of IA directors considered they did not have full access to all necessary information. Mihret and Yismaw's (2007) study find that some departments, such as the personnel department of organizations under study properly maintain their records and provide full access to the auditors while others such as the finance department provide full access to records, though complete records as might be expected by the auditors are lacking. However, other departments, such as purchasing, are reluctant to cooperate with the auditors. The management team's support is fundamental and the IA director should have direct access and freedom to report to every senior manager including the executive director, the top director and the audit committee.

To ensure the independence of IA directors, the board of directors should approve the appointment and removal of IA directors. Therefore, another question which establishes the independence of the internal audit department within the organization is the identity of the person who has the right to appoint or remove the IA director. A question directed to IA directors, administrative affairs managers and chief executive officers related to the decision to appoint or remove the directors of internal audit and focused on who has the right to make such a decision. In all organizations under study the board has the right to appoint or remove the director of internal audit. According to the participants' responses, the director of the internal department is nominated by the chief executive officer, and the board confirms the decision to appoint her/him. Then a copy of this decision is sent to the director of the human resources department, and the director of human resources informs the IA director of her/his appointment. A copy of this appointment is then distributed to various departments and branches within the organization. This result is contrasted with that of Al-Twajry, Brierley and Gwilliam (2003) who found that in 60% of organizations under study, it is the chief executive officer who is responsible for appointing or removing the IA director. Whilst the researcher has reviewed the decision of appointment mentioned above, it has not been included in the appendices due to reservations of the IA directors. In the consent form/interview the researcher explained to participants that their identity would not be linked to any responses and

information would remain anonymous. As a result, and as stated previously, this information is not included in the appendices.

One of the most important principles of the internal control system is 'segregation of duties'. Therefore, another point raised on the issue of the independence of the internal audit department was whether the internal audit staff had been involved in non-audit work originally related to other departments during the year. According to the participants' responses, 46 per cent of IA directors (6 out of 13) believe that, other than activities related directly to their work, internal auditors had not participated in non-audit activities. One IA director indicate that internal audit staff may assign tasks to a specific committee established by senior management to prepare, for example, an inventory or observe stores or identify any problems within the organization and an internal audit member should be included in such a committee. However, 31 per cent of IA directors (4 out of 13) indicated that internal audit staff involved in non-audit work for the organization were informed that they should not consider themselves as internal auditors when they carry out these tasks. For example, one internal audit director indicated that last year when one of the sales department staff was on holidays for one week, that person was replaced by one of the internal audit staff during that period. In dealing with the need to separate the functions of performing and reviewing, it is poor practice to assign audit function responsibilities and non-audit work originally related to other departments of the organization (Puttick et al. 2008). This approach may have a negative impact on the independence of the internal auditors. The Institute of Internal Auditors (2011a) under their code of ethics states that internal auditors shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.

Therefore, in relation to RQ1, the results suggest that the independence of internal auditors is limited. Eighty-seven per cent of participants agreed with the statement that there is no direct communication between IA directors and the boards of directors. Seventy-four per cent of interviewees disagreed with the statement that internal audit departments are free to include any audit findings in their audit reports. Seventy-one per cent of the participants agreed that internal auditors do not have full access to all necessary information. Forty-six per cent of IA directors

agreed that internal auditors had not participated in non-audit activities. In order to show the degree of agreement/disagreement between the interviewees regarding elements relating to the independence of internal auditors, the participants' response ratios are summarized in Table 5.1. The next section deals with the competence of internal auditors.

TABLE 5.1
Summary of participants' response ratios regarding the independence of internal auditors

Items	Chief Executive Officers N*=10			IA Directors N=13			External auditors N=12			Frequency			%		
	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer
Communicate and interact directly with the Board of Directors.	1	7	2	0	13	0	X**	X	X	1	20	2	5	87	8
Prepare and submit internal audit reports	10	0	0	13	0	0	12	0	0	35	0	0	100	0	0
Internal audit is free to include any audit findings in their audit reports such as fault, fraud, wrongdoing, and mistake.	5	4	1	0	11	2	1	11	0	6	26	3	17	74	9
The internal auditors have unrestricted access to personnel and all management information needed to carry out their work.	3	6	1	2	11	0	1	8	3	6	25	4	18	71	10
Internal audit staff involved in non-audit work for the organization; and they were informed that they should not consider themselves as internal auditors when they carry out these tasks.	X	X	X	4	6	3	X	X	X	4	6	3	31	46	23

*'N' indicates the number of participants.

**'X' is used to indicate that the participant was not questioned in relation to this item.

5.4 Participants' responses regarding competence of internal auditors (RQ2)

This section examines the views of the participants under study regarding the competence of internal auditors as one factor which may impact on IA effectiveness. As discussed in chapter 3, internal auditing is a profession that encompasses a wide range of competencies and technical skills. Therefore, auditors must be qualified to understand the criteria used and have sufficient knowledge and competence to identify the types and amount of evidence required to reach the proper conclusion after the evidence has been collected. The main characteristics of internal audit included in this study that may enhance the internal auditor's competence are summarized in Figure 5.3.



Figure 5.3 Characteristics of competence of internal auditors

Several questions relating to competence of IA directors and their staff were included under this section of the interview guide to establish whether internal auditors within the organizations under study comply with the requirement for necessary competences. The initial question posed related to the qualifications of IA directors. In terms of educational background, the majority—85 per cent (11 out of 13)—of IA directors held a university degree (Bachelor) in accounting and a significant proportion; and 15% per cent held a higher degree (Master) (2 out of 13). This result is consistent with that of Al-Twaijry, Brierley and Gwilliam (2003) and Mihret and Woldeyohannis (2008) who find that in terms of education

background, the majority of internal auditors had an accounting educational background and a significant proportion had a higher degree. The distribution of IA directors' qualifications is presented in Table 5.2.

TABLE 5.2
Distribution of IA directors according to their qualification

Qualification	Number	Percent
Masters Degree	2	15
Bachelors degree	11	85
College diploma	None	-
Total	13	100

The IA directors were also asked to describe the current educational qualifications of their internal audit staff (excluding directors). The IA directors' responses are confirmed with the information obtained from administrative affairs managers. The answers indicate that 63 per cent (98 out of 156) of internal audit staff held a bachelor's degree in accounting, whilst 15 per cent of internal audit staff held a college diploma degree in accounting. Fifteen per cent of internal audit staff held a bachelor and a college diploma degree in management, whilst 4 per cent do not hold a college diploma degree. The results are summarized in Table 5.3.

TABLE 5.3
Distribution of internal audit staff according to their qualification

Qualification	Number	Percent
Masters Degree	None	-
Bachelors degree in accounting	98	63
Bachelors degree in management	17	11
College diploma degree in accounting	23	15
College diploma degree in management	11	7
No College diploma degree	7	4
Total	156	100

According to the participants' responses, some internal auditors are registered as postgraduate students at universities. Some organizations (specifically banks) encourage their employees to continue their educational programmes on the condition that they continue their employment with that organization for five years after graduation. Regarding the continuing education programmes of internal audit staff, one IA director (Participant 1) stated:

‘In fact banks support internal auditors to continue their educational programmes especially for studying master degree by giving employees part time [work] and covering all the cost of study’.

Based on the above results regarding educational background, most IA directors and staff were well-educated (held a bachelor’s degree in accounting), and it is interesting to note that all IA directors, as well as most of their internal audit staff, have a background in accounting. This may explain why the scope of internal audit within organizations has not expanded to non-financial operational areas. For the most part, internal audit staff employed in the internal audit department have an accounting background, but lack skills, experience and knowledge in other fields. According to Paape (2007), to form a professional judgement, auditors’ knowledge should not be limited to financial knowledge only but, rather, should encompass a diverse range of disciplines to enable them to consider issues in their proper context for effective management decision-making. Bou-Raad and Capitanio (1999) find that qualifications must be of high quality for internal auditors involved in assisting management to secure internal control structures. However, the interviewees’ responses show that only a few IA directors and staff hold professional qualifications.

The second point addressed in the interviews relates to the issues of competence and professional qualifications of internal auditors. Although Engle (1999) suggests that existence of qualified professional internal auditors will strengthen the internal audit function, 77 per cent of IA directors (10 out of 13) indicated that the majority of IA directors and their staff carry out their work without professional qualifications. Only 5 per cent of internal auditors (including directors) (8 out of 169) under study, hold professional qualifications (members of the LAAA), and all IA directors and staff were not certified as a CIA². Without professionally qualified staff, it may be difficult for internal audit departments to add value to organizations. Surprisingly, participating IA directors were unfamiliar with the IIA’s Standards for Professional Practice of Internal Auditing. The low level of professional qualifications may relate to the fact that the LAAA is the only organization interested in the auditing profession in Libya. In addition, to date, there has been no formation of an IIA chapter in Libya. Therefore, the

² The Certified Internal Auditor (CIA) designation is the only globally accepted certification for internal auditors and remains the standard by which individual demonstrate their competency and professionalism in the internal auditing field.

opportunity to take and apply professional qualifications such as CIA is limited. It means that there have been no government initiatives to encourage and develop IA. Similarly, based on a study of the Saudi Arabian corporate sector, Al-Twajjry, Brierley and Gwilliam (2003) find that only 27 percent of IA staff hold professional qualifications. However, this low level of professional qualification contrasts with the situation in more developed countries. For example, a survey of internal audit departments in US municipalities showed that 25% of staff held a Certified Practicing Accountant qualification and 50% held CIA qualification (Montondon 1995, cited in Al-Twajjry, Brierley and Gwilliam 2003). Burnaby et al. (2009) find that the percentages of participants under study who held CIA qualification were: UK and Ireland (62.4 percent), Belgium (55.9 percent), and The Netherlands (48.2 percent).

The third point aimed to establish the competence of internal auditors in terms of experience in auditing. The IA directors were asked to describe their length of experience in internal audit. Their answers indicate that 15 per cent of internal audit directors had less than four years' experience; and 55 per cent had more than four years' experience. Furthermore, two IA directors had more than eleven years' experience; and two had more than twenty years' experience. A distribution of IA directors' experience is presented in Table 5.4.

TABLE 5.4
Distribution of IA directors according to their experience

Experience	Number	%
Less than 4 years	2	15
4 -10 years	7	55
11-20 years	2	15
More than 20 years	2	15
Total	13	100

Sixty-six per cent of internal audit staff had less than four years' experience; and 31 per cent of internal audit staff had more than four years' experience in internal audit work. However, only 4 internal audit staff had more than eleven years' experience in the internal audit department. A distribution of internal audit staff experience is presented in Table 5.5.

TABLE 5.5
Distribution of IA according to their experience

Experience	Number	Percent
Less than 4 years	103	66
4 -10 years	49	31
11-20 years	4	3
More than 20 years	None	-
Total	156	100

The responses indicate that internal auditors (excluding directors) had low levels of experience because internal auditors are not appointed to work permanently in the internal audit department. Organizations tend to rotate employees to and from the internal audit department, resulting in a quick turnover of employees. In other words, internal auditors are transferred to internal audit departments from other departments without any preparation, experience or training. Thereafter, the internal auditor may be transferred to other department and so on. One IA director (Participant 10) observes:

‘In many cases, I noticed that the main problem is that there is no basic structure for internal auditors in the organization; internal auditors are transferred to internal audit departments from other departments without any training. Therefore, internal auditors who are transferred to internal audit departments do not have enough experience’.

Therefore, the low level of professional qualification and quick rotation of employees from and to the internal audit department resulted in internal auditors (excluding directors) having low levels of experience in auditing. However, chief executive officers believe that working in different departments within the organization allows internal auditors to become proficient in performing audits. One Chief Executive Officer (Participant 54) explained:

‘We believe that the turnover of all staff within the organization is important for experience. Expertise requires knowledge that must be met before the internal auditors are entitled to perform audits’.

A further question was formulated to address a fourth point regarding the issue of competence, namely, whether internal audit staff use computer systems to carry out audit tasks; the computer skill levels of internal auditors; and the areas where these skills and techniques are used. In response to the above question, 71 per cent of participants (34 out of 48) indicate that internal auditors do not use computer

technology in their audit work. According to the participants' responses, although computers are considered an extremely important tool in the modern world because they help save time and make the audit processes more efficient, the use of computers by internal audit staff is limited to Microsoft Excel and Word programs for preparing internal audit tasks such as writing internal audit reports. Furthermore, there are no programs designed specifically for the internal audit department to use in their work. One IA director (Participant 8) indicated that:

'Computers are an extremely important tool in the modern world of today because they help to save time and make the audit processes extremely easy. Although we have computers in our department, in fact we use them for writing documents such as reports and preparing some tables. These computers do not have any programmes installed that may help us in our work'.

Participants from banks indicate that in their sector, the use of computers is limited to current accounts and treasury sections. Furthermore, they indicate that the use of computer technology within these sections is restricted to tasks such as reviewing bank settlements and checking salary statements which are automatically generated by computer programmes. This limitation has been attributed to a number of different causes. Most organizations still rely on the manual use of books and records rather than the use of mechanisation in achieving their work. Even if organizations do use computers, internal audit staff are not considered skilled in computer technology or able to conduct a review in a computerized environment. In other words, they need the skills to be able to access, combine, and analyse data from many types of databases to understand information technology and its impact on the organization. According to the participants' responses, with the exception of insurance companies, there is scant attention or support by management to encourage the transition of internal audit departments from a manual system to a computerized system. One of the internal auditors (Participant 13) made the following comment:

'Our bank uses the computer only in current accounts and treasury sections. Other departments of the bank still use the manual system to achieve their work. Therefore, internal audit cannot be considered as skilled in using computer techniques, because all internal audit work has focused on reviewing manually the documentary and book'.

According to Haley and McKeon (1990), internal auditors should have special skills in understanding the computerized databases of their organizations. As

suggested by the Statement of Auditing Standards SAS No 55 (American Institution of Certified Public Accountants 1988, p. 10):

‘The auditor should obtain sufficient knowledge of the accounting system to understand the accounting records, supporting documents, machine-readable information, and specific accounts in the financial statements involved in the processing and reporting of transactions; and, the accounting processing involved from the initiation of a transaction to its inclusion in the financial statements, including how the computer is used to process data’.

It is noteworthy that in January 2010 the Libyan Insurance Company commenced their transition from a manual system to a computerized system. In line with the new trends of the Libyan Insurance Company towards introducing the technology to include all transactions and dealings, and under the supervision of the Chief Executive Officer, the department of information technology within the organization has contracted with Microsoft for the supply and installation of system specializing in systems management of human resources. It is now in the process of processing and preparation of the plan adopted by the parties. The training centre within the organization has prepared a program for employees on how to work on this system (Libyan Insurance Company 2011b). Participants from Libyan Insurance Company indicate that through the advantage of using a computer system, companies can easily and effectively deal with a larger volume of business. Using information technology will allow their organization to reduce labour costs, accelerate business processes, ensure a high level of protection and customer service, and provide an information environment which connects all sections and branches of the company. One of the chief executive officers (Participant 52) indicated:

‘Using information technology in the organization will provide users with the latest records and information upon request, and provide comprehensive financial information and accurate account balances for the company’.

Another Chief Executive Officer (Participant 55) said:

‘Information technology [will] allow company employees to access the system through the Internet and be aware of general insurance offers from other insurance groups and automatically calculate rates and premiums easily and efficiently’.

Internal auditors also need the skills to maintain a good relationship with auditees. Therefore, the latter question in this section sought to establish whether internal audit staff maintain a satisfactory relationship with the auditee and whether they

experience any difficulties in this relationship. Seventy per cent (32 out of 46) believe that the relationship between internal audit and auditees has positively grown and, currently, there is a good relationship between internal auditors and auditees within their organizations. A majority of participants' responses indicate that internal audit departments manage their work with auditees without encountering any significant issues that may affect internal audit work. In other words, internal audit departments manage their relationship with auditees without difficulty. One manager of financial affairs (Participant 38) made the following statement in this regard:

‘We consider the internal audit service to be important in improving and supporting our work. Therefore, naturally, internal audit has a good relationship with all departments of the organization where internal audit is one department of the bank; so a spirit of cooperation and honesty in the work of all employees of the bank must prevail’.

This result is consistent with Van Peurseem's (2005) study which finds that the internal auditors maintain a good relationship with senior management, middle management, other employees and contracted parties such as external auditors. However, this result is contrasted with the result of Al-Twajjry, Brierley and Gwilliam (2003) who find that the lack of co-operation between internal audit departments and auditees was a major hindrance to their work. They also indicate that this lack of co-operation is because auditees do not want to change work that has been done. Therefore, this results in recommendations by the internal auditors not being implemented appropriately. However, the internal auditor should not have any close relationships with others within the organization because in the Arab world, social relationships between people may at times hinder the following of procedures and the implementation of laws and regulation. For example, the internal auditor who has close relationships with some auditees, especially with those who work in the financial department, If he/she finds something wrong, she/he will find it difficult to decide whether to report it or not, feeling that she/he faces the unhappy choice of ignoring an error or losing a friend. This situation is completely different in the Western context, where the culture does not demand that a close friendship or kinship should put the internal auditor under pressure to ‘turn a blind eye’ to errors and omissions (Mousa 2005).

According to the participants' responses, internal auditors are able to add value by making suggestions on how employees working within the organization can enhance their performance, but this should be done with tact. They indicate that when difficulties do arise in managing auditee behaviour, appropriate internal audit approaches and methods may help improve the relationship between internal auditors and auditees. In other words, the auditors' own behaviours towards the auditee may be a cause of conflict. In this connection, the internal audit department should attempt to avoid any direct interference in the affairs of the auditee such as imposing sanctions on the auditee; and any intervention should not include threats or provocation. Rather, this relationship should be based on cooperation in order to reach a common goal of verifying maximum return at the lowest cost. As one participant ((Participant 3) stated:

'I have worked as an internal auditor in this organization for seven years. During this period we have maintained a satisfactory relationship with the auditee and other employees within the organization. Actually, this relationship relies on our behaviours. For example, the internal audit department does not interfere directly in the affairs of the auditee. This relationship should be based on cooperation'.

The IA directors' responses indicate that internal audit departments have improved their approaches with auditees and endeavour to build mutual trust and respect (see also quotes below). They indicate that as much as possible, internal audit departments communicate, inform and discuss their findings with the auditee. Hassall, Dunlop and Lewis (1996) find that skills relating to communication are the most important skills for auditors to learn. This approach allows an auditee to take appropriate corrective action before the internal audit department issues its final report. According to the IIA's Standards for Professional Practice of Internal Auditing (2420–Quality of Communications), constructive communication is useful in organizations because it leads to enhanced outcomes (Institute of Internal Auditors 2011d). According to the IA directors' responses, internal auditors also endeavour to assist the auditee in the performance of their mission and recognize the difficulties they face. These approaches have led to increased levels of awareness by auditees and the level of interaction and involvement in working relationships between internal auditors and auditees has been enhanced over the last five years. As one of the participants (Participant 2) commented:

‘We always try to make auditees work with us in an atmosphere of mutual confidence and respect. For instance, we review and discuss any finding which may negatively impact on the auditees and we ask them to carry out the necessary corrections. Therefore, only rectified findings are reported’.

This statement is confirmed by one of the administrative affairs managers (Participant 31) who indicated that:

‘In my opinion, I believe that internal auditors have tended to be flexible and helpful rather than having negative attitudes. When the internal auditors review any department, it is not in any way doubting the integrity of auditee, rather, the ultimate goal is the general interest of the organization’.

Nevertheless, 22 per cent of respondents indicated that it is difficult to enjoy a good relationship between internal audit staff and auditees because the concept of audit is still not clear to employees of organizations. In other words, there is a lack of understanding of the role and importance of internal audit, because internal audit is at an early stage of development in Libya. As one chief executive officer (Participant 52) stated:

‘Understanding the real role and responsibilities of the modern internal audit function to all levels of management is not clear because internal audit services are still linked to the existence of financial misappropriations and corruption of organization. Actually, internal audit function is still under development’.

Therefore in relation to *RQ2*, the results suggest that there are weaknesses in specific elements relating to the competence of internal auditors. Seventy-seven per cent of IA directors indicated that internal audit staff carry out their work without professional qualifications. Sixty-six, of internal auditors (excluding directors) had low levels of experience. Seventy-one per cent of participants disagree with the statement that internal auditors use computer technology in their audit work. Seventy per cent of interviewees agree that there is a good relationship between internal auditors and auditees within their organizations. In order to show the degree of agreement/disagreement between the interviewees regarding elements relating to the competence of internal auditors, the participants’ response ratios are summarized in Table 5.6. The next section deals with scope of audit work within the organizations.

TABLE 5.6
Summary of results regarding the competence of internal auditors

Items	Chief Executive Officers N=10			IA Directors N=13			Administrative Affairs Managers N=11			Financial Affairs Managers N=12			External Auditors N=12			Frequency			%		
	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer
Internal auditors (including director) a member of any professional body.	X	X	X	2	10	1	X	X	X	X	X	X	X	X	X	2	10	1	15	77	8
Using computer systems to carry out the audit task.	X	X	X	1	12	0	3	5	3	3	8	1	1	9	2	8	34	6	17	71	12
Ability to maintain a good relationship.	6	3	1	11	1	1	8	3	0	7	3	2	X	X	X	32	10	4	70	22	8

5.3 Participants' responses regarding scope of internal audit work (RQ3)

The internal audit activity must evaluate the internal control system; perform audit of major fraud cases; verify accuracy of amounts in financial records; check efficiency of operating results; ascertain compliance with organizational policies and procedures; check compliance with contracts when applicable; and assist management by identifying risk exposures of the organization. These aspects provide a clear picture regarding the scope of work carried out by the internal auditor within organizations. The main activities of the scope of internal audit work included in this study are summarized in Figure 5.4.

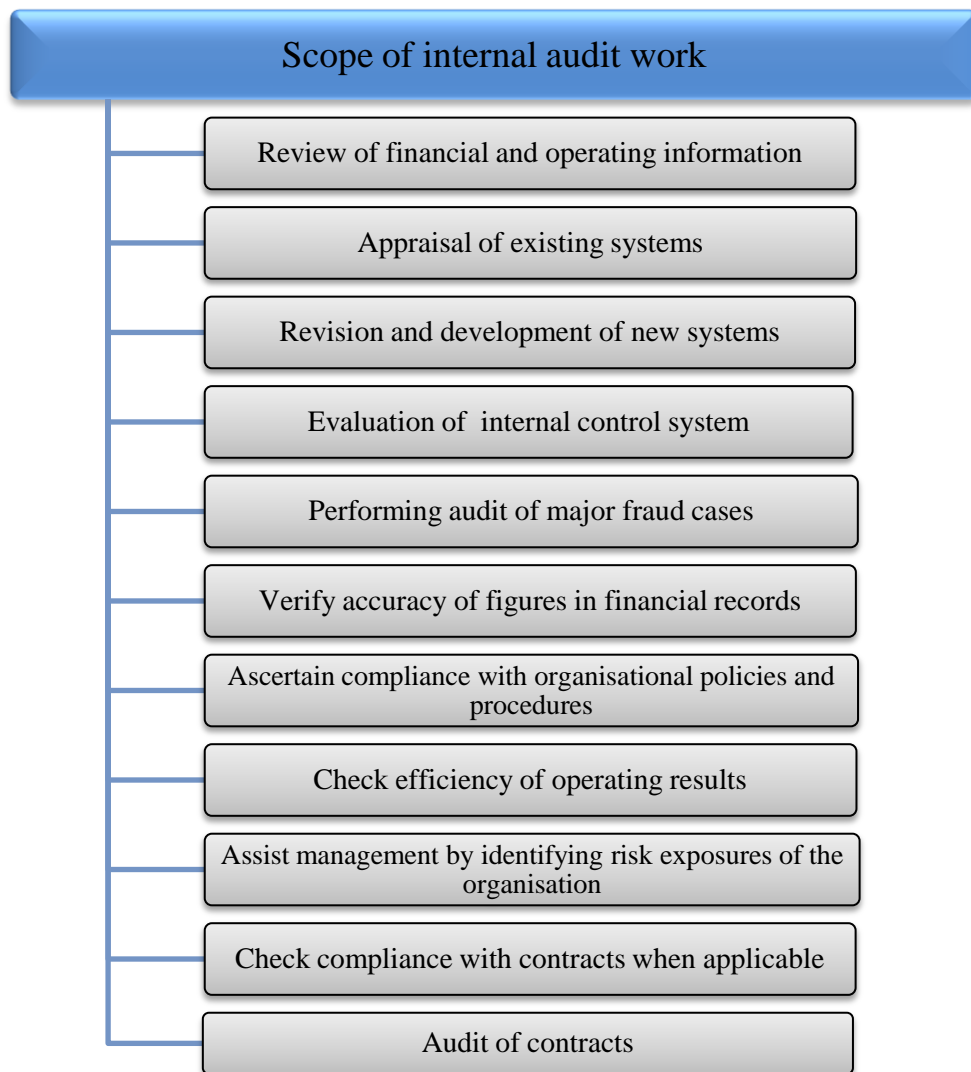


Figure 5.4 Main elements for the scope of internal audit work

Therefore, several questions related to these activities were included under this section of the interview guide to establish whether internal auditors had expanded their scope of work to cover all areas within the organization. Traditionally, internal auditing involves a broad spectrum of operational and financial activity and levels of coverage. The scope of work carried out by the internal auditor extends to all types of operations (financial or non-financial) and activities within the organization (Moeller 2005). Thus, the initial question in the survey relates to the scope of internal audit work and reads as follows:

Does the scope of internal auditing actually extend into non-financial operational areas? If yes, what aspects of audit areas are actually reviewed?

Seventy-four per cent of interviewees (34 out of 46) indicated that the scope of internal audit work is confined to traditional roles of internal audit ‘Traditional Protective Services’ in terms of the accounting and financial aspects—for example, examination of internal control systems, and verifying the accuracy of financial records. This occurs particularly in banks because of the financial nature of their business and banks being regarded as absolute financial institutions. The interviews revealed that internal audit mostly focus on financial audits. IA directors provided a brief description of the main aspects of the scope of the IA in their organisations. They pointed out that the main aspects of IA in their organisations are: (1) checking of daily payments and receipts for all transactions; (2) checking and inspecting all salaries of the company's employees; (3) checking of all sales processes; and (4) internal control of banking operations through banking settlement memorandums and tracking banking insurance letters issued to third parties. Although IA directors used different expressions, there was agreement that they need to complete their accounting and financial audits first and then, as time permits, they proceed to carry out reviews of non-financial areas. According to the participants’ responses, confining the internal audit work to financial operational areas is attributed to a number of different causes, including the size of a particular internal audit department—which may preclude a focus on non-financial operational areas. Another reason relates to the lack of competence of internal auditors, that is, a lack of knowledge, skills and other competencies needed to perform in non-financial areas because most internal auditors’ experience is confined to that of a qualified accountant. In addition,

management support to internal auditors is limited, with one IA director (Participant 4) commenting on this matter as follows:

‘Our work focuses on financial and accounting areas specifically, verifying accuracy of amounts in financial records to prevent the probability of significant errors or fraud. We have not focused on non-financial operational areas because I think the number of internal auditors is small compared to the large size of the organization. Also internal audit staff do not have enough experience to focus on non-financial matters’.

This view was confirmed in interviews with external auditors, with one (Participant 23) stating:

‘Internal auditors spend most of their time on the accounting and financial aspects of the operations because they have a qualification in accounting. More specifically, their activities focus on inspection and investigation of daily payment and receipt documents to evaluate the potential for the occurrence of fraud and they work on verifying bank balances’.

This is in line with Mihret and Woldeyohannis’s (2008) study result that internal audit activities were mostly financial audit. In contrast, 9 per cent of participants believe that the internal audit role in organizations is associated with the efficient use of resources in organizations (e.g. internal auditors providing management with useful information and recommendations for operational improvements and reductions in operating costs).

Participants were also asked to indicate whether internal auditors carry out appraisal of the existing systems and whether they are involved in the revision or development of new systems before implementation. Seventy-six per cent of participants (44 out of 58) believe that although one of the most important roles of the internal audit function is to examine the adequacy of existing systems and new systems before implementation, currently the internal audit work in these activities is limited to accounting and financial control systems in value. Also, internal audit has not focused on other areas such as information technology. For instance, the respondents have not been involved in determining the adequacy of security over the entire computer installation. The participants expressed the view that internal audit has not been involved in testing of proposed controls before beginning an operation. They also indicate that internal audit is not responsible for the development and installation of new information technology systems or procedures but, rather, when a new system is adopted by their organization, a

group of internal auditors will be trained accordingly. As one IA director (Participant 11) commented:

‘It is important for organizations to assess existing systems and develop new systems for the internal audit department, but we have not been involved in these activities. We just provide recommendation at design and operating stages of the system’.

This statement is confirmed by one Chief Executive Officer (Participant 56) who indicated:

‘Internal audit is not responsible for appraising the existing systems and development and installation of new systems. This task is performed by the information technology department. In the case of using a new system for the business of the organization, a group of internal auditors will be nominated to be trained on how to use them, as well as the rest of the staff of the organization’.

It appears that internal auditors have not typically examined the adequacy of existing systems and new systems before implementation. This result is consistent with the result of Mihret and Woldeyohannis (2008) who find that technical areas such as information technology functions of the corporation were not adequately covered by internal audit, which means that the internal audit is not continuously reinventing itself to keep pace with the demands of its customers. However, the IIA’s Standards for Professional Practice of Internal Auditing (2130–Control) state that internal auditors should have an understanding of information system risks and the internal audit activities must assess whether the information technology governance of the organization sustains and supports the organization’s strategies and objectives (Institute of Internal Auditors 2011d). Internal auditors today are an important element in organizations’ overall systems and, to be effective, internal auditors need to understand existing systems (Moeller 2005). This view also supported by (Chambers, Selim & Vinten 1988) who indicate that the increasing volume of transactions passing through systems has encouraged today’s auditor to follow a systems approach to auditing. The use of internal auditing is seen as an organizational tool to measure and evaluate the effectiveness of other systems (Moeller 2005).

To determine the scope of internal audit work the participants were also asked to indicate how often the internal audit is performed and whether they conducted the following activities in their organization: evaluate the internal control system;

perform audit of major fraud cases; verify accuracy of amounts in financial records; ascertain compliance with organizational policies and procedures; and assist management by identifying risk exposures of the organization. Seventy-four per cent of participants (26 of 35) believe that the internal audit department always evaluates the control system. Monitoring of the internal control system is considered to be an important function performed by internal auditing staff. The professional literature, in terms of the auditing standards, has contributed to the role of internal auditors in monitoring and evaluating the internal control system. For example, Institute of Internal Auditors (2000a) under the statement of Code of Ethics issued the statement No. 1, 'Control-Concept and Responsibilities' which highlights that the role of internal auditors is to assist their organizations in discharging their responsibilities by providing them with information regarding the internal controls. The results of Goodwin and Seow's (2002) study indicate that the existence of an internal audit function and strict enforcement of a proper code of conduct have a significant influence on the organization's ability to strengthen its internal controls, prevent and detect fraud and financial statement errors, and enhance IA effectiveness. Bou-Raad and Capitanio (1999) studied the implications of computer hacking on the internal audit function in the banking industry. Their study finds that internal auditors play an important role in establishing the internal control structures within the banking industry and they are involved to some extent in the development stages of internal control structure.

Seventy-two per cent of participants (34 out of 47) agree with the statement that internal audit departments always perform audit of major fraud cases. There is no doubt that internal audit plays an important role in correcting situations where capital is wasted or devalued because of fraud or corruption, especially with the recent wave of corporate fraud throughout the world, symbolised by the example of Enron's failure. Aksoy (2012) state:

'In reality, it is argued that even if some of the corporate scandals occurred as a result of the financial market bubble burst in 2000, the extensive corporate misconduct and misreporting reveals also a failure of the auditing'.

In addition 96 percent of interviewees (45 out of 47) shared the view that internal audit department always verifies accuracy of amounts in financial records. For example, internal auditors verify that the renumbered cash receipts are prepared in

triplicate by the cashier for all cash receipts, that all numbered receipts are properly accounted for and that each day's cash collections are deposited intact at the close of a day's business. However, 71 per cent of participants indicate that internal audit department seldom assist management by identifying risk exposures of the organization. Felix, Gramling and Maletta (2001) find that when organizations are exposed to high risk, management's demand for internal audit in the management of risk may be greater. However, the level of risk in an organization may influence internal audit practices (Goodwin-Stewart & Kent 2006). Thus, assessing the effectiveness of risk management is one of the basic tenets of the definition of the internal audit function (Hass, Abdolmohammadi & Burnaby 2006). Internal auditors should assist organizations in identifying and evaluating risks (Walker, Shenkir & Barton 2003). Therefore, the internal audit function can be effective in adding value to an organization if it can understand the issues of risk and assist management to improve its risk management processes. Mihret and Woldeyohannis (2008, p. 578) state:

‘The importance afforded in the literature to risk assessment might arguably establish a claim that strategic planning by internal audit, which necessitates alignment of the goals of the internal audit department with those of the organization, would positively influence value-adding capability’.

It appears that management is responsible for risk management, but auditors also need to understand their new role according to recent changes after the issuing of the new definition of the internal audit function. Nevertheless, and based on the above results, it seems that internal audit departments mostly focus on financial and accounting areas. This result is similar to respondents' opinions on the last question relating to whether internal audit work is confined to the traditional roles of internal audit in terms of accounting and financial aspects. In other words, this result confirms that the scope of IA work is still confined to traditional roles of IA ‘Traditional Protective Services’ in terms of the accounting and financial aspects to correct situations where capital is wasted or devalued because of inefficiencies, fraud or corruption. However, from the Marxist perspective, ‘such capital is described as wasting or de-valuing since it is unable to support existing productive facilities and employment levels’ (Yee et al. 2008, p. 154). Although IA is a useful function in minimizing fraud and corruption (Mihret, James & Mula 2010; Yee et

al. 2008), in the long run internal auditing should associate positively to minimizing wastage; maximizing employment levels; and increasing wage rates.

In regard ascertaining compliance with organizational policies and procedures, 50 per cent of chief executive officers believe that internal audit departments always do so. However, 74, per cent of interviewees indicate that the internal audit departments seldom check compliance with contracts when applicable. Furthermore, there was a total agreement among IA directors, chief executive officers and administrative affairs managers that internal auditors have not been involved in the auditing of agreements and contract terms established between the organizations and various internal and external parties before they are signed by the board of directors but, rather, the board of directors and chief executive officers are responsible for this function. According to the IA directors' responses, after signing contracts, a copy is sent to the IA director for follow-up and implementation. They indicate that any contract negotiated in Libya, excluding direct supply, is subject to Revenue Duty of 2 per cent registration duty on the contract value (registration tax). This tax applies to all contracts arranged in Libya, unless they concern direct supply of goods. Such a contract must be registered with the tax authorities within a period of 60 days after signature. Should there be a delay in doing so, a fine of 3% per month of the value of the due tax imposed is applied until lodgement of the contract. After payment of the amount of tax due, a contract must be stamped by tax authorities as confirmation that payment of registration duty has been received (The General People's Congress 2004). It is appears that the first priority of internal audit work regarding contracts is to review legal requirements such as registration of contracts with the Libyan tax authority and payment of the tax. One IA director (Participant 9) stated:

‘In respect of auditing of any contracts between the organization and others before adoption, the director of internal audit department is not allowed to do that—this matter is considered by the board of directors and senior management. Audit work in this respect is confined to accounting and financial aspects such as *reviewing payments and tax on contracts*’ (emphasis added).

Internal auditors' involvement in the auditing of agreements and contract terms before being signed can yield several benefits to organizations. For instance, it can minimize the financial impact of potential threats posed by failure to comply with

the terms of contracts, including reputational damage and safety issues. Contract audits by internal auditors, therefore, can serve as an important tool in preventing these problems (Sangster & Venti 2006).

Therefore, in relation to *RQ3*, the results suggest that the scope of internal audit is not sufficiently wide-ranging. Seventy-four per cent of interviewees agree with the statement that internal audit do not review non-financial operational areas. Seventy-six per cent agree that internal audit do not examine the adequacy of existing systems and new systems before implementation. However, 74 and 72 per cent of respondents indicate that internal audit always evaluates the internal audit control systems; and perform an audit of major fraud cases respectively. Generally there was almost total agreement among participants (96 per cent) that internal audit always verifies accuracy of amounts in financial records. Sixty-two of participants indicated that internal audit always ascertains compliance with organization policies and procedures. However, 71 and 62 per cent of interviewees believe that internal audit seldom checks efficiency of operation results; and assists management by identifying risk exposures of the organization respectively. All chief executive officers, IA directors, and administrative affairs managers agree that internal auditors have not been involved in the audit of contract terms before a contract is signed. Seventy-one per cent of participants also believe that internal audit seldom assists management by identifying risk exposures of the organization. In order to show the interview results regarding elements relating to the scope of internal audit work, the participants' response ratios are summarized in Table 5.7. The next section deals with internal audit work performance.

TABLE 5.7
Summary of results regarding the scope of internal audit work

Items	Chief Executive Officers N=10			IA Directors N=13			Administrative Affairs Managers N=11			Financial Affairs Managers N=12			External Auditors N=12			Frequency			%		
	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer
Review of non-financial operational areas.	3	6	1	0	12	1	2	8	1	X	X	X	2	8	2	7	34	5	15	74	11
Appraisal of the existing systems.	2	8	0	0	11	2	3	7	1	2	10	0	2	8	2	9	44	5	16	76	8
Involved in the audit of contract terms before a contract is signed.	0	10	0	0	13	0	0	11	0	X	X	X	X	X	X	0	34	0	0	100	0

TABLE 5.7(continued)
Summary of results regarding the scope of internal audit work

Items	Chief Executive Officers N=10					IA Directors N=13					Administrative Affairs Managers N=11					Financial Affairs Managers N=12					External Auditors N=12					Frequency					%				
	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never					
Evaluate the internal control system.	7	2	1	0	0	10	2	1	0	0	X	X	X	X	X	X	X	X	X	X	9	1	2	0	0	26	5	4	0	0	74	15	11	0	0
Perform audit of major fraud cases.	7	3	0	0	0	10	2	1	0	0	X	X	X	X	X	9	2	1	0	0	8	3	1	0	0	34	10	3	0	0	72	21	7	0	0
Verify accuracy of amounts in financial records.	9	1	0	0	0	13	0	0	0	0	X	X	X	X	X	12	0	0	0	0	11	1	0	0	0	45	2	0	0	0	96	4	0	0	0
Ascertain compliance with organizational policies and procedures.	5	2	2	1	0	9	3	1	0	0	7	2	2	0	0	X	X	X	X	X	X	X	X	X	X	21	7	5	1	0	62	21	14	3	0
Check efficiency of operating results.	0	0	2	5	3	0	0	2	7	4	0	0	1	9	1	X	X	X	X	X	X	X	X	X	X	0	0	5	21	8	0	0	15	62	23
Check compliance with contracts when applicable.	0	0	1	8	1	0	0	1	10	2	0	0	2	7	2	X	X	X	X	X	X	X	X	X	X	0	0	4	25	5	0	0	12	74	14
Assist management by identifying risk exposures of the organization.	0	0	2	7	1	0	0	3	8	2	0	0	1	9	1	X	X	X	X	X	X	X	X	X	X	0	0	6	24	4	0	0	17	71	12

5.5 Participants' responses regarding performance of internal audit work (RQ4)

Internal audit work performance is considered a major element of ISPPIA. According to the definition of internal auditing (Institute of Internal Auditors 2004), internal audit is expected to add value to organizations by effectively managing internal audit activity; reviewing operations and programs to ascertain the extent to which results are consistent with the organization's goals; establishing audit plans, reports and programs to achieve audit objectives; and determining appropriate and sufficient timeframes to achieve objectives. Therefore, the quality of performance of internal audit work affects IA effectiveness. The main elements related to internal audit performance included in this study are summarized in Figure 5.5.

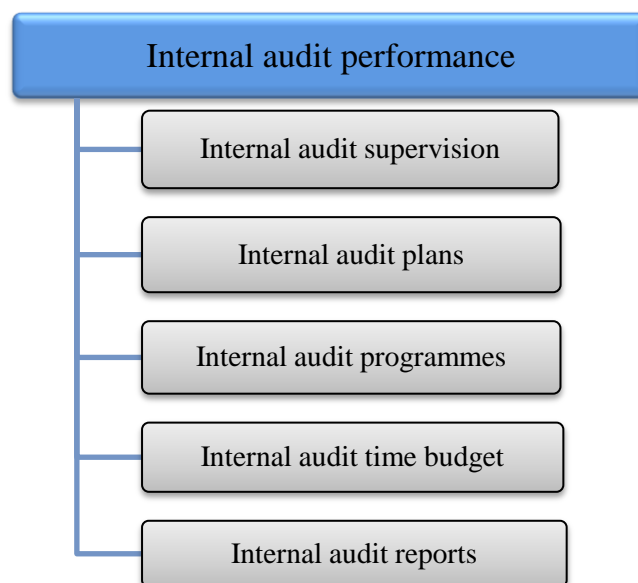


Figure 5.5 Main elements for performance of audit work

In this regard, several questions included in the interview guide sought the participants' opinions regarding the performance of audit work. The initial question posed was: *to what extent does the director of the internal audit department supervise staff through a defined system of responsibilities?* It is essential that large departments such as the internal audit within the enterprises under study have a formal set of guidelines which clearly and effectively define and convey

expectations and responsibilities to all concerned. IIA's Standards for Professional Practice of Internal Auditing (1000–Purpose, Authority, and Responsibility) state that the purpose, authority and responsibility of the IA activity must be formally defined in an IA charter (Institute of Internal Auditors 2011d). The internal audit charter is a very important element for the internal auditing department (Johnson 1986), and it provides the IA director with the authority to carry out the department's mission and, in order for an internal audit department to be able to fulfil its objectives, there should be a formal internal audit charter (Burnaby, Powell & Strickland 1994). Mihret and Yismaw (2007) state that organizational policy authorizing IA (for example, IA charter) is considered as a determinant of IA effectiveness. The researcher has reviewed several charters of internal audit departments for the organizations under study and established that the authority and responsibility of the internal audit activity has been defined in these charters. In other words, these charters are resources of information regarding the purpose, authority and responsibilities of the internal audit function supporting an effective internal audit service.

There was total agreement between all IA directors that the IA director is responsible for the overall internal auditing function. His/her responsibilities include internal audit plan; regular review of procedures; development and maintenance of the internal audit charter; and maintaining a well-defined allocation of responsibilities within internal audit departments. The interviews revealed that the directors of internal audit departments have the power to supervise and control their staff through internal auditor reporting. In other words, internal audit staff are required to submit their reports to the IA director in order to detail and verify the work they have carried out during that period. IA directors indicate that each internal auditor has their own identification stamp which is used to endorse and sign-off individual work. As one of the participants (Participant 5) commented:

'The audit plan is the basic responsibility of the director of internal audit. The internal audit director monitors and determines the internal auditors' work in order to investigate the effectiveness of internal audit in terms of the implementation of the responsibilities set by the charter'.

Internal auditors should be supervised from the initial planning of the audit work until the conclusion of the audit. In other words, the IA director should closely supervise his staff (Sawyer, Dittenhofer & Scheiner 1988).

Furthermore, according to the participants' responses, internal audit tasks in banks are carried out by internal auditors within audit teams and each team is supervised by their team coordinator. In addition, in all organizations under study the internal audit coordinator must be a senior member of the audit staff who has sufficient experience of internal audit because their primary audit supervision is concentrated on less-experienced auditors and on major audit assignments. According to the IA directors' responses, although the IA director may intervene at any time during the audit process, he/she always reviews the internal audit work on completion of the task and discusses any problems which have been encountered. They indicate that the IA directors review the work of internal audit staff in order to ensure the audit objectives have been met and to provide reasonable assurance that its work is undertaken with proficiency and due professional care. The Bank for International Settlements (2002) stressed that the internal audit department is responsible for ensuring that the department complies with sound internal audit principles, ensuring the department use of sound internal audit standards by the internal audit staff, the existence of an audit charter, the existence of appropriate written policies and procedures for the internal audit, the preparation of an appropriate audit plan, the appropriate professional competence, and training of the audit staff.

At the beginning of year, the internal audit department should prepare an audit plan that identifies their objectives and strategies, and the audit work they intend undertaking. Furthermore, the director must communicate the internal audit activity plans and resource requirements, including significant interim changes, to the chief executive officer and the board for review and approval. Therefore, participants were asked to indicate whether the internal audit department developed appropriate audit plans to establish audit objectives; who is responsible for preparing the audit plan; and the contents of the plan prepared by the internal audit department. A total of 86 per cent of interviewees (30 out of 35) agree that internal audit departments prepare an annual plan. This result is consistent with

Obeid's (2007) result which found that the directors of internal audit departments in most Sudan banks prepare their internal audit plans at the beginning of a financial year with the participation of the internal audit staff in the bank. The auditor needs to plan and perform the work such that he or she would be able to arrive at useful audit findings and make recommendations for improvement (Mihret & Yismaw 2007). The IIA's Standard for Professional Practice of Internal Auditing (2200–Engagement Planning) requires internal auditors to develop and record a plan for each engagement, including the scope, objectives, timing and resources allocation (Institute of Internal Auditors 2011d).

Respondents reported that the items to be included in the annual plan of internal auditing are decided by the IA director who develops the annual audit plan to ensure inclusion of effective and efficient audit coverage of high risk audit areas in the organization. For instance, he/she prepares an audit plan for the stores inventory by allocating work schedules and the workforce necessary during that period. She/he designs the reports which will be issued by the internal audit on the activities to be reviewed. According to the participants' responses, IA directors submit their planning for review and, on occasions, may need to discuss and coordinate approval by the chief executive officer, and sometimes need to discuss and coordinate audit plans with the chief executive officer. Discussion may lead to adjustments based upon her/his recommendations, thereby avoiding any unnecessary duplication of work by the internal audit department. As one IA director (Participant 12) commented:

‘Although I have to discuss and approve the audit plan with the chief executive officer, I have the right as director of internal audit to decide which subject will be included in annual audit plan and as internal audit department we are responsible for fulfilling our duties’.

In addition, most IA directors under study indicated that they have the right to modify the audit plan whenever it is deemed necessary. However, any modifications require the approval of the chief executive officer. The internal audit departments also prepare a detailed audit plan for specific tasks, such as incidental events, prior to the commencement of field work. These specific audit plans are prepared by IA directors who identify areas that must be reviewed, and set the working group to review those areas. One IA director (Participant 8) stated:

‘We prepare audit plans at the beginning of the financial year, and we present them to the chief executive officer for approval. Therefore, internal auditors have to work on it during the year. Also we prepare specific plans for specific tasks through the year to achieve the objectives of internal audit department’.

In commercial banks, audit plans are set according to the needs of the internal audit department. The main contributing factor is the number of branches, and, since each bank has several branches, it is impossible to review and cover all these branches without an annual plan. Therefore, the IA director prepares a schedule at the beginning of the year which includes the audit teams and the audit tasks for each branch at the beginning of the year. Mihret and Yismaw (2007) state that proper planning enables accomplishment of a large number of audits in a given period by improving efficiency.

Another important factor established by prior research (e.g., Al-Twaijry, Brierley & Gwilliam 2003; Al-Twaijry, Brierley & Gwilliam 2004; Mihret & Yismaw 2007; Ziegenfuss 2000) is the importance of internal audit programmes to guide internal auditor work performance. Therefore, a question outlined in the interview guide related to the existence of internal audit programmes to identify whether the internal audit department uses internal audit programmes; and the effectiveness of these programmes. According to the participants’ responses, 54 per cent (19 of 35) indicate that internal audit programmes are prepared by internal auditors. As audit plans, the audit programmes were set according to the needs of the internal audit department. The main contributing factor is the large size of organizations. These audit programmes are documented but do not cover most of the internal audit activities to facilitate the procedures for the internal auditors. As one IA director (Participant 3) commented:

‘Regarding internal audit programmes, yes we have internal audit programmes. However, these audit programmes are not very detailed describing the procedures needed for internal auditors to conduct their work’.

ISA 610, i.e., *Auditor’s consideration of the internal audit function* (The International Federation of Accountants 2007, p. 630) states:

‘Factors that may affect the external auditor’s determination of whether the work of the internal auditors is likely to be adequate for the purposes of the audit include the existence and adequacy of audit manuals or other similar documents, work programs and internal audit documentation’.

In addition, these programmes are designed to apply to financial audits. This result confirms the conclusion reached earlier that most of the internal auditor's activities are focused on financial operations. Furthermore, another issue related to audit programmes is that these audit programmes are not regularly enhanced or updated. In this connection, the external auditor of one organization (Participant 16) commented as follows:

‘As external auditor in all organizations I reviewed internal audit department prepared audit programmes. We review these programmes. But we are concerned that these internal audit programmes are not updated for a long time’.

The researcher reviewed a number of internal audit programmes within some organizations. In some organizations these programmes are used for a lengthy period, usually between two and five years. According to Brink and Witt (1982), it is difficult to use a programme for more than one year because of special requests by management; changes in business operations; loss of personnel; and delays in completing audits. In other words, established programmes prepared for prior audit often become outdated due to new systems or changed processes. Old audit programmes may contain steps that are not applicable to a specific purchasing area under audit. Therefore, frequent changes are often required in audit programmes. These audit programmes include the objectives of the audit and the specific activities to be audited. In other words, it provides detailed instructions and a checklist of procedural steps to be followed by the audit team for financial and operations audit compliance reviews. Nonetheless, audit programmes predominantly focus on financial areas. It seems that these audit programmes may not be well designed or effective.

Working papers support each major phase of the audit programmes, the examination of the system of internal control and the auditing procedures performed. These working papers are carefully reviewed prior to the issue of the internal audit report. Sawyer, Dittenhofer and Scheiner (1988) state that internal audit work should be documented in the audit working papers. These working papers should contain evidence of following-up and disposition of deficiency findings. In addition, working papers should be retained for a certain time. Regarding the importance of working papers, Haron et al (2004) explained that

due professional care refers to whether internal auditing is properly planned, supervised, reviewed and documented. It is suggested that there should be adequate audit manuals, work programmes and working papers.

Although internal audit department prepare audit plans and audit programmes, 85 per cent of IA directors (11 out of 13) indicated that there is no time budget for audit tasks. Time budgets are a necessary management tool for evaluation of internal audit departments (Azad 1994). Internal audit departments use time budgets, prepared in accordance with audit programmes, to plan and monitor auditing assignments. IIA's Standard for Professional Practice of Internal Auditing (2230–Engagement Resource Allocation) states that internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources (Institute of Internal Auditors 2011d). According to the participants' responses, although internal audit departments prepare an annual plan at the beginning of each year, it does not include a time budget for audit tasks. In other words, no specific timetables and deadlines exist for achieving internal audit work and submission of internal audit reports. The amount of time taken does not seem to be an issue. As one IA director (Participant 2) indicated:

'In general we did not find any problems with the time for achieving internal audit work. In my opinion, using time budget will put internal auditors under pressure which may lead to ineffective work'.

This view is similar to the finding of previous studies such as Azad (1994); Buchman and Tracy (1982) and Rhode (Rhode 1978). Rhode (1978) identifies time budget pressure as the primary motivating factor for the non-performance of an audit procedure. However, this result is contrast with that of Mihret and Yismaw (2007) who find that internal audit departments prepare a time budget for achieving the annual plan, and more than 75 per cent of the audit engagements are completed in the budgeted time and the number of actual audits performed in a period is usually less than the number of audits stated in the annual audit plan.

As indicated earlier, in all public enterprises (including those interviewed), IA directors, financial affairs managers, chief executive officers and external auditors recognize that the internal audit departments prepare audit reports. Mihret and

Yismaw (2007) state that the internal audit reports have a positive contribution to the quality of subsequent audits. In addition, participants were asked who is responsible for preparing the internal audit reports; how many reports do their internal audit management prepare during the year; and what is the usual content of these reports. IA directors indicate that internal audit reports are prepared by the internal auditor in charge of the assignment. Moreover, each internal auditor is required to stamp and sign-off each report since the overall credibility and accuracy of the entire audit function is based on that audit report. These reports are presented to the IA directors for careful examination and review.

The participants also indicate that the audit report is the final phase of the audit process and details the findings reached by internal auditors. These findings must be introduced to the IA director through written reports. According to the participants' responses, as part of the final review, the IA director has access to internal audit working papers, given that working papers serve as a resource of information gathered throughout the audit process and provide evidence and justification for internal audit findings prior to the release of the internal audit report. Participants indicate this review involves steps such as discussion with the auditors involved and a review of the audit working paper prior to submission and issue of final reports. IA directors believe that this procedure provides an opportunity to correct the report and make necessary changes. After internal audit reports have been reviewed and signed by the IA director, reports are then communicated to the chief executive officer and board of directors with a transmittal letter. As one participant (Participant 11) commented:

'Internal audit report is the most important phase of internal audit process because it is the final result and finding of the internal audit function. It should be clear and accurate. Therefore, after internal auditor prepares audit report, he/she submits it to us for reviewing'.

Another IA director (Participant 3) said:

'Actually, we review each audit finding by using internal audit working papers. The internal auditors use the working papers to conduct the audit process. If the result of the reviewing contains a significant error or omission, the director of internal audit must communicate corrected information to the internal auditor who prepared the report. This conduct provides the director of internal audit with a chance to communicate any major concerns that exist'.

Regarding the internal audit reports prepared by the internal audit departments, and according to the participants' responses, internal audit departments prepare regular monthly written reports after evaluating and reviewing financial aspects and other areas of the organization during the period. In other words, this report covers internal audit activities during a certain period. However the focal point of each report is on certifying financial statements for submission to the chief executive officer. According to the IA directors' responses, internal audit departments prepare an annual report which includes observations of the internal audit department regarding the extent to which other departments within the organization have implemented directive decisions issued by the board of directors. It includes notes which reflect the progress of work in the organization as a whole through core observations mentioned in the reports of internal auditors. It also identifies problems to be addressed in future including those which have been processed and those which have not; and future plans for management auditing. Participants indicate that this report is prepared primarily for submission to the board of directors by chief executive officers. However, internal audit reports should be submitted directly to the board of directors by IA directors in order to clarify whether the results of the operation are consistent with established objectives and goals; whether operations are being carried out as planned; the effectiveness of the organization's risk management processes and control issues; and, the extent of implementation of decisions and recommendations issued by the board of directors. The researcher reviewed six internal audit reports and, in general, the format of these reports contains the following main sections: summary; introduction; objectives and scope of the audit; findings and observations; and recommendations. As one chief executive officer (Participant 55) indicates:

‘Every month, the director of internal auditors submits to us regular monthly written reports which primarily focus on financial aspects. These reports include the scope and objectives of the audit, final result of audit findings and make recommendations where appropriate. Also, internal audit prepare and submit annual reports to board of directors through chief executive officers’.

Another Chief Executive Officer (Participant 54) stated:

‘There are two types of internal audit reports, monthly regular report and annual report. The objectives of annual report differ from the monthly report. The monthly report focuses on certifying financial statements while the annual report focuses on whether the organization's strategies and objectives have been effectively implemented’.

Furthermore, internal audit prepares one other type of report, namely, an interim written report. This report is prepared when there are significant problems that need prompt investigation. As one IA director (Participant 5) commented:

‘Interim report may be necessary when circumstances require notification of management about issue which come up suddenly. If the internal auditors determine that there is a specific problem such as fraud in an area which requires the prompt attention of this problem, immediately, we will ask them to audit this area and present a report on it’.

Charters of internal audit of organizations under study contain a special section regarding internal audit reports, and these include some guidance regarding the format of the report. For example, one charter specified that, firstly, the internal audit must issue a formal written report showing the final results of the audit process after the completion of a practical examination. Secondly, reports should be objective; clear; concise; and prepared in a timely manner. Thirdly, reports must contain area, scope, and findings of the audit process. Fourthly, reports must include a paragraph which contains the technical opinion of the internal auditors and their recommendations. Lastly, the final report must be signed by the IA director prior to presentation.

Therefore in relation to *RQ4*, the results suggest that there are weaknesses in specific elements relating to the performance of internal audit. Eighty-six per cent of participants indicate that internal audit prepares internal audit plans. However, 85 per cent of IA directors agree with the statement that internal audit does not prepare time budget for audit tasks. Although 54 per cent of participants agree that internal audit prepares internal audit programmes, these programmes do not cover most of the internal audit activities designed to apply to financial audits, and are not regularly updated. In order to show the degree of agreement/disagreement between the interviewees regarding elements relating to the performance of internal audit, the participants’ response ratios are summarized in Table 5.8. The next section deals with the co-operation between the internal and external auditor.

TABLE 5.8
Summary of results regarding the performance of internal auditors

Items	Chief Executive Officers N=10			External auditors N=12			IA Directors N=13			Frequency			%		
	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer
Internal audit supervision.	X	X	X	X	X	X	13	0	0	13	0	0	100	0	0
Prepare internal audit plans.	7	2	1	11	1	0	12	1	0	30	4	1	86	11	3
Prepare internal audit programmes.	4	3	3	6	5	1	9	4	0	19	12	4	54	34	12
Prepare internal audit time budget.	X	X	X	X	X	X	0	11	2	0	11	2	0	85	15

5.6 Chapter summary and conclusion

This chapter has analysed and discussed the interviews conducted with fifty- eight participants from thirteen public enterprises (13 IA directors, 11 administrative affairs managers, 12 financial affairs managers, 10 chief executive officers and 12 external auditors) regarding IA effectiveness. It focuses on the first four subsidiary questions RQ1, RQ2, RQ3, RQ4 underling this study in order to answer the main research question. Based on qualitative research, evidence collected seeks to establish whether the internal audit function is perceived to be effective in terms of independence, competence, the scope and performance of internal auditing work.

It is apparent from the evidence collected from an analysis of interviews and documentation that IA directors communicate and interact directly with the chief executive officers rather than with the board of directors. In all public enterprises under study, internal audit departments prepare and submit audit reports to both these levels of management. Reports are discussed with the chief executive officer. When asked by chief executive officer to discuss reports with the board, IA directors will do so. Including internal audit findings such as fault, fraud, wrongdoing, and mistakes in the internal audit report, depends on discussions with the chief executive officer. Regarding the appointment or removal of IA directors, the IA director is nominated by the chief executive officer, and then the board confirms the decision to appoint her/him. Internal auditors do not have the freedom to access and audit all documents and aspects of activity in the organization needed to carry out their work. Furthermore, in some cases, such as reviewing senior management which may involve confidential information management, internal auditors are required to gain approval from chief executive officers. In addition, there is concern that when internal auditors are involved in non-audit work they are informed that they should not consider themselves as internal auditors when carrying out this work.

Results of the analysis regarding competence of internal auditors indicate that most IA directors, as well as most of their internal audit staff, hold a university

degree (Bachelor) in accounting. In contrast to internal audit staff, most IA directors have more than four years' experience. The majority of internal auditors (including directors) did not hold any professional qualifications. In addition, internal auditors perform their work manually; that is, they do not rely on computer technology in their audit work. However, in January 2010 the Libyan public insurance company commenced their transition from a manual system to a computerized system. Furthermore, the relationship between internal audit and auditees has positively grown and, currently, there is a good relationship between internal auditors and auditees in the organizations under study.

It is apparent from the analysis of interview data that internal audit mostly focuses on financial operational areas. Internal audit has not been involved in existing systems; and, they are not involved in the revision or development of new systems before implementation. In addition, internal audit departments always evaluate the control system; perform audit of major fraud cases; verify accuracy of amounts in financial records; and ascertain compliance with organizational policies and procedures respectively. Furthermore, internal auditors have not been involved in the audit of contract terms before a contract is signed. It appears that the scope of audit work within the organizations under study may not be sufficiently wide-ranging to be considered as a value adding service to organizations.

The results of this analysis also indicate that the IA director is supervising staff through a defined system of authority and responsibility. Internal audit departments prepare an audit plan, and the internal audit director is responsible for preparing and developing the audit plan. This audit plan is then submitted to the chief executive officer for review and approval. In contrast, internal audit departments did not prepare a time budget for achieving internal audit work. In addition, internal audit departments always write and document audit programmes in the working papers which cover most of the internal audit activities. However, these programmes did not include recommendations for improvements and were outdated; plus, they are designed to be in line with financial audits because the internal auditor's activities apply to financial operations. Furthermore, internal auditors prepare three types of reports—monthly, annual and an interim written report—which are presented to the IA directors for review and signature. The

following chapter provides a detailed analysis and discussion of a further three external factors influencing IA effectiveness.

CHAPTER 6: DATA ANALYSIS AND DISCUSSION- EXTERNAL FACTORS INFLUENCING IA EFFECTIVENESS

6.1 Introduction

The previous chapter presents the results of qualitative data analysis regarding the first four factors relevant to assessing IA effectiveness, namely, independence of internal audit department, competence of internal auditors, scope of internal audit work, and performance of internal auditing. This chapter presents the results of a detailed analysis of interviews regarding a further three external factors influencing IA effectiveness, namely, co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing. In other words, this chapter focuses on the last three subsidiary questions *RQ5*, *RQ6* and *RQ7* underlying this research study in order to answer the main research question. As indicated in chapter 5, qualitative data was analysed section by section as set out in the interview guide. Therefore, the next section commences with the fifth section encompassing one external factor, namely, co-operation between the internal and external auditor (*RQ5*).

6.2 Participants' responses regarding co-operation between the internal and external auditor (RQ5)

This section focuses on another external component regarded as an important factor that impacts on IA effectiveness, namely, co-operation between the internal and external auditor. The purpose of such co-operation is to ensure adequate total audit coverage and minimize duplication of effort, assist in the development of internal auditors by serving as a market for recruitment of internal auditors and assist internal audit to ultimately be a value adding service in organizations through reduced external audit fees. Therefore, the interaction between the internal and external auditors should contribute to IA effectiveness.

The main characteristics of co-operation between the internal and external auditor included in this study are summarized in Figure 6.1.

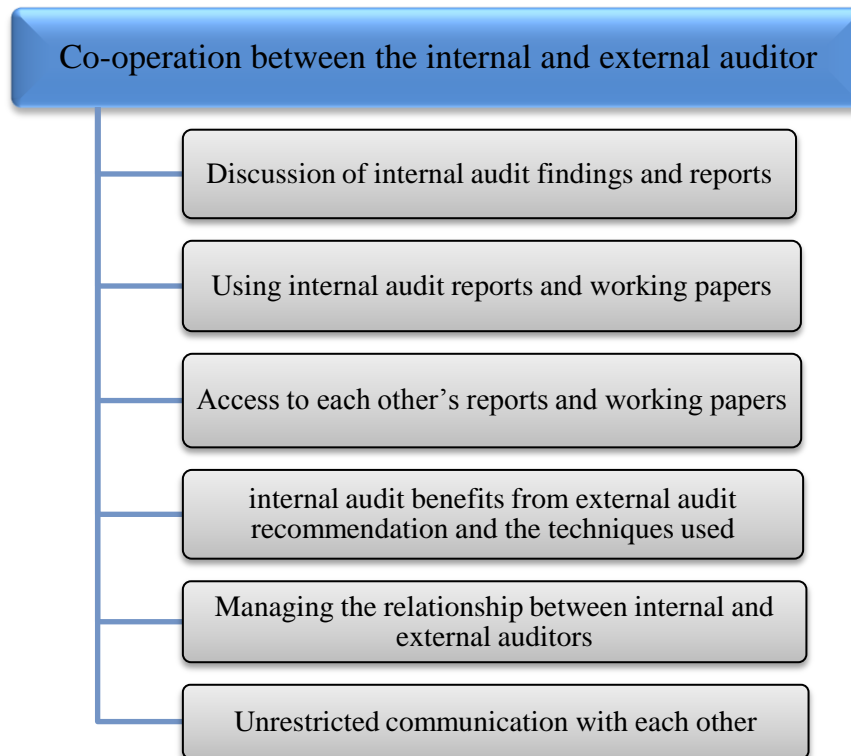


Figure 6.1 Characteristics of co-operation between the internal and external auditor

Therefore, the following questions relating to this matter were included under the relevant section of the interview guide. To what extent does the internal and external auditor discuss internal audit findings and audit reports? To what extent do external and internal auditors use and access each other's reports and working papers in conducting their audit? To what extent do external auditors make recommendations that help improve internal audit? How often does the internal audit staff meet the external auditor, i.e. on a regular basis or only as necessary? To what extent do the internal audit staff benefit from the techniques developed and used by the external auditor? Who is responsible for managing the relationship between internal audit staff and the external auditors?

During the interviews most external auditors, 83 per cent (10 out of 12) believe that internal audit work contributes to the effectiveness and efficiency of the external audit examination because internal auditors spend all their time working in the same organization. Hence, they have a better understanding of the workings of the organization and this allows internal auditors to witness complex issues that external auditors would not normally observe during their work. In addition,

external auditors believe that internal auditors assisted them in meeting their audit objectives. In other words, internal auditors contribute to increased reliability and credibility of external auditors' opinions regarding financial statements. As one IA director (Participant 8) comments:

‘Although the primary aim of external audit differs from that of the internal audit, both of them have common interests, for example, both auditors need to evaluate the internal control system of the company. In other words we have to evaluate the internal control system in order to provide our opinion regarding whether a company's financial statements fairly present the financial position of the organization. In this connection, internal auditors provide assistance to external auditors and play an important role to achieve this purpose’.

According to the participants' responses regarding the extent of discussion on audit reports between external auditors and internal auditors, 76 per cent of participants (19 out of 25) indicate that external auditors and internal auditors always discuss internal audit reports. IA directors indicate that external auditors receive a copy of the annual report issued by internal audit departments. External auditors indicate that one of the primary tasks of the external auditors is to assess the reports and recommendations issued by internal audit departments. They indicate that these reports contain the results and conclusions of the internal audit process, and they may include significant risk exposures and control issues, and other matters of significance that may impact negatively on the organization. Therefore, external auditors usually review and discuss internal audit reports which typically contain findings reached by internal auditors in order to understand (a) any significant issues; (b) the areas reviewed by internal auditors; and (c) the level of reporting. IA directors indicate that external auditors should be concerned with the internal auditors' observations because these observations may have a direct impact on external auditors' work or on the financial statements.

According to external auditors' responses, if the external auditor is satisfied that the internal auditor has adequately covered the scope of the work, he/she might reduce the scope to allow more detailed examination to be carried out. They indicate that after consultation between external auditors and internal auditors, external auditors should properly resolve any significant problems or unusual matters disclosed by the internal auditors. This approach leads to minimising the cost and time of the external audit process; increasing the credibility of the

internal audit department; and averting a reluctance to report negative findings by external auditors. However, this does not reduce the responsibility of external auditors. One of the external auditors (Participant 19) stated:

‘As external auditors, we usually receive copies of annual internal audit reports. These reports are an important tool for our work because they include the final work of the audit process done by the internal auditor during the year. Also, these reports contain internal audit finding. Therefore, we usually review and discuss internal audit reports with internal auditors.

Another external auditor (Participant 16) said:

‘We concentrate more and more on internal audit reports, and we discuss with internal auditors any significant issues included in internal audit report. In addition, we try to provide internal audit by appropriate ways to solve these significant issues which may have negative impact on organization’.

Regarding the use of internal audit reports and working papers by external auditors in order to conduct their audit, 56 per cent of participants (14 out of 25) indicate that external auditors are sometimes dependent on internal audit reports and working papers. IA directors indicate that internal audit reports are the final result and findings of the internal audit function reached by internal auditors. They also believe that internal audit reports play an important role in providing reasonable assurance regarding the adequacy and effectiveness of the organization’s internal control in assisting the achievement of the organizational goals. Therefore, by using these reports and working papers, external auditors do not waste time repeating work which has already has been performed by internal auditors. One IA director (Participant 5) stated that:

‘External auditors concentrate on our work such as reports and working papers because this act helps them to achieve their work easily and quickly. Also it is very important for organization because it helps to reduce the fees of external audit’

External auditors indicate that most of the internal audit activities in terms of verification and assessment are closely related to the examination of the external auditors. However, 50 per cent of external auditors (6 out of 12) indicate that external auditors seldom use internal audit reports and working papers. They indicate that the extent of use of internal audit reports and working papers by external auditors depends on several factors. Firstly, the qualifications and experience of internal audit directors and staff. Secondly, the extent of support offered by the board of directors and chief executive officer to the internal audit director. Thirdly, the external auditor must be concerned with the way reports are

prepared and, the management level that the IA director should report to. Fourthly, external auditors must understand the organizational position of the internal audit department within the organization; the powers of the internal auditors and the management level which is responsible for the internal audit department. Fifthly, external auditors must test some of the results of the internal auditors' work included in the internal audit report and working papers. The extent of these tests depends on the type of operations and the degree of importance. One external auditor (Participant 24) mentioned:

‘Recently, we seldom use and depend on reports and working papers prepared by internal audit department because this procedure allow us to save time. Also internal audit reports may include information or issues which may affect our opinion regarding the financial statements. But for external auditors to rely on internal audit work, internal auditors must be having enough knowledge and experience for external auditors to rely on their work’.

Another external auditor (participant 16) said:

‘We could use internal audit reports and working papers of internal audit, if we found that internal audit department link and report directly to both board of director and chief executive officer. Also they have the powers to state their opinions freely without any restrictions. I mean the independence of internal auditors is very important for us to depend on internal auditor work. However, this does not reduce our responsibility, so we often test the important findings of internal audit which may have negative impact on our work’.

It seems that external auditors sometimes use the internal audit reports and working papers to accomplish their task. This procedure is important for external auditors to be able to complete their work quickly, and also important for organizations by reducing the cost of external audit.

The majority of participants, 88 per cent (22 out of 25) believe that internal auditors do not have access to external audit working papers. All IA directors indicate that external audit working papers are unavailable to internal auditors because, unlike external auditors who have the right by law to gain and review the work of internal auditors, this arrangement is not reciprocal. As one IA director (Participant 6) states:

‘Actually, it is compulsory for us to allow external auditors reviewing and using our work. In contrast, external auditors would rather not allow internal auditors to see and use their working papers. Because they believe that their main objective differ from our objective, and they try to preserve the confidentiality of the information contained in the working papers’.

This result is consistent with Al-Twajry, Brierley and Gwillia's study (2004) result which found that the external auditor's access to the internal auditor's working papers was relatively common, with 62 respondents (80 percent) making their working papers available to the external auditors. In contrast, only 25 respondents (32 percent) had access to the external auditor's working papers.

As mentioned in chapter 2, under the Law No. 11 for the year of 1996, Libyan public enterprises are required to undergo audit by auditors general. These auditors are assigned by the GPCFA to review public organizations, and they have the right to access and review any work or area within the organization under audit (Libyan Government 1996). The researcher reviewed the charter of auditors general and it is clear that auditors general have the right to access and review any department within the organization under audit. For example, they have a legal right to access the law establishing the organization and financial and administrative regulations issued to govern the work of the organization; access to reports and statistics prepared by the relevant departments of the organization or third parties; and, access to the board of directors' resolutions regarding the budget of the previous year and the extent of implementation of these resolutions.

Regarding internal audit staff benefits from external audit recommendations and the techniques used by external auditors, although IA may gain some feedback and improve its effectiveness when internal and external audit linkages are strong (Mihret, James & Mula 2010), 54 per cent of IA directors (7 out of 13) believe that sometimes external audit recommendations are useful for solving particular issues. According to IA directors' responses, they encourage internal auditors to take the initiative and inform the external auditor when a serious matter comes to their attention. Discussion and communication does exist between external and internal auditors and, sometimes external auditors provide recommendations regarding some issues—although these recommendations are not sufficient to improve and develop the internal audit function. As one IA director (Participant 12) indicates:

‘...also I always sit with the external auditors and we discuss the internal auditor's work. Sometimes, external auditors ask us about specific matters and we receive their recommendations regarding these matters. But their recommendations [are] mostly focused on financial matters’.

Sixty-eight per cent of internal and external auditors believe internal audit staff do not benefit from techniques used by external auditors in performing or improving their internal audit activities. According to some IA directors' responses, in some cases, external auditors who are assigned by the audit manager to review the public organization's activities are new graduates, and have not worked in the field of audit before. In other words, they do not have an adequate background in auditing to adequately perform this role. Therefore, they lack sufficient experience in auditing from which internal auditors can learn. In addition, in banks the numbers of external audit teams are insufficient to cover all areas given the size of banks and the wider scope of the public sector audit, especially in banks with many branches.

Furthermore, as described earlier, external auditors' work is very much focused on verifying accuracy of financial records and detecting any fraud and errors. In other words, the scope of external audit work is confined to traditional roles of external audit (Traditional Protective Services) in terms of the accounting and financial aspects, with one IA director (Participant 12) commenting on this matter as follows:

'Some external auditors who start working with GPCFA as auditors general are new graduate. Therefore, they have not empirical experience of auditing which may help our activities. Also the scope of work carried out by the internal auditor extends only to financial operations'.

Another IA director (Participant 5) said:

'External auditors sometimes are the beneficiary of the work done by the internal auditor in testing all operations of the controls within the organization. In some cases external auditors find themselves needing to use internal auditors' work for many reasons such as the small size of external auditor's teams'.

Although different expressions were used, there was full agreement among external auditors that it is not their function to achieve or improve internal audit activities. One external auditor (Participant 18) said:

'It is not the role of external audit to provide benefits to internal audit'.

Although previous studies (e.g. Albercht et al. 1988; Arena, Arnaboldi & Azzone 2006) indicate that the relationship between internal auditors and external auditors assists in the development of internal auditors by serving as a market for recruitment of internal auditors, similar to Al-Twajry, Brierley and Gwilliam's

finding (2004), it becomes clear that internal audit departments in Libyan public enterprises have not benefited from external auditors but, conversely, IA work is important to external auditors in carrying out their role. In other words, external auditors sometimes depend on the IA reports and working papers to complete their task more easily. Braiotta and Mars (1992) also found that internal audit work can help the external auditor in planning their audit; a view supported by Al-Twajry, Brierley and Gwilliam (2004) who found strong co-operation between the internal and external auditors in the Saudi Arabian banking sector because of the quality of their internal audit departments.

Participants were asked who is responsible for managing the relationship between internal audit staff and the external auditors. Most participants, external auditors and IA directors, believe that managing such co-operation is important to increase the level of co-operation. As one participant (Participant 6) commented:

‘In order to be there is a relationship based on co-operation between external and internal auditors, it is important to establish and develop the programmes which lead to increase the level of this co-operation’.

According to the participants’ responses, these decisions regarding co-operation between external auditors and internal auditors are made by both the IA directors and director of companies audit department of GPCFA. One IA director (Participant 10) stated:

‘The level of co-operation between external and internal auditors is supervising and managing by director of audit department of GPCFA and internal audit director responsible for internal auditors’.

Most IA directors under study indicated that mutual co-operation should exist between internal auditors and external auditors in order to keep duplication of work to a minimum; and improve trust. However, internal audit staff need to consult and gain approval from the IA director before discussing and submitting any internal audit work requested by the external auditors. When asked by an IA director to discuss any issues with external auditors, internal auditors will do so. The IA directors pointed out several reasons why internal audit departments take this course of action. Firstly, each has varied and distinct responsibilities in achieving their work. Secondly, at times internal auditors may have insufficient time available, especially at the end of the year, to provide assistance to the external auditors because no formal meeting times are established throughout the

year between external and internal auditors. Thirdly, internal auditors may not have the necessary resources available to provide information or working papers requested by the external auditors. This process permits the IA director to keep control over the work of the internal audit department to support an effective internal audit service; and to supervise staff through a defined system of responsibilities.

It is logical that the strategy of co-operation should come from whoever is responsible for external auditors and internal auditors. Therefore, to be effective, the co-operation and co-ordination between external auditors and internal auditors should be supported and managed by GPCFA and senior management—typically the chief executive officer. As explained earlier, the GPCFA is the body that has the right for their staff (auditors general) to review Libyan public enterprises. Internal audit in Twenty-First Century: Sarbanes-Oxley and beyond requires the chief executive officer to personally sign and be responsible for financial reports and management reports attesting to the adequacy of the system of internal accounting control. Because of this, he/she has become deeply involved in the work of their external auditors and, in turn, the co-operation of the work between internal and external auditors. There is no doubt that the deeper the involvement of the chief executive officer in this co-operative effort between external auditors and internal auditors, the more serious is the approach to audit coordination (Moeller 2005). In addition, the IIA's Standards for Professional Practice of Internal Auditing (2060-Reporting to Senior Management and the Board) state that:

‘The chief audit executive must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board’ (Institute of Internal Auditors 2011d)

It appears that the difficulty of co-operation between the internal and external auditor arises because IA lacks the specialist knowledge necessary to fully comprehend the work of the external auditor. In addition, both the external auditors and internal auditors should be aware of the professional standards which determine and govern the way they perform their activities.

Therefore in relation to *RQ5*, the results suggest that there are weaknesses in specific elements relating to co-operation between the internal and external auditor. Seventy-six per cent of participants indicate that external auditors and internal auditors always discuss internal audit reports. However, 56 per cent of participants indicate that external audit sometimes use internal audit reports and working papers. Fifty-two per cent of participants also agree that internal audit staff sometimes benefit from external audit recommendations. Generally there was agreement among participants (88 per cent) that internal auditors do not have access to external audit working papers. Sixty-eight per cent of participants also disagree with the statement that internal audit staff benefit from techniques used by external auditors. In order to show the interview results regarding elements relating to co-operation between the internal and external auditor, the participants' response ratios are summarized in Table 6.1. The next section deals with management support to IA.

TABLE 6.1
Summary of results regarding co-operation between the internal and external auditor

Items	IA Directors N=13					External Auditors N=12					Frequency					%				
	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never
Discussion of internal audit reports.	10	2	1	0	0	9	1	2	0	0	19	3	3	0	0	76	12	12	0	0
Using internal audit reports and working papers by external auditors.	0	3	8	2	0	0	0	6	6	0	0	3	14	8	0	0	12	56	32	0
Internal audit staff benefit from external audit recommendation.	0	0	7	5	1	1	3	6	2	0	1	3	13	7	1	4	12	52	28	4

TABLE 6.1(Continued)
Summary of results regarding co-operation between the internal and external auditor

Items	IA Directors N=13			External auditors N=12			Frequency			%		
	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer
Access to each other's reports and working papers	0	13	0	1	9	2	1	22	2	4	88	8
Internal audit staff benefit from the techniques used by external auditors.	2	10	1	4	7	1	6	17	2	24	68	8

6.3 Participants' responses regarding management support (RQ6)

One of the most critical factors in enhancing IA effectiveness is the degree of top management support for the audit function. The revised IIA's Standards for Professional Practice of Internal Auditing (2004) suggests that internal audit quality and the support provided by management are the major contributors to the overall success of internal audit departments. Support from top management in establishing training and education programmes for their internal auditors is important in developing internal audit competencies. Furthermore, the extent of implementation by senior management of internal audit recommendations may be an indicator of IA effectiveness. The main characteristics of management support to IA included in this study are summarized in Figure 6.2.

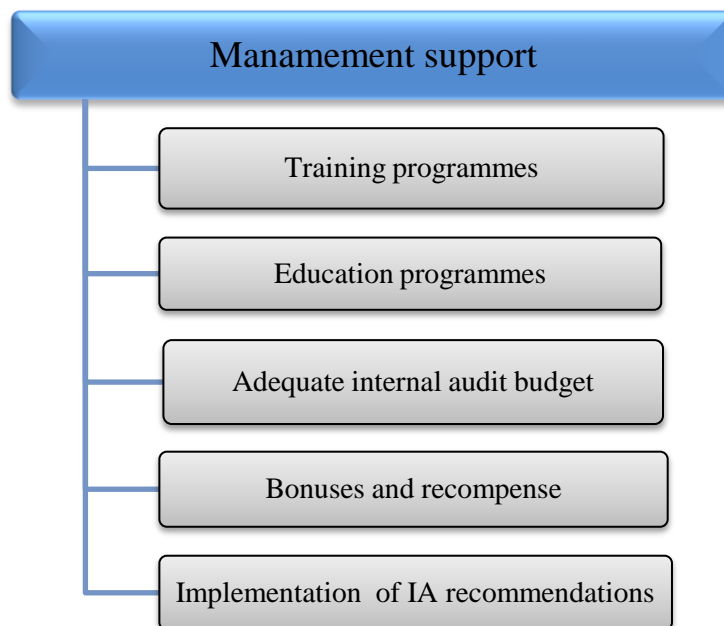


Figure 6-2 Characteristics of management support to IA

Thus, the first question relating to management support was directed to IA directors and chief executive officers and sought to establish whether the organizations have established training programmes for current internal auditors. Eighty-three per cent (38 out of 46) of respondents indicated that internal audit departments did not undertake any formal training programmes within their organization, and there are virtually no training programmes designed for new

members of internal audit staff. In addition, with the exception of the Libyan Insurance Company, there are no established in-house training centres to provide tailored training to internal auditors and other employees of the organization because of a shortage of relevant IA training providers. In other words, there is a shortage of providers with expertise in IA training. Furthermore, these participants believe that internal auditors need IA training programmes to improve their competence and increase their effectiveness in carrying out their duties. As one IA director (participant 6) commented:

‘Although the training for internal auditors is important to enhance the degree of skill and knowledge, which is in line with the required level to achieve their work, especially, for new internal audit staff, there is not any training programme for internal audit department within organization. Also there is a lack of specialist training centres in internal auditing’.

This view was confirmed in interviews with another IA director (participant 4) who indicated that:

‘Last year [I] requested approval from senior management to attend a training course on computer but I could not because my request was rejected by senior management’.

One Chief Executive Officer (participant 53) commented on this matter further as follows:

‘Training programs on internal audit are limited. Also most staff who supervise on these programs may not be experts in internal auditing and they may have no experience in the practical field of internal auditing’.

The IIA’s Standards for Professional Practice of Internal Auditing (1210-Proficiency) require that internal auditors possess the knowledge, skills and competencies needed to conduct an audit (Institute of Internal Auditors 2011d).

Interviewed participants feel that most IA departments in this sector are not staffed with well-trained internal auditors and there is a shortage of IA staff training. This may be related to two factors. Firstly, Libyan universities do not offer specific training programmes or courses on IA. Gramling et al. (2004) explain that the extent to which universities produce well-trained individuals to serve as internal auditors is one factor that influences the development of IA in indirect ways. Also, Greenawalt and Foster-Stinnett (1993) indicate that in recent years there has been a marked growth in the number of colleges and universities offering internal audit coursework and degree courses. Furthermore, postgraduate courses in IA are now available. Designing teaching around the insights from

experiential learning can bring practical experience to the learning situation and it may be possible to incorporate this into specifically-focused undergraduate auditing courses (Helliar, Monk & Stevenson 2009). In addition, Abbott (1988) emphasises the importance of university education for professionalization given that universities—which are central in the recruiting system—have a central role in developing professional knowledge. Furthermore, Helliar, Monk and Stevenson (2009) state:

‘The auditing profession recruits many university graduates each year in the UK, and invests a great deal of resources on training these raw recruits to work on the audits of client companies. The skills that these graduates already have are of great importance to the profession, as new trainees who already have some of these skills may be more effective auditors significantly earlier in their careers’.

Secondly, as indicated earlier, there is a lack of professional bodies for IA in Libya which provide such programmes, and LAAA is the only organization involved in enhancing the auditing profession in Libya. In addition, to date, there has been no formation of an IIA chapter in Libya. Therefore, the opportunity to take and apply professional qualifications such as CIA is limited; and there have been no government initiatives to encourage and develop IA.

However, as mentioned above, according to the response from the Libyan Insurance Company’s IA director, the Libyan Insurance Company has established in-house training centres to provide tailored training to internal auditors. He added:

‘Libyan Insurance Company sought to keep up with developments in the field of organization and management development. Pursuant to what is happening to investment in the human element is the optimal investment to ensure the functioning and success of the insurance sector’.

On 13 December 2010 the Libyan Insurance Company established the centre for Training and Management Development to meet the training needs and development of a cadre’s career (Libyan Insurance Company 2011a).

Another question was directed to IA directors, chief executive officers, and administrative affairs managers which sought to establish whether the organizations have conducted education programmes for internal auditors. The majority of participants from manufacturing companies (25 out of 30) indicated that their organizations did not conduct education programmes for internal audit

staff. In other words, manufacturing companies—under the pretexts of the time and cost—do not allow their employees to undertake such programmes. One Chief Executive Officer (participant 56) indicated:

‘Education programmes take long time to finish, and during this period participant who attached these programmes need for giving part time [work] and scholarship for covering all the cost of study. This may lead to the lack of employment and increase expenses resulting in obstructing the workflow of the organization. In other words, this may have negative impact on organization’.

By contrast, all participants from the Libyan Insurance Company and banks agreed that their organizations usually support them to continue their education, especially postgraduate study. This result is confirmed by a participant’s response earlier (under the section ‘competence of internal auditors’ that some organizations (specifically banks) encourage their employees to undertake educational programmes on the condition that they continue their employment with that organization for five years after graduation. However, these programmes do not include sending auditors to undertake educational programmes abroad. Professional organizations of internal auditors such as the IIA continue to be an important catalyst for the evolving role of internal auditing in education (Foster & Greenawalt 1995). Respondents reported that the success of the IA function depends largely upon the quality of the IA staff, which, in turn, depends on their education. These programmes encompass the basic rules which can help set the guidelines for internal auditors’ work. As one IA director (participant 3) commented:

‘Because of that internal audit function is changing from the traditional financial audit role to become provide consulting services role to assist in manage risk, thus, this expansion of the scope of the functions and role of internal audit needs to develop and improve the competences of internal auditors in terms of knowledge and skills’.

Bou-Raad and Capitanio (1999) find that internal auditors must possess high quality skills for assisting management to secure internal control structures. Therefore, the higher the level of training the more involved internal auditors become.

The interview guide included another question which sought to establish whether, and to what extent, management acts on the recommendations of the internal audit department. The majority of IA directors and chief executive officers, 70 per cent

(16 out of 23) agree with the statement that management sometimes implement the internal audit department's recommendations. Participants indicated that although internal audit recommendations are important and useful in terms of assessing the potential risk which may have an impact on the organization, the extent of senior management and board of director acceptance and implementation of internal audit recommendations is somewhat unsatisfactory. In other words, according to participants' responses, implementation of internal audit recommendations depend on top management's appreciation of the usefulness of these recommendations; and the board of directors is the only body that has the right to accept or reject the audit recommendations, with one IA director (participant 11) commenting on this matter as follows:

'I can say that internal audit recommendation included in internal audit report is important for organization specially, when the level of risk which is included in these reports is significant, *however*, both chief executive officer and the Board of Directors in our company sometimes pay attention to and deal seriously with recommendations included in the internal audit reports. The attention to these recommendations depends on their mood. In other words, they have not enough responsibility towards these recommendations'.

Furthermore, 30 per cent of IA directors indicated that management seldom pay attention to internal audit recommendations. This result is consistent with that of Mihret and Yismaw (2007) who find that in Ethiopia management's response to the internal audit findings and recommendations is generally. However, this result is in contrast with Burns, Greenspan and Hartwell's (1994) study which established that management is more likely to comply with internal auditor recommendations such as establishing internal control systems.

The allocation of dedicated financial resources by organizations to IA is an additional form of management support. In order to perform their work efficiently and effectively, internal auditors need to have a sufficient budget. The majority of participants 96 per cent (22 out of 23) believe there were limited resources (restricted budget) allocated to internal audit departments. In other words, there is an insufficient budget allocation for internal audit departments to operate adequately. This may be related to the fact that Libyan public enterprises are not budget centres, that is, they do not directly administer their budget because they are under the jurisdiction of the Secretariat of the Treasury. According to the participants' responses, this lack of financial resources hinders the organizations'

ability to conduct an effective risk assessment and has a negative impact on the scope of the audit that can be carried out, especially in banks with a number of branches. One IA director (participant 1) stated that:

‘Internal audit budget which is received by internal audit director in the beginning of each year is low and not sufficient to perform internal audit work effectively with a big size of organization’.

Another IA director (participant 10) made the following statement in this regard:

‘Another difficulty is the issue of the budget allocated for the internal audit department being inadequate. Therefore, sometimes we face difficulties in achieving our work. For example, we face considerable financial problems in conducting on-site inventories because the company has several stores in locations remote from one and other’.

This result is supported by Arena, Arnaboldi and Azzone (2006) who indicate that the major part of the internal audit budget is used for compliance testing, which takes place through a formal assessment of the observance of rules and procedures. This result is also consistent with that of Al-Twaijry, Brierley and Gwilliam (2003) who find that 49% of the internal audit departments’ budget in organizations under study was not large enough to undertake their duties and responsibilities successfully; and 54% thought their budget was insufficient for this purpose.

However, this result is in contrast to that of Carcello, Hermanson and Raghunandan (2005) who indicate in their findings, based on 271 survey responses from US public company chief (internal) audit executives, that internal audit budgets increased by over ten percent on average from 2001 to 2002 in companies with greater financial resources. In this regard, organizations with a greater proportion of assets in the form of inventory are likely to have higher internal audit budgets (Carcello, Hermanson & Raghunandan 2005). Without an adequate budget, even with adequate independence, internal auditors will be unable to perform their work properly (Mizrahi & Ness-Weisman 2007). Even with independence and higher qualified staff, it seems that an adequate budget is required to improve IA effectiveness.

Participants were also asked to indicate whether the organization provides financial incentives for the internal audit staff. Eighty-three per cent of participants (29 out of 35) believe that financial benefits offered are generally low

and are limited to overtime recompense. Participants feel there is a need for improved financial incentives for internal auditors. As one IA director (participant 5) indicated:

‘Although I hold high qualification and I have long experience in auditing, throughout period of my work and until now I did not received any incentives that have high value. These incentives limit to recompense for offer time which is also low compared to the hours worked’.

Participants raised another issue—the low level of salaries of internal audit staff. Most participants believe that the pay rates are not as attractive in this sector as they are in most private companies. This comes about because wages and salaries payable by the Government within Libyan public enterprises (excluding the private enterprises) are laid down in Law No.15 of 1981 which has not changed or increased for 25 years to accommodate higher cost and standards of living. In other words, the Law No.15 of 1981 has restricted Libyan employees’ salaries in public organizations, leading to limited employee motivation. In this connection, the IA director of one organization (participant 3) commented as follows:

‘Internal audit department and other employees are working too hard. Nevertheless, there is the low level of salaries for all levels of employee of our organization. Also there is no motivation in terms of incentives at all. As a result, currently public enterprises are starting to lose their expert employees because they are leaving to go to other countries to improve their standard of living’.

Working conditions in Libyan public enterprises are defined in both Labour Law of 1970 and the Social Securities Act of 1980. For example, according to the former law, the standard working week is 42 hours per week. Overtime is paid based on time-and-a-half for week days and double-time for Friday, Saturday and public holidays. Furthermore, the minimum legal period for annual vacation is 24 working days. Therefore, management in public enterprise is unable to motivate and reward employees and departments effectively, as amounts paid for overtime or any other financial reward is limited by this law. Martinez-Lorente et al. (1998) contend that top management needs to provide the necessary leadership to motivate all employees. Institutional theory suggests that the organizational environment is characterized by rules and regulations to which organizations must conform to secure legitimacy and support (Scott & Meyer 1983, cited in Al-Twajry, Brierley & Gwilliam 2003). It could be argued that salaries of not only

internal audit staff but all employees within organizations should be commensurate with the current standard of living.

It is apparent that although the Libyan economy has changed dramatically since the discovery and export of oil in October 1961, public sector pay rates have failed to rise to a reasonable level. This is in contrast to the situation in the private sector where, in recent times, salaries have been constantly amended to keep pace with increases in standard-of-living costs. As a result, experienced accountants and auditors have left their public sector jobs to join the private sector or emigrate to the Gulf and Europe. This problem can be reduced by increasing the satisfaction of the internal audit staff (Rasch & Harrell 1989). The suffering of employees on low salaries is a known problem in most developing countries. In fact, this problem represents the main reason for the employment migration to developed countries. According to Youssef (2006), the Libyan economy is dominated by Libyan public enterprises that are often inefficiently run, inequitable and non-transparent in granting contracts. Libyan public enterprises managers are not encouraged to maximize efficiency; and government salaries are low and not linked to performance. A comparison of the salary of a Libyan engineer with the salary of an engineer from United Arab Emirates companies with the same level of experience and education reveals a ratio of approximately 1:8, which has resulted in the loss of experienced and well-trained Libyan engineers and technicians to UAE organizations (Youssef 2006). This lack of financial support by Libyan authorities is supported by Arabic studies carried out by Al-Khalifa and Aspinwall (2000), Al-Zamany, Hoddell and Savage (2002), and others (e.g. Brown, van der Wiele & Loughton 1998; Mihret, James & Mula 2010).

Therefore in relation to *RQ6*, the results suggest that there is dissatisfaction regarding management support to internal audit departments. Eighty-three per cent of participants agree that there are no training programmes designed for internal audit staff. According to participants' responses, 54 per cent disagree with the statement that management supports internal audit staff to continue education programmes. There was significant agreement among participants (96 per cent) that there is an insufficient budget allocation for internal audit departments.

Eighty-three per cent of participants also agree with the statement that material incentives offered to the internal audit staff are generally low. Seventy per cent of participants agree with the statement that management sometimes implement the internal audit department's recommendations. In order to show the interview results regarding elements relating to management support, the participants' response ratios are summarized in Table 6.2. The next section deals with awareness of benefits of having effective internal auditing within organizations.

TABLE 6.2
Summary of results regarding management support to IA

Items	Chief Executive Officers N=10			IA Directors N=13			Administrative Affairs Managers N=11			Financial Affairs Managers N=12			Frequency			%		
	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer
Establishing training programmes	1	7	1	1	12	0	2	10	0	1	9	2	5	38	3	11	83	6
Conduct continuing education programmes	4	6	0	5	8	0	5	6	0	6	5	1	20	25	1	43	54	3
Adequate audit budget	0	9	1	0	13	0	X	X	X	X	X	X	0	22	1	0	96	4
Adequate material incentives	0	7	3	0	12	1	X	X	X	1	10	1	1	29	5	3	83	14

TABLE 6.2 (Continued)
Summary of results regarding management support to IA

Items	IA Directors N=13					Chief Executive Officers N=10					Frequency					%				
	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never	Always	Often	Sometimes	Seldom	Never
Implication of IA recommendations	0	0	9	4	0	0	1	7	2	0	0	1	16	6	0	0	4	70	26	0

6.3 Participants' responses regarding awareness of the benefits of effective internal auditing (RQ7)

As explained earlier, awareness of the benefits of effective internal auditing within organizations is another important factor that may impact on IA effectiveness. This section is devoted to answering the last subsidiary question underlying this research study—awareness of the benefits of effective internal auditing. The main characteristics included in this study of awareness of the benefits of effective internal auditing within organization are summarized in Figure 6.3.

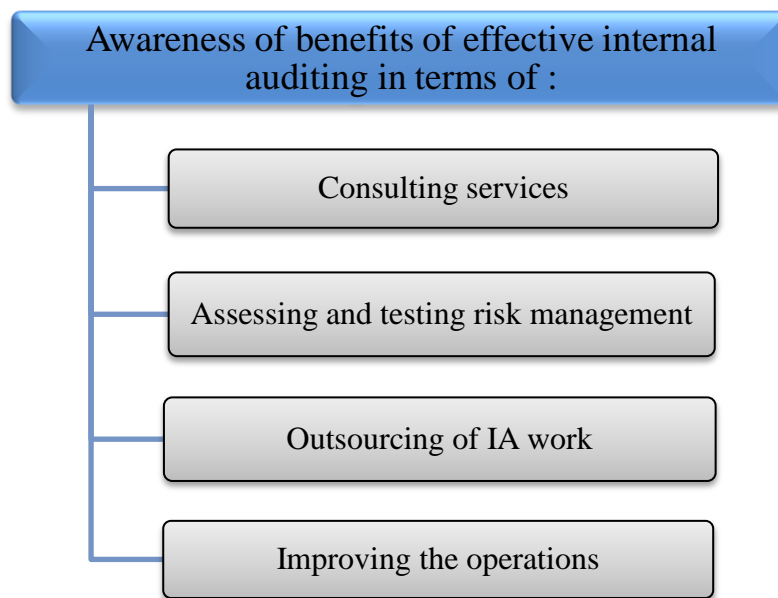


Figure 6-3 Characteristics of awareness of the benefits of effective internal auditing

Therefore, several questions included in the interview guide sought to establish whether participants under study are aware of the benefits of effective internal auditing.

Participants were asked whether, as part of the internal audit function, they consider consulting services add value to organizations. Seventy-two per cent of participants (33 out of 46) were not aware to the benefits of effective internal audit function in terms of providing consulting services to the organization. The definition of internal auditing (Institute of Internal Auditors 2011c) is that internal

audit's *raison d'être* is to add value to organizations by providing a wide range of services including consulting management on a variety of areas. Despite this, participants believe that the internal audit function should be oriented towards and emphasise traditional approaches in terms of the traditional financial audit role compared to a consulting role. Therefore, there was much less awareness of aspects of the internal audit role associated with the consulting services to organizations. This is possibly because of the absence of material such as books, journals and ISPPIA available in Arabic. Another reason, as indicated earlier, may relate to the fact that, to date, there has been no formation of an IIA chapter in Libya. Through IIA advertising and sponsorships, internal auditors will gain increased awareness and recognition through exposure to more than 160,000 professionals worldwide (Institute of Internal Auditors 2011e). Asia Pacific IA literature (Cooper, Leung & Wong 2006) and European IA literature (Allegrini et al. 2006) indicate that internal audit is shifting towards a consulting orientation in these regions. Such changes create opportunities for IA to provide consulting services to management and assist boards of directors to manage risk. On a societal level, strong internal auditing, through its consulting services to management, allows a society to channel capital into areas where it can yield an acceptable rate of return rather than into areas where it will be wasted or devalued. Mihret, James and Mula (2010, p. 230) state: 'Operational auditing, assisting in the management of risk, consulting to management and the prevention of fraud and other wastage of capital are directly related to increasing the rate of return on capital'.

Another important role of internal audit lies in assessing and testing risk management. Abdolmohammadi, Burnaby and Hass (2006) indicate that with the change from compliance to assurance, auditors need to be knowledgeable and aware of the importance of evaluating risk exposures. Therefore, participants were asked whether they consider the internal audit function could be beneficial to organizations in terms of assessing and testing risk management and control systems. Although 54 per cent of participants agree with the statement that internal audit function is important to organizations in assessing and testing risk management, it is apparent from the interviewees that internal audit is considered important in risk management processes associated with financial risks such as

errors and fraud risk. According to the participants' comments, internal audit work aims to ensure that control systems are effective, thereby preventing and punishing corruption and evaluating potential fraud. Thus, internal audit should identify existing risks and take necessary precautions to reduce future risks. One IA director (participant 9) indicated:

'Internal audit need to discover and assess potential risks in order to meet their objectives. Therefore internal audit should evaluate the accuracy of financial information. In other words, internal audit function should pay more attention to financial risks'.

Another Chief Executive Officer (participant 50) made the following statement in this regard:

'In order to avoid state asset loss, internal audit function should be an important tool regarding ensuring compliance with the laws and regulations and evaluating the potential fraud that may impact on organization goals'.

However, the SOX (2002) in USA has forced boards of directors and executive teams to look at all the management risks they face—not just financial, but operational, social, ethical and environmental risks (Matyjewicz & D'Arcangelo 2004). The IIA's Standards for Professional Practice of Internal Auditing (2120–Risk Management) also state that the internal audit activity should evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets and compliance with laws, regulations, and contracts; and risks gained from consulting engagements (Institute of Internal Auditors 2011d). The types of engagements such as assurance engagements include financial, performance, compliance, system security, and due diligence audits. Maletta (1993) finds that, under low inherent risk conditions, the IA function quality factor interactions were not significant determinants of the reliance decision, but this reverses when inherent risk was high. Thus, the demand for internal audit services may vary according to the different levels of risk (Arena, Arnaboldi & Azzone 2006). The demand for internal audit in an organization depends on the level of risk (Felix, Gramling & Maletta 2001).

Although internal auditors had low levels of experience, the majority of interviewees, 93 per cent (43 out of 46) indicated that there is no outsourcing of

internal audit activities. They believe that the expansion of outsourcing should be limited to other areas. Therefore, organizations tend to outsource in non-audit areas such as legal and tax advice and information technology services. As one participant (participant 8) stated:

‘The organization should not outsource activities related to internal audit work. Our organization sometimes outsources specialists in certain fields such as the area of taxation. For example, in the year 2008 there was a problem between the tax authorities and the organization regarding the linkage tax on the profits of that year. Therefore, the company used a tax expert to provide consulting services’.

This notion is confirmed by one of the chief executive officers (participant 53) who indicated that:

‘Our organization did not outsource regarding activities which related to internal audit work. However, we usually outsource regarding the fields such as information technology, especially in computer field because our work in the bank more specifically is in current accounts and treasury sections depend on computer system’.

Therefore, it seems that there is no aware among participants to the benefits of outsourcing of internal audit activities. However, these findings do not align with the South African Mjoli (1997, cited in Barac & Motubatse 2009, p. 971) study which addressed internal audit outsourcing practices and found that internal audit was considered by management to be a non-core function and it is outsourced because of the lack of appropriate skills, cost implications, company policies and the perceived objectivity of external parties. Also, the result contrasts with Western countries where outsourcing of internal audit activities is a common practice, particularly in the USA, Canada and Australia (Carey, Subramaniam & Ching 2006). Matusik and Hill (1998) indicate that 43 percent of large US companies outsource professional and technical experts. Due to the increased demands placed on the skills and competencies of internal auditors, cost implications and organization policies during the 1980s, the practice of outsourcing internal auditing in the West gained momentum (Barac & Motubatse 2009; Caplan & Kirschenheiter 2000; Carey, Subramaniam & Ching 2006; Selim & Yiannakas 2000; Van Peurseem & Jiang 2008). The lack of internal auditing skills and competencies further necessitate that organizations consider outsourcing as an alternative. Therefore, the absence of outsourcing of internal audit work combined with a lack of internal auditing competencies results in low IA effectiveness.

To determine the extent of awareness of the benefits of an effective internal audit function to organizations in terms of improving operations, participants were asked whether they consider the internal audit function as adding value by improving the operations of the organization. The word 'operations' embraces both the financial operations and non-financial (administrative and productive) operations of the entity. In this connection, 78 per cent of participants (36 out of 46) do not consider IA effectiveness as beneficial to organizations in adding value by improving the administrative and production operations. According to participants' opinions, primarily, the internal audit function should be concerned with financial operations rather than administrative and production operations. They indicate that internal audit work may not have a significant role in improving other operations such as production operations because internal auditors may not possess the necessary knowledge, skills and experience to assess operational, managerial and production operations. The participants went on to say that it may be difficult, if not impossible, for internal auditors to obtain a comprehensive understanding of all the company's operations. In other words, internal auditors may misunderstand some aspects of the organization's operations. Major & Hopper (2005) find that when a Portuguese telecommunications company tried to introduce Activity Based Costing (ABC), in a top-down, manner, this was supported by the commercial department, but strongly opposed by the production departments who may believe that internal auditors lack technical production knowledge. One Chief Executive Officer (participant 58) pointed out:

'Internal auditors need the appropriate skills and previous experience to play an important role in improving management operation. Therefore, they should work in different departments of the financial and administrative management before her/his appointment as internal auditor in the internal audit department. However, the contribution of internal auditors in all organization operations such as production operations may be highly complex and technical topics according to the specialty and ability of internal auditors'.

Another external auditor (participant 20) stated:

'I think that internal audit work is related to only financial operation. Therefore, they are not responsible for the quality of non-financial operations because that is the job of the administration. In other words, internal auditors' responsibility should not extend to the appraisal of both co-operation and control functions of management which can be adversely affected on the company's operating conditions'.

It appears that participants believe that the internal audit function has been designed to ensure reliable accounting information and that the internal audit function is an important tool in evaluating the internal control systems, and performing audits of major fraud cases and other wastage of capital. One Chief Executive Officer (participant 56) commented:

‘Internal audit is important for organization specifically on financial and accounting areas such as verifying accuracy of amounts and preventing the significant errors or fraud. It is considered an important tool in preserving public money in terms of reducing loss and increased revenue’.

McHugh and Raghunandan (1994) state that the internal audit function may contribute to the mitigation of wastage of capital by deterring fraud. It seems that the establishment of internal audit departments in Libyan public enterprises is required by law because it provides assistance to management in meeting regulations and regulatory demands. Therefore, IA activities are still confined to the traditional role of ‘Traditional Protective Services’ in terms of the accounting and financial aspects (a watchdog function).

It appears that there was no awareness of the benefits of an effective internal audit role as a value adding aspect to organizations by improving operational processes because participants believe that internal audit work is limited only to financial operations—more specifically, financial control. However, financial control is only one of three important control areas, the other two areas being operational and administrative control (Yee et al. 2008). Tettamanzi (2003) cited in Allegrini et al. (2006, p. 851) find that in Italy and the United Kingdom the percentage of time spent by internal audit on financial operations is lower than the other types of operations. Mihret, James and Mula (2010) state that IA is not only a value adding role which prevents wastage of capital through fraud and inefficiency, but also improves the operational processes of an organization. For example, Marxist perspective on accounting purports that the IA function can help organizations improve productivity of labour and increase the return on capital employed (Bryer 2006). Internal audit as a tool of internal control can enhance the effectiveness of organizations’ operations.

In Marx’s (1981, p. 362) words:

‘Under all circumstances, however, the [industry] balance will be restored by capital’s lying idle or even by its destruction, to a greater or lesser extent.

This will also extend in part to the material substance of capital; i.e. part of the means of production, fixed and circulating capital, will not function and operate as capital, and a part of the productive effort that was begun will come to a halt. Even though, as far as this aspect goes, time affects and damages all means of production (except the land), what we have here is a far more intense actual destruction of means of production as the result of a stagnation in their function’.

Yee et al. (2008) state that IA can assist a firm to improve its efficiency in operations during an industry crisis by ensuring that its capital experiences as small a wastage and devaluation as is possible under the circumstances.

Therefore in relation to *RQ6*, the results suggest that there is a lack of knowledge relating to the benefits of effective internal auditing. Seventy-two per cent of participants unaware of the benefits of effective internal audit function in terms of providing consulting services to organizations. According to participants’ responses, 54 per cent of participants agree with the statement that internal audit function is important to organizations in assessing and testing risk management. The majority of participants, 93 per cent, indicate that there is no outsourcing of internal audit activity. Seventy-eight per cent of participants remain unaware of the benefits of an effective internal audit function in terms of improving administrative and production operations. In order to show the interview results regarding elements relating to awareness of the benefits of effective internal auditing, the participants’ response ratios are summarized in Table 6.3.

TABLE 6.3
Summary of results regarding awareness of the benefits of effective internal auditing

Items	Chief Executive Officers N=10			IA Directors N=13			Administrative Affairs Managers N=11			Financial Affairs Managers N=12			Frequency			%		
	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer	Yes	No	No Answer
Consulting services.	3	6	1	3	8	2	2	8	1	1	11	0	9	33	4	20	72	8
Assessing and testing risk management.	5	5	0	6	7	0	6	4	1	8	3	1	25	19	2	54	42	4
Outsourcing of IA activities.	0	10	0	0	13	0	0	10	1	0	10	2	0	43	3	0	93	7
Improving the administrative and production operations.	2	8	0	3	9	1	2	9	0	1	10	1	8	36	2	18	78	4

6.4 Chapter summary and conclusion

This chapter has analysed and discussed the interviews regarding the external factors influencing IA effectiveness, namely, co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing. In other words, this chapter addresses the last four subsidiary questions *RQ5*, *RQ6* and *RQ7* underlying this research study in order to answer the main research question.

The results suggest that internal auditors help external auditors to raise the audit effectiveness and efficiency of financial statements. Internal auditors regularly submit their reports to external auditors. These reports are reviewed and then receive further attention from the external auditors. Unlike internal auditors, external auditors have a legal right to access and review internal audit working papers. Because external auditors believe it is not within their role to do so, internal auditors do not believe they significantly gain knowledge benefits from external auditors. Directors of auditors general of GPCFA and directors of internal audit departments of Libyan public enterprises are responsible for managing the relationship between internal audit staff and external auditors.

It is also apparent from an analysis of interview data that although participants believe that internal auditors need IA training programmes to improve their competence and increase their effectiveness in carrying out their duties, with the exception of the Libyan Insurance Company, there is dissatisfaction regarding training programmes provided by organizations for current internal auditors. With the exception of banks and the Libyan Insurance Company, management usually do not support internal auditors to undertake educational programmes at home and abroad. In addition, the extent of senior management and board of director support in terms of acceptance and implementation of internal audit recommendations is somewhat what unsatisfactory. Furthermore, there is an insufficient budget allocation for internal audit departments to operate and perform their work adequately. What is more, in addition to the low level of salaries of internal audit staff, in most organizations financial benefits offered are generally low and are limited to overtime recompense, and participants feel the need for management to upgrade internal auditors' financial incentives.

Finally, according to participants' opinions, the importance of the internal audit function is limited to ensuring the reliability of accounting information. Participants are unaware of the importance of the internal audit role in adding value to organizations by providing consulting services. In addition, regarding evaluating the internal audit role in terms of assessing and testing risk management, participants believe that the internal audit role is limited to financial risks in terms of errors and fraud risk. They see that outsourcing of internal audit work should be limited to areas which are not a speciality of the audit work—areas such as legal and tax advice and information technology services. Therefore, IA does not receive the benefits available from outsourcing. Finally, they believe internal audit work should concentrate on financial operations in terms of financial control rather than administrative or production operations. Therefore, it appears that there is a lack of awareness of the benefits of effective internal auditing. Based on these results, the finding severely limits the suggestion of effective internal audit.

The following chapter draws conclusions from this research. Implications for practice, theory, and possible areas of future research are also provided.

CHAPTER 7: CONCLUSION

7.1 Introduction

This final chapter concludes the study. The following section summarizes the study and outlines the main findings. The study's contributions and the implications of the findings to IA theory and practice are then outlined. This is followed by a discussion of the limitations of the study. Suggestions for future research are then provided and, finally, overall concluding remarks are presented.

7.2 Overview of the study

The literature (Al-Twajry, Brierley & Gwilliam 2003; Arena & Azzone 2009; Bou-Raad 2000; Coram, Ferguson & Moroney 2008; Goodwin 2004; Mihret, James & Mula 2010; Rupšys & Boguslauskas 2007a; Sarens & De Beelde 2006a; Yee et al. 2008) and the IIA-Global definition of internal auditing (Institute of Internal Auditors 2011c) indicate that IA has become an integral part of organizational structure as a value adding service to organisations. The validity of the notion of IA as value-adding and its contribution to organizational goal achievement rests on the implied assumption that internal audit is effective (Al-Twajry, Brierley & Gwilliam 2003; Mihret, James & Mula 2010). However, some of the existing literature (e.g., Al-Twajry, Brierley & Gwilliam 2003; Mihret, James & Mula 2010; Mihret & Yismaw 2007) suggests that internal audit may not always be effective.

Unquestionably, effective internal auditing is beneficial to organizations in accomplishing their goals and objectives. Nonetheless, to date, there has been scant research conducted on IA effectiveness. Generally, the few existing studies on IA effectiveness explore, as a starting point, the perceptions of the external auditor and whether the external auditor utilizes the work of the internal auditor (Cohen & Sayag 2010; Coram, Ferguson & Moroney 2008). Prior IA research also has, for the most part, focussed on developed countries. Accordingly, internal audit appears generally, and IA effectiveness specifically, to be under-researched—particularly in the context of developing countries. The increasing

globalization of the world economy and the adoption of the International Monetary Fund (IMF) and World Bank-led economic reforms are factors now driving the surging interest in corporate governance practices in several developing countries (Tsamenyi, Enninful-Adu & Onumah 2007). Therefore, it is important to understand internal audit practices in these environments. Given the lack of research on this issue, some scholars (e.g., Al-Twaijry, Brierley & Gwilliam 2003; Cohen & Sayag 2010; Mihret, James & Mula 2010; Mihret & Yismaw 2007) emphasize the need for a more comprehensive study of the issue of IA effectiveness. In other words, future research could contribute to an enhanced understanding of IA effectiveness. Apart from contributing to the literature, studies on IA in developing countries could potentially provide a more holistic understanding of the nature, context and processes of internal audit.

There are no specific standards or recognized methods in investigating IA effectiveness (Arena & Azzone 2009). Therefore, the limited prior research in this area has provided mixed findings on IA effectiveness, just as it has assessed IA effectiveness differently. However, by conducting the 2006 global Common Body of Knowledge study, the IIA attempts to better understand IA practices throughout the world (Hass, Abdolmohammadi & Burnaby 2006), and the IIA's Standards for Professional Practice of Internal Auditing is an appropriate indication to study IA effectiveness (Al-Twaijry, Brierley & Gwilliam 2003). The IIA-Global recognizes the need to understand the status of internal auditing worldwide (Mayer 1977, cited in Al-Twaijry, Brierley and Gwilliam, 2003). Furthermore, nurturing the profession in developing countries is a priority of the IIA's Global Governance Steering Committee (Institute of Internal Auditors 1999; Mayer 1977, cited in Al-Twaijry, Brierley and Gwilliam, 2003). Therefore, to investigate IA effectiveness, and building on the approach of previous research (e.g., Al-Twaijry, Brierley & Gwilliam 2003; Albercht et al. 1988; Arena & Azzone 2009; Cohen & Sayag 2010; Mihret, James & Mula 2010; Mihret & Yismaw 2007), this study examines the perceptions that IA directors, administrative affairs managers, financial affairs managers, chief executive officers and external auditors presently have about IA effectiveness. Four factors for examining IA effectiveness were based on ISPPA, namely, independence, competence, scope of internal auditing work and performance of internal auditing work.

This study also employed three additional factors considered to be important for effective IA. The first factor is co-operation between the internal and external auditor. Engle (1999) state that co-operation between the internal and external auditor enhances the efficiency and effectiveness of the external and internal audit in providing total audit coverage. While internal auditors are increasingly contributing to the work performed by external auditors (Burnaby & Klein 2000), external auditors may also assist in the development of internal auditors primarily by serving as a market for recruitment of internal auditors. Accordingly, the literature focuses on the need for co-operation and teamwork between internal and external auditors for internal auditing to be effective (Al-Twajry, Brierley & Gwilliam 2004; Arena & Azzone 2009; Goodwin 2003). By coordinating the work of internal and external auditors, any work duplication is avoided which, in turn, increases the effectiveness of the internal audit department.

The second additional factor considered in this study is management support. In order for the internal audit department to be effective, the support of top management is absolutely critical. In other words, for effective work performance, internal auditors should have the support of top management and the board of directors (Boyle 1993). Mihret and Yismaw (2007) and Mihret and Woldeyohannis (2008) also contend that the level of management support to IA is considered a determinant of IA effectiveness. In addition, Albercht et al. (1988) believe that the visible support of top management to the internal audit may be the single most important factor that enhances IA effectiveness. According to Mihret (2009), management support to internal audit is one of the factors that bode well for a good IA department profile. Undoubtedly, top management support plays an important role in enhancing IA effectiveness.

The third additional factor considered by this study is the degree of awareness by participants of the benefits of effective internal auditing. To understand the internal audit department as a value adding service to organizations, both employees and management should be aware of the importance of the internal audit role in terms of providing consultation services. IA may provide consulting services to management and assist boards of directors to manage risk (Allegrini et al. 2006; Cooper, Leung & Wong 2006). Additionally, employees and

management need to be aware of the importance of the internal audit role in terms of assessing and testing risk management and control systems. Carey, Subramaniam and Ching (2006) indicate that internal audit is an important tool for company directors and senior management in the management of internal controls and risk management. In addition, there needs to be an understanding of the benefits of an effective, value-adding internal audit function in improving the operations of the organization. Yee et al. (2008) state that IA can assist a firm to improve its efficiency in operations before an industry crisis so that its capital experiences the least wastage and devaluation possible when the crisis actually occurs. Thus, this study has examined the perceptions of participants regarding IA effectiveness by using seven factors.

This study employed a qualitative research paradigm to enable understanding of whether the internal audit function is perceived to be effective. The study required a qualitative research approach to provide clarification, insight, discovery and interpretation, rather than one suitable only for hypothesis testing. Therefore, the selection of an appropriate research approach was determined by the need to gather data from participants. In other words, this approach arguably enables the researcher to answer the research questions posed in the current study. The primary research method was semi-structured interviews conducted with selected IA directors, managers of administrative affairs; managers of financial affairs, chief executive officers, and external auditors in Libyan public enterprises. A review of relevant documentary evidence helped further illuminate the results.

7.3 Summary of main results

The study addressed the overarching research question: *to what extent is the internal audit function in Libyan public enterprises perceived to be effective?* To answer the main question underlying this research study, the first subsidiary question was: *to what extent is the internal audit function in Libyan public enterprises independent of management?* In line with the findings of prior research (e.g. Al-Twaijry, Brierley & Gwilliam 2003; Harrell, Taylor & Chewing 1889), this study identifies potential threats to internal auditor independence. Currently, there is no direct communication between IA directors and board of

directors; and internal audit departments do not report to a sufficiently high level in organizations, that is, internal audit departments report to chief executive officers rather than to the board of directors. Only when asked specifically by the chief executive officer to discuss reports with the board will IA directors do so. The interview results indicate that internal auditors may be powerless to include any audit findings in their audit reports because the inclusion of such findings depends on discussions with the chief executive officer. In addition, in some scenarios such as reviewing senior management, internal auditors may not be at liberty to access and audit all the organizational documents and aspects of activity needed to properly carry out their work. Furthermore, there is concern regarding doing non-audit work for organizations which may impact on the internal auditor's independence.

The second subsidiary question was: *to what extent are internal auditors competent?* The qualitative data analysis also illustrates that there were weaknesses in specific elements relating to the competence of internal auditors. While most IA directors and staff were well-educated (held a bachelor's degree in accounting) and a few IA directors and staff hold professional qualifications (members of the LAAA), not all IA directors and staff were accredited as a CIA. Therefore, without professionally-qualified staff it may be difficult for internal audit departments to add value to organizations. Libyan internal auditors (excluding directors) also had low levels of experience because internal auditors are not appointed to work permanently in the internal audit department. In addition, Libyan public enterprises tend to rotate employees from and to the internal audit departments, resulting in a quick turnover of employees and, consequently, internal auditors having low levels of experience in auditing. Furthermore, many Libyan internal audit staff are not considered skilled in computer technology or able to conduct a review in a computerized environment. They do not use computer systems to carry out audit tasks—they still rely on the manual use of books and records (rather than the use of mechanization) in achieving their work.

The third subsidiary question was: *to what extent does the scope of internal audit work extend to all systems and activities at all management levels?* Findings of

the qualitative analysis demonstrate that the scope of work is restricted to financial matters (the traditional roles of internal audit) in terms of checking accounting records, the verification of mathematical computations to ascertain that the company is not being defrauded, compliance with procedures and regulations, and examination of internal control systems. In contrast, there is much less emphasis in Libya on aspects of the internal audit role associated with the efficiency and effectiveness of various aspects of the organization. This result confirms that IA activities are still confined to 'Traditional Protective Services' in terms of the accounting and financial aspects (a watchdog function). This is possibly because the absence of management information systems in Libya is an impediment to the full adoption of managerial audit. Therefore, the scope of internal audit may not be sufficiently wide-ranging to be considered as a value adding service to Libyan organizations.

The fourth subsidiary question was: *to what extent is the performance of internal audit effective?* The results of the interviews conducted in the study reveal that there are weaknesses in specific elements relating to the performance of internal audit. Internal audit departments prepare audit plans and programmes to monitor internal auditors work performance. However, because most of the internal auditors' activities are focused on financial areas, internal audit programmes are designed to apply to financial audits. These audit programs are not regularly enhanced or updated. Although Libyan internal audit departments prepare audit plans and audit programmes, there is no time budget for audit tasks. Therefore, the Libyan internal audit departments may be unable to complete the audit engagement in the budgeted time as stated in the annual audit plan. Internal auditors prepare monthly, annual and interim written reports. However, the focal point of these reports is on certifying financial statements for submission to the chief executive officer.

The fifth subsidiary question was *to what extent is there co-operation between the internal and external auditor?* In relation to *RQ4*, the results suggest that there are weaknesses in specific elements relating to co-operation between the internal and external auditor. Although previous studies (e.g. Al-Twaijry, Brierley & Gwilliam 2003; Albercht et al. 1988; Arena, Arnaboldi & Azzone 2006) indicate that the

co-operation between internal auditors and external auditors assists in the development of internal auditors by serving as a market for recruitment of internal auditors, the majority of Libyan IA directors agree that the external audit exercise had been beneficial to them. The results of this study indicate Libyan IA directors do not believe, for several reasons, that external auditors assist them in achieving or improving their activities. First, external audit working papers are unavailable to internal auditors. Second, external audit recommendations are not sufficient to improve and develop the IA function. Third, because they are new graduates, most Libyan external auditors appointed to review public enterprises lack sufficient experience in auditing from which internal auditors can learn. In contrast, IA provides explanations to the external auditor when reviewing operations. It seems that IA work is more important for external auditors and contributes to the effectiveness and efficiency of the external audit examination. This finding is in contrast to Yee et al's (2008) results for Singapore which indicated that the majority of interviewees, with an average of 76 per cent, strongly agreed that the IA exercise had been beneficial to them. The disparate results of this study is not surprising given the more Western-style corporate sector in Singapore compared to the younger external audit profession in Libya (Saudagaran 2009).

The sixth subsidiary question was: *to what extent is internal audit operating under adequate management support?* Qualitative data analysis shows that there seems to be a general consensus among Libyan participants that there is dissatisfaction regarding top management support to internal audit departments for several reasons. First, with the exception of banks, insufficient established training and education programmes exist for Libyan internal auditors. This deficiency possibly explains the low level of competence among Libyan internal auditors. Second, there is insufficient budget allocation to enable Libyan internal audit departments to operate adequately—which may potentially explain the limited scope of internal audit work. Third, there are insufficient established financial incentives for Libyan internal auditor staff. Fourth, the extent of senior management and board of director acceptance and implementation of internal audit recommendations is somewhat unsatisfactory. Therefore, it appears that the extent

of top management support to internal audit is inadequate, resulting in limited IA effectiveness.

The seventh subsidiary question was: *are organizations in Libya aware of the benefits of effective internal auditing?* In relation to awareness of the benefits of effective internal auditing within organizations, qualitative data analysis shows that there is a lack of knowledge relating to the benefits of effective internal auditing. Participants under study still believe the internal audit function is designed to ensure reliable accounting information; and that the internal audit is an important tool in evaluating internal control systems, and performing audit of major fraud cases and other wastage of capital. In other words, the role of internal audit is perceived to be limited only to the traditional financial audit role. There was a lack of awareness of aspects of the internal audit role associated with consulting services to organizations; and the role of internal audit function in terms of assessing and testing risk management and control systems because internal audit is only considered important in risk management processes associated with financial risks such as errors and fraud risk. Furthermore, there was no awareness of the importance of the internal audit function to organizations in terms of improving administrative and production operations. In addition, there is no awareness among participants of the benefits of in outsourcing internal audit activities to internal auditors. Thus, there appears to be an overall lack of awareness of the benefits of effective internal auditing to organizations, resulting in limited opportunities for IA to provide consulting services to management and assist boards of directors to manage risk, thereby impacting on the effectiveness of IA.

As suggested by the interview results, the current level of internal audit practices may not meet the standards suggested by ISPPA—which may be regarded as a source of external institutional pressure from the perspective of normative institutional isomorphism. Institutional theory explains that institutional elements that invariably come from outside organizations cause organizational changes (DiMaggio & Powell 1983). When organizations respond to external institutional pressure they protect their technical activities through decoupling elements of

structure from other activities and from each other, thus reducing their efficiency (Meyer & Rowan 1977).

The process of isomorphism takes place when organizations assume similar characteristics (DiMaggio & Powell 1983). In the case of internal auditing in Libyan public enterprises, institutional theory provides a means of understanding the weaknesses of conforming and legitimating processes that have led to the failure to comply with ISPPPIA. Within isomorphism, internal auditing activities would be established in line with the IA profession (in the form of the IIA) to illustrate the IIA's and internal auditors' proficiency and knowledge and how others can similarly benefit. Institutional theory explains that organizations sometimes engage in decoupling, that is, actual organizational practice may differ from what the external facade of an organization suggests (Al-Twajjry, Brierley & Gwilliam 2003). The actual operations of internal audit departments are decoupled from the expectations of how they operate and that prescribed by ISPPPIA, as well as inferring that ISPPPIA is not influenced by departments and, equally, internal audit departments have only a limited influence on work carried out by ISPPPIA. This aligns with institutional theory and suggests that internal audit may engage in decoupling—that is, actual organizational practice may differ from the external facade of other organizations in its environment or field in terms of the co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing. Therefore, from the perspective of institutional isomorphism, and in line with the research findings of Al-Twajjry et al. (2003), Mihret et al. (2010) and Mihret and Yismaw (2007), it can be argued that the internal audit departments operate in ways that are decoupled in some important areas from those envisaged by the IIA and other organizations in its environment or field. Therefore, internal audit may not add value and improve an organization's operations.

Based on the results of this study, and aligned with Marx's (1978) theory of the circuit of industrial capital, internal audit may be unable to increase or even protect production and employment levels. Clearly some participants are sceptical of the internal audit department's ability to add value as they may feel that the internal audit department's specialized knowledge of production issues is at a

lower level than theirs. Internal audit activities is still confined to traditional roles, ‘Traditional Protective Services’, in terms of accounting and financial aspects (i.e., a watchdog function) to ensure that capital is not wasted. Viewing internal auditors as watchdogs is consistent with the attest function of classical IA, but is inconsistent with them being viewed as business partners. However, from the perspective of Marxist theory, ‘such capital is described as wasting or de-valuing since it is unable to support existing productive facilities and employment levels’ (Yee et al. 2008, p. 154). In other words, in order for IA to be considered as a value adding service to organizations its primary goal is not fraud detection and integrity of financial records, but directly increasing the rate of return on capital through sound advice (or at least preventing a decrease in that rate or a loss of capital). This may lead to many social benefits such as the ability to drive increased employment and wage levels considered crucial from the Marxist perspective (Yee et al. 2008). Although IA is a useful function in minimizing fraud and corruption (Mihret, James & Mula 2010; Yee et al. 2008), in the long run internal auditing should contribute positively to employment and wages. Furthermore, internal auditors may lack the required skills, especially in technology, to increase the rate of return on capital by improving the production process. According to Marx’s perspective, the main force of production is the human being herself/himself, including the different competencies in terms of knowledge and skills available (technology) to transform nature into commodities—the social organization of production.

From the perspective of the Marxist definition of IA (see section 3.2.2), IA may not automatically provide ways to develop and implement improvements to existing work practices consistent with the traditional Marxist values of criticism and self-criticism repeatedly emphasized by Marxist scholar Louis Althusser. Thus, from the perspective of Marx’s theory of the circuit of industrial capital, internal audit may not play an important role in assisting organizations to improve efficiency and devote their operations to areas of high consumer demand both before and during an industry crisis. Effective internal audit should minimize wastage, maximize employment levels, increase wage rates and production levels, and minimize capital devaluation as much as possible under the circumstances. As a result, from the perspective of Marx’s theory, internal audit may not always be

considered a value adding service to organizations. Marx's (1978) formula for the circuit of industrial capital allows us to see clearly that the rate of return on capital is the primary measure of efficient production and that this is a positive function of the rate of turnover (how quickly the cycle completes one revolution). If internal audit in Libya is not perceived to significantly increase the rate of return on capital or prevent a decrease in the rate or a loss of capital during declining industry conditions, then its potential remains unfulfilled.

Therefore, based on the perspective of Institutional theory and Marx's theory and the results of qualitative data analysis in relation to the overall research question (*RQ*) of this study, internal audit in Libyan public enterprises is not perceived as being effective.

7.4 Implications to practice

This study highlights many important issues concerning IA effectiveness. The findings of this research reflect that internal audit should strive to create an independent function of management, as well as management working towards increasing the competence of internal auditing generally. In addition, the scope of the internal audit function may need to be expanded to cover all activities of the organization. Further co-operation between internal auditors and external auditors is needed; and for internal audit departments to enhance their ability to perform their work more effectively there needs to be a much stronger level of support from management—which, currently, is significantly inadequate. Furthermore, there is a need to raise awareness among employees in Libyan public enterprises of the importance of effective internal audit department. Considering the findings of the study, some recommendations can be proposed regarding independence, competence, work performance, co-operation between the internal and external auditor, and management support. Consequently, this research offers the following recommendations:

- 1) To achieve the appropriate degree of independence, the IA director should communicate, report and interact directly with the board of directors rather than the chief executive officer to ensure its independence and credibility. Internal auditors should be able to

state their opinions freely and include any audit findings in their reports without agreement from the chief executive officer and without any bias or restrictions.

- 2) Johnson (1992) states that there are still many countries in the Third World not affiliated with the IIA and, currently, this is the situation in Libya. Therefore, to increase the level of IA professional qualifications in Libya, a chapter of the IIA needs to be established to encourage and develop the profession of IA and create opportunities for internal auditors to join certification programmes in auditing and internal auditing. Additionally, specific IA courses and training programmes should be offered by Libyan universities and other educational institutions.
- 3) Management should work towards decreasing the high turnover of personnel in internal audit departments because the low level of professional qualifications and rapid rotation of employees to and from the internal audit department results in internal auditors (excluding directors) having low levels of experience in auditing. Therefore, it is recommended that well-trained internal auditors should be retained in the internal audit departments for a longer period of time. With the exception of the Libyan Insurance Company (which has already adopted a computerized system), Libyan public enterprises should work towards a transition from a manual system to a computerized system. Training for internal auditors in computerized systems and auditing software is recommended. This may help IA departments to conduct their work more effectively.
- 4) Under this wider scope, internal audit departments should expand their range of work to cover all types of operations (financial and non-financial). In this regard, IA work should encompass checking efficiency of operating results; checking compliance with contracts when applicable; auditing of agreements and contract terms before being signed; and assisting management by identifying risk exposures of the organization. Internal audit also needs to carry out appraisal of existing systems and be involved in the revision or development of new systems before implementation. Thus, the IA

function should expand its scope in ways that allow it to make greater contributions to the organization it serves.

- 5) External audit working papers should be available to internal auditors to achieve or improve their activities and receive significant benefits from the techniques used by external auditors. External auditors' recommendations should contribute significantly to improving and developing internal audit work. Such recommendations could be useful for sensitive issues such as risk analysis, coordination of audit plans and the organization's risk management processes.
- 6) According to the results of this study, there is a dilemma regarding management support to internal audit departments, namely, there is a lack of support and motivation provided by top management to internal auditors. Such support from management and the board of directors is crucial if internal audit departments are to perform their work effectively.
- 7) As mentioned earlier, a chapter of the IIA should be established in Libya; and university programs should be offered in specific courses and training programmes on IA. Libyan public enterprises should develop their employees' knowledge about the internal audit function; and subscribing to specialized journals and periodicals could also be beneficial. To increase awareness of the benefits and the modern role of the internal audit function according to the definition issued by IIA, the development and establishment of seminars within Libya, and attendance at relevant conferences and seminars at home and abroad, should be encouraged.

7.5 Contributions of the study

7.5.1 Contributions to the literature

This study has made several contributions to the knowledge relating to IA effectiveness. The following points explain how the study contributes to knowledge.

- 1) As mentioned earlier, there is limited previous research which addresses the issue of IA effectiveness. This lack of research is particularly critical in developing countries with emerging and transitional economies. Thus, due to the limited research conducted concerning IA effectiveness, this study contributes to the literature relating to IA in this area.
- 2) The study extends IA research under institutional theory (i.e., Al-Twaijry, Brierley & Gwilliam 2003; Arena, Arnaboldi & Azzone 2006; Arena & Azzone 2007; Mihret, James & Mula 2010) by considering a broad range of factors influencing IA effectiveness. The results of this study indicate that the actual operations of internal audit departments are decoupled from the expectations of how they operate and that prescribed by ISPPA. Under institutional theory the study portrays how the process of isomorphism takes place whereby organizations assume similar characteristics and how organizations sometimes engage in decoupling, that is, actual organizational practice may differ from what the external facade of an organization suggests. Therefore, this study contributes to the literature by establishing a theory-based link between IA effectiveness and the development of normative isomorphism which increases proficiency within organizations, and arises when institutional changes occur due to an organization's recognition of professions
- 3) The study also extends IA research under Marx's theory of the circuit of industrial capital (e.g., Bryer 1994; Bryer 1995; Bryer 1999; Bryer 2006; Mihret, James & Mula 2010; Yee et al. 2008). Yee et al. (2008) argue that this theory can explain IA effectiveness in organizations. In line with Yee et al. (2008) and Mihret et al. (2010), this study is the third study which extends Bryer's work by developing questions for internal audit research under Marx's theory of the circuit of industrial capital. This extends the theory's use to areas beyond financial accounting, management accounting, and accounting regulation (Yee et al. 2008). Therefore, this study contributes to the literature by establishing a theory-based link

between IA effectiveness and an added assurance in relation to production processes.

- 4) This study will fill an important gap in previous research by proposing different perspectives in explaining IA effectiveness. Mihret and Yismaw (2007) point out that future research would be welcome to fully understand the level of IA effectiveness by defining other variables affecting IA. Mihret, James and Mula (2010) suggest that exploring IA effectiveness in industry could provide further useful insights. Therefore, this study introduces a new perspective for examining IA effectiveness by identifying two groups of factors impacting on IA effectiveness, that is, those related to ISPPIA (independence, competencies, scope of work and work performance) and those related to external factors influencing IA effectiveness (co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing within organizations). Specifically, this study establishes a factor not identified by prior research that may influence IA effectiveness, namely, awareness of the benefits of effective internal auditing. This fills part of this gap in the IA literature and provides a useful outcome by indicating priority areas that internal audit departments need to focus on to achieve high levels of effectiveness.
- 5) For the most part, previous studies have used quantitative research to examine IA and have often used questionnaires for data collection. However, as recommended by Covalski and Dirsmith (1990), Hopper and Powell (1985), Hopwood (1983) and Scapens (1990), qualitative methodology in accounting research can make substantial contributions to the study of accounting and control systems in organizations. Therefore, this study employs qualitative research to examine IA effectiveness. It utilizes the interview method for data collection. As mentioned in previous research, there is no generally acknowledged guide or tool for examining and evaluating IA effectiveness. Thus, this study contributes to knowledge regarding IA effectiveness by using qualitative data because in qualitative

studies researchers do indeed dig deep to acquire a complete understanding of the phenomenon (Leedy & Ormrod 2005). Therefore, using qualitative research (interview data collection) for this study has facilitated an in-depth examination and investigation of the factors affecting IA effectiveness. The benefits of qualitative research for the present study are explained in more detail in the research methodology section of this thesis. Furthermore, the participants in most previous studies were external auditors, while this study aimed to obtain views of both the organizations (manager of administrative affairs, financial controllers and IA director) and the external auditors engaged by these organizations (general auditors).

- 6) Most prior research has focused on IA in different sectors (private and public sectors). However, this study focuses primarily on public enterprises—which avoids concerns of previous studies because of the differences in organization level attributes among the two sectors. In other words, there are differences between the public and private sectors in many characteristics and aspects such as laws, regulations and capital in Libya. Goodwin (2004) compared IA in public and private sector organizations in Australia and New Zealand and established that the objectives, operating practices and stakeholders of private and public sector organizations can differ because varying institutional pressures may apply in different sectors. Mihret's (2010) study also found differences in key IA attributes among public and private sector entities. Institutional theory suggests that the organizational environment is characterized by rules and regulations to which organizations must conform to secure legitimacy and support (Scott & Meyer 1983, cited in Al-Twajry, Brierley & Gwilliam 2003).
- 7) This study may contribute to understanding IA practices, especially in developing countries such as Libya where IA is in a relatively early stage of development.
- 8) The results of this study could be useful for further research in the field of internal auditing.

7.5.2 Contributions to practice

This is the first known study to research issues concerning the internal audit function in public enterprises operating in manufacturing, banking and insurance sectors in Libya, where there are no regulations or guidelines to instruct organizations on how to manage their internal audit departments. Unlike the West, in Libya there are no professional standards and international professional bodies available to internal auditors, resulting in organizations establishing their own guidelines on the practice of IA. Therefore, due to the lack of internal audit research on Middle-Eastern countries (Al-Twajry, Brierley & Gwilliam 2003; Mihret 2009; Mihret, James & Mula 2010; Mihret & Yismaw 2007; Yee et al. 2008), this study provides insights into IA in Libya and whether the internal audit function is perceived to be effective, thereby enhancing practitioners' understanding of the merits and limitations of IA in Libya. As a study on a developing economy, it enhances understanding of the internal audit profession's global configuration. By conducting research on IA in Libya, this study will enhance the understanding of IA effectiveness in this country where the environment differs from that of industrialized Western economies which are predominantly market-driven. The Libyan economy is not considered a market economy because the users of accounting and auditing information are predominantly the state and state agencies. However, after the Libyan revolution on 17 February 2011 there is no doubt that this picture will change in Libya, making it similar to the Western market economies where private investors and creditors are among the major users of accounting information. Furthermore, the results of this study could have policy implications for IIA and the new Libyan government. Moreover, the contribution of the study is not restricted to the Libyan environment. It extends to the wider field of IA research. It extends to the wider field of IA research. It may be relevant for communist and ex-communist countries such as Russia, Vietnam, Cuba, China, and the countries of Eastern Europe in transitioning to market capitalism.

The findings of this research suggest that the internal audit function may not be perceived as being effective. The results are expected to inform boards of directors and managers—which may subsequently encourage them to develop and

improve the effectiveness of the IA function within their organization. Furthermore, this study could be useful for academics and practitioners. For academics, it will improve their understanding of the factors influencing the internal audit function. For practitioners, it may help to solve the practical problems facing IA effectiveness.

Furthermore, the study provides recommendations and suggestions for the development of IA as a profession, as well as its advancement as a key function in organizations.

7.6 Limitations of the Research

This research has achieved its aims and objectives. However, as with any study of its type, a number of limitations are recognized by the researcher. These limitations include risks associated with the choice of methodology, the process for analysing data and the results of the study.

The first limitation of this research is that it is restricted to the manufacturing, commercial banking and insurance public enterprises, and focuses on internal audit effectiveness. In other words, it is a study about the profession of internal auditing. However, organization type characteristics were not used for the basis of analysis in this study as they were outside the scope of the research question. The selection of the three types of enterprises merely ensured the presence of internal audit practice.

Second, it is worth pointing out that the results cannot be generalized to internal audit functions in other countries than Libya because each country has its own nature and culture. Therefore, it could be argued that the findings of the study are not necessarily generalizable to the internal audit function in developing countries.

The third limitation recognized by the researcher relates to the fact that this study rests on the perceptions of different groups in an organization. The most obvious limitation of this study was the selection of the groups to represent the study. In this study, IA directors, managers of administrative affairs, managers of financial affairs, chief executive officers in Libyan public enterprises and general auditors

were selected for the study. However, it seems that other groups such as board of director members and key staff at Libyan public enterprises could also contribute to this issue. Hence, the results of the data could not be generalized beyond the selected groups.

The fourth limitation recognized by the researcher relates to the process of conducting qualitative studies and in analysing the data. Chua (1996) states that it is often argued that qualitative research suffers from a lack of trustworthiness. The analysis of qualitative data is less structured and it is too easy to use less than all relevant data, and for the selective extraction of data to be driven by the researcher's established frame of reference. The researcher adopted a structured and auditable approach to data analysis. However, even using structured and disciplined approaches, there are serious limits to how much of that rich data can make its way into the analysis—particularly in this type of study. The interviewee responses are voluminous and the time commitment to transcription, editing, coding and preparing for analysis appears overwhelming. Nonetheless, provided the questions are interesting enough and worth the effort in rendering the data, the process of analysing data faces a limitation that relates to the amount of data that is incorporated into the final thesis. Not all of the qualitative data is reported. An amount of data remained in the project database with much of it redundant despite the interesting stories potentially embodied within this data. Interviewee responses produced different interpretations of elements of the semi-structured interview. However, it is important to ask whether the findings reported, both theory-driven and serendipitous, would have emerged and would have been convincing without that disciplined, rigorous protocol (Lillis 1999).

Further, the availability of interviewees only at a specific time is thought to be an additional limitation. Gaining access to the various organizations' sites proved difficult at times. The time limitations of participants resulted in interview scheduling problems where too many interviews were scheduled too close to each other. This impacted on practical issues such as failing to gather sufficient archival and other data whilst on site, becoming tired, occasionally losing enthusiasm and concentration and thereby there may be loose ends in interviews which should have been followed up. This is a major drawback of fleeting site

visits. Whilst site access was generally open for return visits, the opportunity to return was limited because of the number of interviews to be conducted, and delays between data collection and analysis. Often the need to follow up was not evident until too late.

Fifth, access to the sources of research data in Libya is not an easy task for any researcher. This is because a culture of providing data for research has not yet developed in Libya, resulting in a lack of transparency in administration and the plea of so-called secrecy.

The sixth limitation of this research is that the results of the study were based on respondents' perceptions which may not reflect the actual situations of the participants. For instance, sometimes respondents may answer questions to satisfy the researcher's expectations or they may be exaggerated in the other direction so as to direct attention to a perceived problem.

Further research in this field may reduce some of these limitations.

7.7 Suggestions for future research

Due to the limitations of the study and/or in order to confirm the results in different settings, the researcher's insights into the nature of future research are as follows:

- 1) To augment internal audit research, further studies could be conducted in countries where IA is well-developed, as well as in developing countries such as Libya where IA is in the relatively early stages of development. More specifically, and stemming from one of the limitations of the study (the target population), further research and a replication of this study in a different sector (i.e. private sector) could help provide additional evidence and extend the generalizability of the results.
- 2) The limited previous research which addresses the issue of IA effectiveness has provided mixed findings on IA effectiveness because it has utilized different criteria. Therefore, examining the factors that influence IA effectiveness and the possible interactions

among them is likely to bear fruit. In other words, further research into identifying other factors that impact on IA effectiveness could contribute to reducing the gap in the literature. This also will help deepen the understanding of internal audit practices and establish whether internal audit is perceived to be value-adding to organizations. In addition, this approach could be employed to further develop IA as a profession and augment its acceptance in contemporary organizations.

- 3) Future studies exploring the relationship between IA directors' and auditees' views of IA effectiveness is another potential area of future research. This could encompass auditees from different levels in the organizations and from different fields of activity.
- 4) Most participants expressed their concern regarding the Labour Law of 1970 and the Social Securities Act of 1980 which cover working conditions in Libyan public enterprises. For example, under the Labour Law of 1970, the Law No.15 of 1981 which organizes wages and salaries payable by the Government has not been updated for 25 years to accommodate higher cost and standards of living. Therefore, it is necessary, particularly for Libyan researchers, to conduct further studies about laws and regulations that govern work and working conditions. This may determine their suitability and effectiveness, as well as future development.
- 5) The differences in national cultures and financial regulations and practices among countries may have different implications for IA effectiveness. Therefore, further studies are encouraged to investigate the impact of culture on IA performance. For example, Johnson (1992) states that some African cultures may reject auditors. Thus, this study should be conducted in other African or Arab countries for comparison with the current study. A study of IA effectiveness in the context of cultural tension could deepen the understanding of internal audit practices and predict the direction of further developments of IA theory and practice. Hofstede (1984, p. 397) states:

‘Countries trying to transfer Western ideas wholesale have been in trouble—Iran for example. Countries transferring them in a way consistent with their own cultural traditions are now outperforming the West—Japan and Singapore, for example’.

Atiyyah (1993) indicates that traditional culture, being the repository of ideal values and principles, can serve as a legitimate source of business and work ethics in modern Arab organizations. In important related research, Kana (2011) studies to what extent budgeting practices in Libya are a function of Libyan national culture within an overall Hofstedian framework.

7.8 Concluding remarks

This study examined the perceptions that IA directors, administrative affairs managers, financial affairs managers, chief executive officers and external auditors presently have about IA effectiveness. The study addressed the issue of IA effectiveness by identifying two groups of factors considered to be important for IA effectiveness. The first four factors relate to ISPPIA established by the IIA, namely, independence, competence, scope of internal auditing work, and performance of internal auditing work. The fifth factor relates to co-operation between the internal and external auditor. The sixth factor relates to management support and, the last factor relates to an awareness of the benefit of internal auditing.

A combination of institutional theory and Marx’s theory of the circuit of industrial capital as well as qualitative methods was employed. The results indicate that internal audit is not is not perceived as value-adding or improving an organization’s operations. In other words, internal audit is not perceived to be effective—that is, there are deficiencies in independence, competence, scope of internal auditing work, performance of internal auditing work, co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing. Internal audit may be unable to improve or even protect existing production facilities and employment levels. Generally, the results of the study are consistent with the existing literature and extend it. The

results are also consistent with institutional theory arguments. The conclusions exhibit practical utility and the findings pave the way for further research.

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APPENDICES

Appendix 1: Consent form to identify potential interview participants



University of Southern Queensland

Wahid Abu Azza, PhD candidate
Phone Number: +218927441127
P.O.Box 80194, Tripoli, Libya
E-mail: Wahid.Au-Azza@usq.edu.au

Dear interview participants:

I am a PhD candidate at the University of Southern Queensland, Australia. I am conducting interviews to generate the data needed for my PhD dissertation titled: *Role and Perceived effectiveness of Internal Audit in Libyan Public Enterprises*. You are one of the participants being interviewed. The purpose of the proposed study is to obtain the opinions of participants regarding the role and effectiveness of internal audit in Libyan public enterprises. Accordingly, you are invited to participate in a conversationally-based interview.

In this interview, in a private setting you will be asked questions about internal audit in your organization (questions attached). Permission to make an audiotape of the discussion is requested. During the interview, I will listen to and transcribe your responses. The transcripts from all the interviews will be used to draw conclusions in aggregate terms, without any reference to specific participants or their organization. Therefore, your name and your organization's name or any identifier will not appear in any of the outputs of the research.

Your confidentiality will be respected at all times. Your interview tape and any associated notes will be coded before it is transcribed so that your identity will

not be associated with your response.

Once the study is completed there will be a presentation of the results to all participating individuals.

I would also like to advise that participation in this interview is voluntary and you may choose to withdraw at any time during or after the interview. Further, you can direct any future concerns or queries to Wahid Abu Azza at the addresses listed above.

Consent:

I, _____ have read and understand the consent information.
By signing this consent form, I am agreeing to participate in the research study.

Signature of participant _____ Date _____

Signature of interviewer _____ Date _____

Audiotape:

I agree to an audiotape of the interview. To ensure accuracy, I understand that I have the right to review the transcript prior to its use.

Signature of participant _____ Date _____

Signature of interviewer _____ Date _____

Note: Should you have any concern about the conduct of this research project, please contact the USQ Ethics Officer, Office of Research & Higher Degrees, University of Southern Queensland, Toowoomba QLD 4350, Telephone (07) 4631 2690, email: ethics@usq.edu.au

Appendix 2: Instrument Set A: Interview guide for internal audit director

Section one: Questions related to independence
<ol style="list-style-type: none">1. Do you communicate and interact directly with the board of directors? why? please explain2. Do you prepare an audit report? If yes, do you submit the audit reports? If yes, (a) at what management level in the organization do you submit the audit reports? (b) To what extent do you review/discuss the internal audit report with the management level you report to?3. Do you believe internal audit is free to include any audit findings in their audit reports such as fault, fraud, wrongdoing, and mistake without influence from any one? Why? Please explain.4. Do the internal auditors have unrestricted access to personnel and all management information needed to carry out their work? Why? Please explain.5. Who has the right to make the decision to appoint or remove the director of internal audit?6. Have members of the internal audit staff been involved in non-audit work for the organization during the year such as providing consulting services or organizational details to management? If yes, were they informed that they should not consider themselves as internal auditors when they carry out these tasks? Please give details.
Section three: Questions related to the internal auditors' competence
<ol style="list-style-type: none">1. Please describe your internal audit staffs' highest educational qualification Diploma in accounting [], Bachelor degree [], Master degree [], PhD degree in accounting [], No qualification [], other (please specify) [].2. Are any internal auditors (including director) a member of any professional body? If yes, please specify which body.3. Please describe the length of experience of your internal audit staff in internal audit department: Less than 4 years [], 4-10 years [], 11-20 years [], More than 20 years [].4. Does the internal audit department use computer systems to carry out the audit task? If no, why not? If yes, (a) how many internal auditors are skilled in computer techniques? (b) In what areas are computers techniques used?5. Do the internal auditors maintain satisfactory relationships with other employees in the organization? If no, do you or your management staff find any difficulties when you deal with the auditee? If yes, why?
Section two: Questions related to Scope of internal audit work
<ol style="list-style-type: none">1. Does the scope of internal auditing actually extend into non-financial operational areas? If no, why? If yes, what areas are actually reviewed?2. Do the internal auditors carry out appraisal of the existing system? If no, why? If yes, to what extent do they assist in the revision or development of systems before their implementation such as reviewing the systems for safeguarding of

assets and adequate internal control?					
3. How often does internal audit conduct the following activities:					
	Always	Often	Sometimes	Seldom	Never
Evaluate the internal control system					
Performing audit of major fraud cases					
Verifying accuracy of amounts in financial records					
Checking efficiency of operating results					
Ascertaining compliance with organizational policies and procedures					
Checking compliance with contracts when applicable					
Assisting the management by identifying risk exposures of the organization					
4. In your audit work, do you ever get involved in the audit of contract terms before a contract is signed? Why? Please explain.					
Section four: Questions related to the performance of audit work					
<ol style="list-style-type: none"> 1. Are you supervising staff through a defined system of responsibilities? Why? 2. Does the internal audit department develop appropriate audit plans for established audit objectives? Why? If yes, (a) who is responsible for preparing the audit plan? (b) What are the contents of the plan prepared by the internal audit department? 3. Does the internal audit department prepare internal audit programmes? If yes, to what extent are these programmes effective? 4. Do you prepare a time budget for each internal audit task? If yes, to what extent the internal audit management appear to be using its time and resources effectively and efficiently? 5. If internal audit prepare internal audit report, (a) who is responsible for preparing the internal audit report? (b) How many reports does your internal audit management prepare during the year? (c) What is the usual content of these reports? (d)What is the important part in the report for the internal audit management and for top management? 					
Section five: Questions related to co-operation between the internal and external auditor					
<ol style="list-style-type: none"> 1. How often does the internal and external auditor discuss internal audit findings and audit reports? Please explain. 2. How often do external auditors use internal audit reports and working papers in conducting their audit? 3. Do internal and external auditors access to each other's reports and working papers? Why? 4. How often does the internal audit staff benefits from external audit recommendation? 5. Do you agree that the internal audit staff benefit from the techniques used by external auditors? Why? Please explain. 6. Who is responsible for managing the relationship between your internal audit staff and the external auditor? 					

7. To what extent does the internal audit staff meet the external auditor?

Section six: Questions related to management support

1. Does your organization have established training programmes for current internal auditors? If yes, (a) what subjects are covered in these programmes? (b) To what extent do these programmes including sending auditors abroad for training programmes? (c) To what extent are training programmes specifically designed for new members of your internal audit staff? Please explain.
2. Does your organization conduct continuing education programmes for the members of the internal audit staff? If yes, (a) what subjects are covered in these programmes? (b) To what extent do these programmes include sending auditors abroad for education programmes? Please explain.
3. Does internal audit department obtain a sufficient budget to successfully carry out its duties? Why? Please explain.
4. Does the organization provide adequate material incentives for the internal auditor staff such as bonuses and recompenses, which motivates staff to work in this area? Why?
5. How often are internal audit recommendations implemented? What determines the extent of implementation? Who has the mandate to follow-up implementation of internal audit recommendations?

Section seven: Questions related to the extent of awareness of benefits of effective internal auditing

1. Do you believe internal audit can be beneficial to organizations in terms of providing consulting services to organisation? Why? Please explain.
2. Does your organization outsource any activity that could be in the domain of internal audit? Why? If yes, what areas are outsourced, and to whom are they outsourced? To what extent do you believe outsourcing of internal audit work can be beneficial to internal auditors?
3. Do you believe internal audit can be beneficial to organizations in terms of providing management with a methodology to identify those risks that may prevent the organization from meeting its objectives? Why? Please explain.
4. Do you believe internal audit can be beneficial to organizations in terms of improving administrative and production operations? Why? Please explain.

Thank you

Appendix 3: Instrument Set B: Interview guide for managers of financial affairs

Section two: Questions related to the internal auditors competence					
<ol style="list-style-type: none"> Does the internal audit department use computer systems to carry out the audit task? Why? Do the internal auditors maintain satisfactory relationships with other employees in the organization? If no, do you or your management staff find any difficulties when you deal with the internal auditors? If yes, why? 					
Section one: Questions related to Scope of internal audit work					
<ol style="list-style-type: none"> Do the internal auditors carry out appraisal of the existing system? If no, why? If yes, to what extent do they assist in the revision or development of systems before their implementation such as reviewing the systems for safeguarding of assets and adequate internal control? How often does internal audit conduct the following activities: 					
	Always	Often	Sometimes	Seldom	Never
Performing audit of major fraud cases					
Verifying accuracy of amounts in financial records					
Section four: Questions related to management support					
<ol style="list-style-type: none"> Does the organization have established training programmes for current internal auditors? Why? If yes, (a) to what extent do these programmes include sending auditors abroad for training programmes? (b) To what extent are there training programmes specifically designed for new members of the internal audit staff? Please explain. Does the organization conduct continuing education programmes for the members of the internal audit staff? If yes, (a) to what extent do these programmes include sending auditors abroad for education programmes? Please explain. As a manager of financial affairs does the organization provide adequate material incentives for the internal auditor staff such as bonuses and recompenses, which motivates staff to work in this area? Why? 					
Section five: Questions related to the extent of awareness of benefits of effective internal auditing					
<ol style="list-style-type: none"> Do you believe internal audit can be beneficial to organizations in terms of providing consulting services to organisation? Why? Please explain. Does your organization outsource any activity that could be in the domain of internal audit? Why? If yes, what areas are outsourced, and to whom are they outsourced? To what extent do you believe outsourcing of internal audit work can be beneficial to internal auditors? Do you believe internal audit can be beneficial to organizations in terms of providing management with a methodology to identify those risks that may prevent 					

the organization from meeting its objectives? Why? Please explain.

4. Do you believe internal audit can be beneficial to organizations in terms of improving administrative and production operations? Why? Please explain.

Thank you

Appendix 4: Instrument Set C: Interview guide for managers of administrative affairs

Section one: Questions related to independence					
1. Who has the right to make the decision to appoint or remove the director of internal audit?					
Section three: Questions related to the internal auditors' competence					
1. Please describe internal audit staffs' highest educational qualification Diploma in accounting [], Bachelor degree [], Master degree [], PhD degree in accounting [], No qualification [], other (please specify) [].					
2. Please describe the length of experience of internal audit staff in internal audit department: Less than 4 years [], 4-10 years [], 11-20 years [], More than 20 years [].					
3. Does the internal audit department use computer systems to carry out the audit task? Why?					
4. Do the internal auditors maintain satisfactory relationships with other employees in the organization? If no, do you or your management staff find any difficulties when you deal with the internal auditors? If yes, why?					
Section two: Questions related to Scope of internal audit work					
1. Does the scope of internal auditing actually extend into non-financial operational areas? Why? If yes, what areas are actually reviewed?					
2. Do the internal auditors carry out appraisal of the existing system? If no, why? If yes, to what extent do they assist in the revision or development of systems before their implementation such as reviewing the systems for safeguarding of assets and adequate internal control?					
3. How often does internal audit conduct the following activities:					
	Always	Often	Sometimes	Seldom	Never
Ascertaining compliance with organizational policies and procedures.					
Checking compliance with contracts when applicable.					
Assisting the management by identifying risk exposures of the organization.					
Checking efficiency of operating results.					
4. Does internal audit ever get involved in the audit of contract terms before a contract is signed? Why? Please explain.					
Section five: Questions related to management support					
1. Does the organization have established training programmes for current internal					

auditors? Why? If yes, (a) to what extent do these programmes include sending auditors abroad for training programmes? (b) To what extent are there training programmes specifically designed for new members of the internal audit staff? Please explain.

2. Does the organization conduct continuing education programmes for the members of the internal audit staff? If yes, (a) to what extent do these programmes include sending auditors abroad for education programmes? Please explain.

Section six: Questions related to the extent of awareness of benefits of effective internal auditing

1. Do you believe internal audit can be beneficial to organizations in terms of providing consulting services to organisation? Why? Please explain.
2. Does your organization outsource any activity that could be in the domain of internal audit? Why? What areas are outsourced, and to whom are they outsourced? To what extent do you believe outsourcing of internal audit work can be beneficial to internal auditors?
3. Do you believe internal audit can be beneficial to organizations in terms of providing management with a methodology to identify those risks that may prevent the organization from meeting its objectives? Why? Please explain.
4. Do you believe internal audit can be beneficial to organizations in terms of improving administrative and production operations? Why? Please explain.

Thank you

Appendix 5: Instrument Set D: Interview guide for chief executive officers

Section one: Questions related to independence					
1. Does the director of internal audit communicate and interact directly with the board of directors? Why?					
2. Does the internal audit prepare an audit report? If yes, does the internal audit submit the audit reports? If yes (a) at what management level in the organization does the internal audit submit the audit reports? (b) To what extent do you review/discuss the internal audit report with the management level you report to?					
3. Do you think internal audit is free to include any audit findings in their audit reports such as fault, fraud, wrongdoing, and mistakes without influence from any one? Why? Please explain.					
4. Do the internal auditors have unrestricted access to personnel and all management information needed to carry out their work? Why? Please explain.					
5. Who has the right to make the decision to appoint or remove the director of internal audit?					
Section two: Questions related to the internal auditors competence					
1. Do you think the internal auditors maintain satisfactory relationships with other employees in the organization? If no, do you or your management staff find any difficulties when you deal with the internal auditors? If yes, why?					
Section two: Questions related to Scope of internal audit work					
1. Does the scope of internal auditing actually extend into non-financial operational areas? If yes, what areas are actually reviewed?					
2. Do the internal auditors carry out appraisal of the existing system? If no, why? If yes, to what extent do they assist in the revision or development of systems before their implementation such as reviewing the systems for safeguarding of assets and adequate internal control?					
3. How often does internal audit conduct the following activities:					
	Always	Often	Sometimes	Seldom	Never
Evaluate the internal control system					
Perform audit of major fraud cases					
Verify accuracy of amounts in financial records					
Ascertain compliance with organizational policies and procedures					
Check efficiency of operating results					
Check compliance with contracts when applicable					
Assist the management by identifying risk exposures of the organization					
4. Does internal audit ever get involved in the audit of contract terms before a contract is signed? Why? Please explain					
Section three: Questions related to the performance of audit work					
1. Does the internal audit department develop appropriate audit plans for established					

- audit objectives? If yes, (a) who is responsible for preparing the audit plan? (b) What are the contents of the plan prepared by the internal audit department?
2. Does the internal audit department use internal audit programmes? If yes, to what extent are these programmes effective?
 3. If internal audit prepare internal audit report, (a) who is responsible for preparing the internal audit report? (b) How many reports does internal audit management prepare during the year? (c) What is the usual content of these reports? (d)What is the important part in the report for the internal audit management and for top management?

Section four: Questions related to management support

1. Does your organization have established training programmes for current internal auditors? If yes, (a) to what extent do these programmes include sending auditors abroad for training programmes? (b) To what extent are training programmes specifically designed for new members of your internal audit staff? Please explain.
2. Does your organization conduct continuing education programmes for members of the internal audit staff? If yes, (a) to what extent do these programmes include sending auditors abroad for education programmes? Please explain.
3. Do you think the internal audit department obtain a sufficient budget to successfully carry out its duties? Why? Please explain.
4. Do you think the organization provide adequate material incentives for the internal auditor staff such as bonuses and recompenses, which motivates staff to work in this area? Why?
5. How often are internal audit recommendations implemented? What determines the extent of implementation? Who has the mandate to follow-up implementation of internal audit recommendations?

Section five: Questions related to the extent of awareness of benefits of effective internal auditing

1. Do you believe internal audit can be beneficial to organizations in terms of providing consulting services to organisation? Why? Please explain.
2. Does your organization outsource any activity that could be in the domain of internal audit? Why? What areas are outsourced, and to whom are they outsourced? To what extent do you believe outsourcing of internal audit work can be beneficial to internal auditors?
3. Do you believe internal audit can be beneficial to organizations in terms of providing management with a methodology to identify those risks that may prevent the organization from meeting its objectives? Why? Please explain.
4. Do you believe internal audit can be beneficial to organizations in terms of improving administrative and production operations? Why? Please explain.

Thank you

Appendix 6: Instrument Set E: Interview guide for general auditors

Section one: Questions related to independence					
1. Do you think the director of internal audit communicate and interact directly with the board of directors? Please explain.					
2. Does the internal audit prepare an audit report?					
3. Do you think internal audit is free to include any audit findings in their audit reports such as fault, fraud, wrongdoing, and mistake without influence from any one? Why?					
4. Do the internal auditors have unrestricted access to personnel and all management information needed to carry out their work? Why? Please explain.					
Section three: Questions related to the internal auditors' competence					
5. Does the internal audit department use computer systems to carry out the audit task? Why?					
Section two: Questions related to Scope of internal audit work					
1. Does the scope of internal auditing actually extend into non-financial operational areas? If yes, what areas are actually reviewed?					
2. Do the internal auditors carry out appraisal of the existing system? If yes, do they assist in the revision or development of systems before their implementation such as reviewing the systems for safeguarding of assets and adequate internal control?					
3. How often does internal audit conduct the following activities:					
	Always	Often	Sometimes	Seldom	Never
Evaluate the internal control system					
Perform audit of major fraud cases					
Verify accuracy of amounts in financial records					
Section four: Questions related to the performance of audit work					
1. Does the internal audit department develop appropriate audit plans for established audit objectives? If yes, what are the contents of the plan prepared by the internal audit department?					
2. Does the internal audit department use internal audit programmes? If yes, to what extent are these programmes effective?					
3. Does the internal audit department prepare a time budget for each internal audit task? If yes, does the internal audit management appear to be using its time and resources effectively and efficiently?					
4. If internal audit prepare internal audit report, (a) who is responsible for preparing the internal audit report? (b) How many reports does internal audit prepare during the year? (c) What is the usual content of these reports? (d) What is the important part in the report for the internal audit management and for top management?					
Section five: Questions related to co-operation between the internal and external auditor					
1. How often does the internal and external auditor discuss internal audit findings and audit reports? Please explain.					
2. How often do external auditors use internal audit reports and working papers in					

conducting their audit?

3. Do internal and external auditors access to each other's reports and working papers? Why?
4. How often does the internal audit staff benefits from external audit recommendation?
5. Do you agree that the internal audit staff benefit from the techniques used by external auditors? Why? Please explain.
6. Who is responsible for managing the relationship between your internal audit staff and the external auditor? To what extent does the internal audit staff meet the external auditor?

Thank you

Appendix 7: Document review guide

Activity	Objective
1. Review reports and other relevant documents issued by internal audit departments such as internal audit plans, programmes and other working papers	To collect information relevant to internal audit performance
2. Review the organizational chart of the organizations.	To establish the organizational position of the internal audit departments within the organizations
3. Review other Libyan Government regulations and laws relating to accounting and audit such as Law No. 116 of 1973, and the Libyan Commercial Code.	To collect information on relevant laws which currently regulate the accounting and auditing profession in Libya.
4. Review Letters from the board of director to the director of human resources	To collect important information relevant to internal audit departments such as the decision of appointment and removal of the directors of the internal audit department.
5. Review charters, legalisations, rules of internal audit departments.	To collect information relevant to authority and responsibility of the internal audit activity.
6. Review charters, legalisations, rules of auditors general.	To collect information relevant to auditors general monitoring in Libya.
7. Review legalisations, rules issued by General People's Committee for Financial Audit	To collect information relevant to authority and responsibility of auditors general.
8. Review Labour Law of 1970 and Law No.15 of 1981	To collect information relevant to working conditions in Libyan public enterprises

Appendix 8: Arabic translation of the consent form to identify potential interview participants



جامعة جنوب كوينزلاند

نموذج موافقة لإجراء مقابلة

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الأخ المحترم"

السلام عليكم ورحمة الله وبركاته

أنا طالب بجامعة (University of Southern Queensland, Australia). أننى بصدد القيام بإجراء مقابلات وذلك لتجميع البيانات اللازمة لرسالة الدكتوراه الخاصة بى بعنوان: دور وفعالية المراجعة الداخلية فى المؤسسات العامة الليبية. الهدف من البحث هو الحصول على آراء المشاركين بخصوص فعالية المراجعة الداخلية فى المؤسسات العامة الليبية. بناءً عليه أنتم مدعوون للمشاركة فى هذه المقابلات.

سوف توجه إليكم أسئلة عن المراجعة الداخلية فى منظماتكم (وفق المرفق) علماً بأن المقابلة سوف تكون فى مكان خاص. أيضاً سوف يطلب منكم الإذن بالموافقة على إجراء التسجيل الصوتى للمقابلة. سوف يتم الإستماع الى الإجابات وتدوينها لإستخلاص الإستنتاجات. أيضاً نفيديكم بأنه لن يتم الإشارة الى مشاركين معينين أو الى منظمة معينة. عليه فإن أسماؤكم وأسم منظماتكم لن تذكر فى هذه الدراسة. سوف يتم إحترام خصوصيتكم فى جميع الأوقات. أيضاً التسجيل الصوتى وأي ملاحظات خاصة بكم سوف تكون مشفرة قبل تدوينها. لذلك هويتكم لن تكون مرتبطة بإجاباتكم.

بمجرد الإنتهاء من الدراسة سوف يتم تزويد المشاركين بنسخة من نتائج الدراسة. نود أن نشير إلى أن مشاركتكم طوعية تماما ولكم حق رفض المشاركة وأيضاً التوقف عن الاجابة في أي وقت خلال المقابلة. يمكنكم أيضاً توجيه أية مخاوف أو استفسارات الى الباحث: وحيد عمر أبو عزة على العناوين المذكورة أعلاه.

الموافقة :

أنا _____ أفيد بأنه قد تم قراءة وأستيعاب المعلومات الواردة بنموذج الموافقة. وأفيدكم بالموافقة على المشاركة فى هذه الدراسة بمجرد التوقيع على هذا النموذج.

توقيع المشارك بالموافقة

التاريخ

توقيع الباحث

التاريخ

التسجيل الصوتى: أنا موافق على تسجيل المقابلة وذلك لضمان الدقة. أيطا أنا مدرك بأنه لدى الفرصة لمراجعة النسخة قبل إستخدامها.

توقيع المشارك بالموافقة

التاريخ

توقيع الباحث

التاريخ

ملاحظة : فى حالة وجود أى قلق بخصوص إجراء هذا البحث، يرجى الإتصال بموظفى الإلتزام بأخلاقيات المهنة بمكتب الدراسات بجامعة جنوب كوينزلاند على العنوان التالى:

West Street, Toowoomba QLD 4350, Telephone (07) 4631 2690, email: ethics@usq.edu.au

Appendix 9: Arabic translation of the Instrument Set A: Interview guide for internal audit director

القسم الأول: أسئلة تتعلق باستقلالية المراجع الداخلي					
<p>1. هل تقوم بالإتصال والتفاعل مباشرة مع مجلس الإدارة؟ إذا كانت الإجابة بنعم ، يرجى التوضيح.</p> <p>2. هل يتم إعداد تقرير المراجعة؟ هل تقوم بتقديم تقرير المراجعة؟ إذا كانت الإجابة بنعم ،هل تقوم بتقديم تقرير المراجعة؟ إذا كانت الإجابة بنعم (أ) الى أي مستوى اداري بالمؤسسة تقوم بتقديم تقرير المراجعة؟ (ب) هل يتم مراجعة ومناقشة تقرير المراجعة مع المستوى الإدارة الذى يجب أن يقدم إليه؟</p> <p>3. هل تعتقد أن المراجعة الداخلية تتمتع بالحرية بالتقرير عن أي نتائج تم التوصل إليها في تقرير المراجعة مثل الخطأ ، الغش الظلم ، والعيب بدون اي تأثير من اي شخص؟ إذا كانت الإجابة بنعم ، يرجى توضيح ذلك.</p> <p>4. هل مراجعي الحسابات الداخليين يستطيع الوصول غير المقيد لجميع الموظفين بالمؤسسة والحصول على المعلومات الادارية اللازمة للقيام بوظيفتهم؟ إذا كانت الإجابة بنعم ، يرجى توضيح ذلك. ذا كانت الإجابة بلا ، يرجى توضيح الاسباب.</p> <p>5. من لديه الحق فى اتخاذ قرار تعيين وعزل مدير المراجعة الداخلية؟</p> <p>6. هل موظفي المراجعة قامو بتنفيذ أعمال للمنظمة خلال هذد السنة لا علاقة لها بعمل المراجعة الداخلية مثل توفير خدمات استشارية أو معلومات تنظيمية للإدارة؟ إذا كانت الاجابة بنعم ، هل كانوا على علم بأنهم لا ينبغي أن يعتبروا أنفسهم مراجعين داخليين عند قيامهم بهذه المهام؟ يرجى إعطاء تفاصيل.</p>					
القسم الثالث: أسئلة تتعلق بكفاءة المراجع الداخلي					
<p>1. يرجى وصف المؤهل العلمى للموظفين العاملين بالمراجعة الداخلية : دبلوم في المحاسبة [] ، درجة البكالوريوس في المحاسبة [] ، درجة الماجستير في المحاسبة [] ، درجة الدكتوراه في المحاسبة [] ، أخرى (يرجى التحديد) ، بلا مؤهل [] .</p> <p>2. هل اي من المراجعين الداخليين (بما فيهم رئيسهم) عضوا في أي هيئة مهنية؟ إذا كانت الإجابة بنعم ، يرجى تحديد اسم الهيئة المهنية.</p> <p>3. يرجى وصف طول خبرة موظفيكم بقسم المراجعة الداخلية: أقل من 4 سنوات () 4-10 سنة () 11-20 سنة () أكثر من 20 عاما () .</p> <p>4. هل قسم المراجعة الداخلية يقوم بإستخدام أجهزة الكمبيوتر للقيام بوظيفة المراجعة؟ إذا كانت الاجابة بلا ، يرجى توضيح السبب. إذا كانت الاجابة بنعم كم عدد المراجعين الداخليين المهرة في مجال تقنيات الحاسب الآلي؟ ما هي المجالات التي تستخدم فيها تقنيات أجهزة الكمبيوتر؟</p> <p>5. هل المراجعين الداخليين يحتفظون بعلاقات مرضية مع الموظفين الآخرين في المنظمة؟ إذا كانت الاجابة بلا ، هل انت أو اي من موظفيك تواجهون أي صعوبات فى التعامل مع الطرف الخاضع للمراجعة؟ إذا كانت الإجابة بنعم ، لماذا؟</p>					
القسم الثانى: أسئلة تتعلق بنطاق عمل المراجعة الداخلية					
<p>1. هل نطاق المراجعة الداخلية في الواقع يمتد إلى مجال العمليات للغير مالية؟ إذا كانت الاجابة بنعم ، ماهي هذه المجالات التي يتم مراجعتها؟</p> <p>2. هل المراجعين الداخليين يقومون بتقييم النظم القائمة والعمل على تنقيح أو تطوير النظم قبل تنفيذها ، مثل إعادة النظر في أنظمة حماية الأصول وانظمة كفاية الرقابة الداخلية؟ إذا كانت الإجابة بنعم ، يرجى التوضيح .</p> <p>3. كيف تقوم المراجعة الداخلية فى الغالب بالأنشطة التالية:</p>					
ابدأ	نادراً	بعض الاحيان	اغلب الاحيان	دائماً	
					تقييم نظام الرقابة الداخلية
					مراجعة الاداء من حيث حالات الاحتيال الكبرى

					التحقق من دقة المبالغ في السجلات المالية
					فحص نتائج كفاءة التشغيل
					التحقق من الامتثال للسياسات والإجراءات التنظيمية
					التحقق من الامتثال لأحكام العقود عند الاقتضاء
					مساعدة الإدارة من خلال تحديد المخاطر التي قد تتعرض لها للمنظمة
4. من خلال عملك بالمراجعة الداخلية طيلة الفترة الماضية هل قمت بالمشاركة في مراجعة شروط عقد قبل التوقيع عليه؟					
القسم الرابع : أسئلة تتعلق بأداء عمل المراجعة الداخلية					
<p>1. الى اي مدي تقوم بالإشراف على الموظفين من خلال نظام تحديد المسؤوليات؟ لماذا؟</p> <p>2. هل قسم المراجعة الداخلية يقوم بتطوير الخطة المناسبة لتحقيق أهداف المراجعة الداخلية الموضوعية ؟ لماذا؟ إذا كانت الإجابة بنعم (أ) من هو المسؤول عن إعداد خطة المراجعة الداخلية؟ (ب) ما هي محتويات الخطة التي يتم إعدادها من قبل إدارة المراجعة الداخلية؟</p> <p>3. هل المراجعة الداخلية تقوم باستخدام برامج المراجعة؟ إذا كانت الإجابة بنعم ، إلى أي مدي هذه البرامج فعالة؟</p> <p>4. هل يتم اعداد ميزانية الوقت لكل عملية مراجعة؟ إذا كانت الإجابة بنعم ، هل تعتقد إن المراجعة الداخلية للحسابات تقوم باستخدام وقتها ومواردها بكفاءة وفعالية؟</p> <p>5. فى حالة قيام المراجعة الداخلية بإعداد تقرير المراجعة (أ) من هو المسؤول عن إعداد تقرير المراجعة الداخلية؟ (ب) كم عدد التقارير التي تقوم إدارة المراجعة الداخلية بإعدادها خلال السنة؟ (ج) ما هو محتوى تقرير المراجعة الداخلية ؟ (د) ما هو الجزء الهام بالتقرير لكلاً من إدارة المراجعة الداخلية والإدارة العليا؟</p>					
القسم الخامس: أسئلة تتعلق بالتنسيق ومستوى التعاون بين المدقق الداخلي والخارجي					
<p>1. كيف فى الغالب يقوم المراجع الداخلي والمراجع الخارجي بمناقشة نتائج وتقرير المراجعة الداخلية ؟</p> <p>2. كيف فى الغالب يقوم المراجع الخارجي باستخدام تقارير واوراق عمل المراجعة الداخلية في اداء مهامهم؟</p> <p>3. هل بإمكان كل من المراجع الخارجي والمراجع الداخلى الوصول الى اوراق عمل وتقارير بعضهم البعض؟لماذا؟</p> <p>4. كيف فى الغالب يكون موظف إدارة المراجعة الداخلية مستفيدين من توصيات المدقق الخارجي؟</p> <p>5. هل تتفق على ان اعضاء المراجعة الداخلية مستفيدة من التقنيات المستخدمة من قبل المراجع الخارجي؟</p> <p>6. من هو المسؤول عن إدارة العلاقة بين موظفي المراجعة الداخلية والمراجع الخارجي ؟ لماذا؟</p> <p>7. الى اي مدي يقوم موظفي المراجعة الداخلية فى الغالب بمقابلة المراجع الخارجي ؟</p>					
القسم السادس : أسئلة تتعلق بدعم الادارة					
<p>1. هل منظمتم وضعت برامج تدريبية للمراجعين الداخليين الحاليين؟ إذا كانت الإجابة بنعم (أ) ما هي الموضوعات التي تم تغطيتها في هذه البرامج؟ (ب) هل هذه البرامج تتضمن إرسال المراجعين الداخليين للتدريب بالخارج؟ (ج) هل هناك برامج تدريبية مصممة خصيصاً للمراجعين الداخليين الجدد بإدارة المراجعة الداخلية؟ يرجى التوضيح</p> <p>2. هل منظمتم تقدم أي برامج تعليمية لموظفي إدارة المراجعة الداخلية؟ إذا كانت الإجابة بنعم (أ) ما هي الموضوعات التي يتم تغطيتها في هذه البرامج؟ (ب) هل هذه البرامج تتضمن إرسال المراجعين الداخليين للتعليم بالخارج؟ يرجى التوضيح</p> <p>3. هل تعتقد ان المراجعة الداخلية تتحصل على ميزانية كافية للنجاح في اداء واجباتها؟ لماذا؟ يرجى التوضيح</p> <p>4. هل تعتقد ان المنظمة تقدم حوافز مادية لموظفي المراجعة الداخلية مثل العلاوات والمكافآت ، والتي تحفز الموظفين على العمل في هذا المجال؟</p> <p>5. كيف يتم فى الغالب تنفيذ توصيات المراجعة الداخلية؟ ما الذي يحدد مدى التنفيذ؟ من المخول بمتابعة تنفيذ</p>					

القسم السابع : أسئلة تتعلق بمدى الوعي بفوائد المراجعة الداخلية الفعالة

1. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث تقديم الخدمات الاستشارية للمنظمة؟ لماذا؟ يرجى التوضيح.
2. هل منظماتكم قامت بالإستعانة بجهات خارجية لأداء نشاط في مجال المراجعة الداخلية ؟ لماذا؟ إذا كانت الإجابة بنعم ، ما هي المجالات التي يتم فيها الاستعانة بجهات خارجية؟ من هي الجهات الخارجية التي يتم الاستعانة بها؟ الى اي مدي تعتقد ان الاستعانة بجهات خارجية لأداء عمل المراجعة الداخلية يمكن ان يكون مفيد للمراجعين الداخليين؟
3. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث توفير منهجية واضحة لتحديد المخاطر التي قد تمنع المؤسسة من تحقيق أهدافها؟ لماذا؟
4. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث تحسين العمليات الادارية والانتاجية؟ لماذا؟ يرجى التوضيح.

شكرا جزيلاً

Appendix 10: Arabic translation of the Instrument Set B: Interview guide for managers of financial affairs

القسم الثاني: أسئلة تتعلق بكفاءة المراجع الداخلي					
<p>1. هل قسم المراجعة الداخلية يقوم باستخدام أجهزة الكمبيوتر للقيام بوظيفة المراجعة؟ لماذا؟</p> <p>2. هل المراجعين الداخليين يحتفظون بعلاقات مرضية مع الموظفين الآخرين في المنظمة؟ إذا كانت الإجابة بلا ، هل أنت أو أي من موظفيك تواجهون أي صعوبات في التعامل مع المراجعين الخارجيين؟ إذا كانت الإجابة بنعم ، لماذا؟</p>					
القسم الاول: أسئلة تتعلق بنطاق عمل المراجعة الداخلية					
<p>1. هل المراجعين الداخليين يقومون بتقييم النظم القائمة؟ إذا كانت الإجابة بلا، لماذا؟ إذا كانت الإجابة بنعم، الى اي مدي يقومون بالمساعدة على تنقيح أو تطوير النظم قبل تنفيذها ، مثل إعادة النظر في أنظمة حماية الأصول وانظمة كفاية الرقابة الداخلية؟</p> <p>2. كيف تقوم المراجعة الداخلية في الغالب بالأنشطة التالية:</p>					
ابدا	نادر	بعض الاحيان	غالباً	دائماً	
					مراجعة الاداء من حيث حالات الاحتيال الكبرى
					التحقق من دقة المبالغ في السجلات المالية
القسم الرابع: أسئلة تتعلق بدعم الادارة					
<p>1. هل منظماتكم وضعت برامج تدريبية للمراجعين الداخليين الحاليين؟ إذا كانت الإجابة بنعم (أ) هل هذه البرامج تتضمن إرسال المراجعين الداخليين للتدريب بالخارج؟ (ب) هل هناك برامج تدريبية مصممة خصيصاً للمراجعين الداخليين الجدد بإدارة المراجعة الداخلية؟ يرجى توضيح .</p> <p>2. هل منظماتكم تقوم بإجراء برامج تعليمية لموظفي إدارة المراجعة الداخلية؟ إذا كانت الإجابة بنعم، هل هذه البرامج تتضمن ارسال المراجعين الداخليين للتعليم بالخارج؟ إذا كانت الإجابة بلا ، يرجى التوضيح .</p> <p>3. بإعتبارك مدير الشؤون الادارية هل المنظمة تقدم حوافر مادية لموظفي المراجعة الداخلية مثل العلاوات والمكافآت ، والتي تحفز الموظفين على العمل في هذا المجال؟ لماذا؟</p>					
القسم الخامس: أسئلة تتعلق بمدى الوعي بفوائد المراجعة الداخلية الفعالة					
<p>1. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث تقديم الخدمات الاستشارية للمنظمة؟ لماذا؟ يرجى التوضيح.</p> <p>2. هل منظماتكم قامت بالإستعانة بجهات خارجية لأداء نشاط في مجال المراجعة الداخلية ؟ لماذا؟ إذا كانت الإجابة بنعم (أ) ما هي المجالات التي يتم فيها الاستعانة بجهات خارجية؟ (ب) من هي الجهات الخارجية التي يتم الاستعانة بها؟ (ج) الى اي مدي تعتقد ان الاستعانة بجهات خارجية لأداء عمل المراجعة الداخلية يمكن ان يكون مفيد للمراجعين الداخليين؟</p> <p>3. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث توفير منهجية واضحة لتحديد المخاطر التي قد تمنع المؤسسة من تحقيق أهدافها؟ لماذا؟</p> <p>4. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث تحسين العمليات الادارية والانتاجية؟ لماذا؟ يرجى التوضيح.</p>					
شكراً جزيلاً					

Appendix 11: Arabic translation of the Instrument Set C: Interview guide for managers of administrative affairs

القسم الأول: أسئلة تتعلق بإستقلالية المراجع الداخلي					
1. من لديه الحق في اتخاذ قرار تعيين وعزل مدير المراجعة الداخلية؟					
القسم الثاني: أسئلة تتعلق بكفاءة المراجع الداخلي					
1. يرجى وصف المؤهل العلمي للموظفين العاملين بالمراجعة الداخلية : دبلوم في المحاسبة [] ، درجة البكالوريوس في المحاسبة [] ، درجة الماجستير في المحاسبة [] ، درجة الدكتوراه في المحاسبة [] ، بلا مؤهل [] . [أ] (يرجى التحديد)					
2. يرجى وصف طول الخبرة للموظفين العاملين بالمراجعة الداخلية: أقل من 4 سنوات () 4-10 سنة () 11-20 سنة () أكثر من 20 عاما ()					
3. هل قسم المراجعة الداخلية يقوم باستخدام أجهزة الكمبيوتر للقيام بوظيفة المراجعة؟ لماذا؟					
4. هل المراجعين الداخليين يحتفظون بعلاقات مرضية مع الموظفين الآخرين في المنظمة؟ إذا كانت الإجابة بلا ، هل أنت أو اي من موظفيك تواجهون أي صعوبات في التعامل مع المراجعين الداخليين؟ إذا كانت الإجابة بنعم ، لماذا؟					
القسم الثاني: أسئلة تتعلق بنطاق عمل المراجعة الداخلية					
1. هل نطاق المراجعة الداخلية في الواقع يمتد إلى مجال العمليات للغير مالية؟ إذا كانت الإجابة بنعم ، ماهي هذه المجالات التي يتم مراجعتها؟					
2. هل المراجعين الداخليين يقومون بتقييم النظم القائمة؟ إذا كانت الإجابة بلا، لماذا؟ إذا كانت الإجابة بنعم، الى اي مدي يقومون بالمساعدة على تنقيح أو تطوير النظم قبل تنفيذها ، مثل إعادة النظر في أنظمة حماية الأصول وانظمة كفاية الرقابة الداخلية؟					
3. كيف تقوم المراجعة الداخلية في الغالب بالأنشطة التالية:					
أبداً	نادراً	بعض الاحيان	اغلب الاحيان	دائماً	
					فحص نتائج كفاءة التشغيل
					التحقق من الامتثال للسياسات والإجراءات التنظيمية
					التحقق من الامتثال لأحكام العقود عند الاقتضاء
					مساعدة الإدارة من خلال تحديد المخاطر التي قد تتعرض لها للمنظمة
4. هل قامت المراجعة الداخلية في السابق بالمشاركة في مراجعة شروط عقد قبل التوقيع عليه؟لماذا؟					
القسم الرابع: أسئلة تتعلق بدعم الادارة					
1. هل منظمتم وضعت برامج تدريبية للمراجعين الداخليين الحاليين؟ إذا كانت الإجابة بنعم (أ) هل هذه البرامج تتضمن إرسال المراجعين الداخليين للتدريب بالخارج؟ (ب) هل هناك برامج تدريبية مصممة خصيصاً للمراجعين الداخليين الجدد بإدارة المراجعة الداخلية؟ يرجى توضيح .					
2. هل منظمتم تقوم بإجراء برامج تعليمية لموظفي إدارة المراجعة الداخلية ؟ إذا كانت الإجابة بنعم، هل هذه البرامج تتضمن إرسال المراجعين الداخليين للتعليم بالخارج؟ إذا كانت الإجابة بلا ، يرجى التوضيح .					
القسم الخامس: أسئلة تتعلق بمدى الوعي بفوائد المراجعة الداخلية الفعالة					

1. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث تقديم الخدمات الاستشارية للمنظمة؟ لماذا؟ يرجى التوضيح.
2. هل منظماتكم قامت بالإستعانة بجهات خارجية لأداء نشاط في مجال المراجعة الداخلية؟ لماذا؟ إذا كانت الإجابة بنعم ، ما هي المجالات التي يتم فيها الاستعانة بجهات خارجية؟ من هي الجهات الخارجية التي يتم الاستعانة بها؟ الى اي مدي تعتقد ان الاستعانة بجهات خارجية لأداء عمل المراجعة الداخلية يمكن ان يكون مفيد للمراجعين الداخليين؟
3. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث توفير منهجية واضحة لتحديد المخاطر التي قد تمنع المؤسسة من تحقيق أهدافها؟ لماذا؟
4. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث تحسين العمليات الادارية والانتاجية؟ لماذا؟ يرجى التوضيح.

شكرا جزيلاً

Appendix 12: Arabic translation of the Instrument Set D: Interview guide for chief executive officers

القسم الأول: أسئلة تتعلق بإستقلالية المراجع الداخلي					
<p>1. هل مدير المراجعة الداخلية يقوم بالإتصال والتفاعل مباشرة مع مجلس الإدارة؟ لماذا؟</p> <p>2. هل المراجعة الداخلية تقوم بإعداد تقرير المراجعة؟ إذا كانت الإجابة بنعم، هل المراجعة الداخلية تقوم بتقديم تقرير المراجعة؟ إذا كانت الإجابة بنعم (أ) الى أي مستوى إداري بالمؤسسة يقوم مدير المراجعة الداخلية بتقديم تقرير المراجعة؟ (ب) بإعتبارك مدير عام هل يتم مراجعة ومناقشة تقرير المراجعة الداخلية مع مدير التدقيق الداخلي؟</p> <p>3. هل تعتقد أن المراجعة الداخلية تتمتع بالحرية بالتقرير عن أي نتائج تم التوصل إليها في تقرير المراجعة مثل الخطأ، الغش، الظلم، والعيب بدون أي تأثير من أي شخص؟ لماذا؟ يرجى التوضيح.</p> <p>4. هل المراجعين الداخليين يستطيعون الوصول الغير المقيد لجميع الموظفين بالمؤسسة والحصول على المعلومات الإدارية اللازمة للقيام بوظيفتهم؟ لماذا؟ يرجى التوضيح.</p> <p>5. من لديه الحق في اتخاذ قرار تعيين وعزل مدير المراجعة الداخلية؟</p>					
القسم الثاني: أسئلة تتعلق بكفاءة المراجع الداخلي					
<p>1. هل المراجعين الداخليين يحتفظون بعلاقات مرضية مع الموظفين الآخرين في المنظمة؟ إذا كانت الإجابة بلا، هل أنت أو أي من موظفيك تواجهون أي صعوبات في التعامل مع المراجعين الداخليين؟ إذا كانت الإجابة بنعم، لماذا؟</p>					
القسم الثاني: أسئلة تتعلق بنطاق عمل المراجعة الداخلية					
<p>1. هل نطاق المراجعة الداخلية في الواقع يمتد إلى مجال العمليات للغير مالية؟ إذا كانت الإجابة بنعم، ماهي هذه المجالات التي يتم مراجعتها؟</p> <p>2. هل المراجعين الداخليين يقومون بتقييم النظم القائمة؟ إذا كانت الإجابة بلا، لماذا؟ إذا كانت الإجابة بنعم، الى أي مدى يقومون بالمساعدة على تنقيح أو تطوير النظم قبل تنفيذها، مثل إعادة النظر في أنظمة حماية الأصول وانظمة كفاية الرقابة الداخلية؟</p> <p>3. كيف تقوم المراجعة الداخلية في الغالب بالأنشطة التالية:</p>					
	دائماً	اغلب الاحيان	بعض الاحيان	نادراً	أبدأ
					تقييم نظام الرقابة الداخلية
					مراجعة الاداء من حيث حالات الاحتيال الكبرى
					التحقق من دقة المبالغ في السجلات المالية
					فحص نتائج كفاءة التشغيل
					التحقق من الامتثال للسياسات والإجراءات التنظيمية
					التحقق من الامتثال لأحكام العقود عند الاقتضاء
					مساعدة الإدارة من خلال تحديد المخاطر التي قد تتعرض لها للمنظمة
<p>4. هل قامت المراجعة الداخلية في السابق بالمشاركة في مراجعة شروط عقد قبل التوقيع عليه؟ لماذا؟</p>					
القسم الثالث: أسئلة تتعلق بأداء عمل المراجعة الداخلية					
<p>1. هل المراجعة الداخلية يقوم بتطوير الخطة المناسبة لتحقيق أهداف المراجعة الداخلية الموضوعية؟ إذا كانت الإجابة بنعم (أ) من هو المسؤول عن إعداد خطة المراجعة الداخلية؟ (ب) ما هي محتويات الخطة التي يتم أعدادها من قبل إدارة المراجعة الداخلية؟</p> <p>2. هل المراجعة الداخلية تقوم بإستخدام برامج المراجعة؟ إذا كانت الإجابة بنعم، إلى أي مدى هذه البرامج</p>					

فعالة؟
<p>3. فى حالة قيام المراجعة الداخلية بإعداد تقرير المراجعة ، من هو المسؤول عن إعداد تقرير المراجعة الداخلية؟ (أ) كم عدد التقارير التى تقوم إدارة المراجعة الداخلية بإعدادها خلال السنة؟ (أ) ما هو محتوى تقرير المراجعة الداخلية ؟ (ج) ما هو الجزء الهام بالتقرير لكلاً من إدارة المراجعة الداخلية والإدارة العليا؟</p>
القسم الثالث: أسئلة تتعلق بدعم الإدارة
<p>1. هل منظماتكم وضعت برامج تدريبية للمراجعين الداخليين الحاليين؟ إذا كانت الإجابة بنعم (أ) ما هي الموضوعات التي تم تغطيتها في هذه البرامج؟ (أ) هل هذه البرامج تتضمن إرسال المراجعين الداخليين للتدريب بالخارج؟ (ج) هل هناك برامج تدريبية مصممة خصيصاً للمراجعين الداخليين الجدد بإدارة المراجعة الداخلية؟ يرجى التوضيح</p> <p>2. هل منظماتكم تقدم أي برامج تعليمية لموظفي إدارة المراجعة الداخلية؟ إذا كانت الإجابة بنعم (أ) ما هي الموضوعات التي يتم تغطيتها في هذه البرامج؟ (ب) هل هذه البرامج تتضمن إرسال المراجعين الداخليين للتعليم بالخارج؟ يرجى التوضيح</p> <p>3. هل تعتقد ان المراجعة الداخلية تتحصل على ميزانية كافية للنجاح في اداء واجباتها؟ لماذا؟ يرجى التوضيح</p> <p>4. هل تعتقد ان المنظمة تقدم حوافز مادية لموظفي المراجعة الداخلية مثل العلاوات والمكافآت ، والتي تحفز الموظفين على العمل في هذا المجال؟</p> <p>5. كيف يتم فى الغالب تنفيذ توصيات المراجعة الداخلية؟ ما الذي يحدد مدى التنفيذ؟ من المخول بمتابعة تنفيذ توصيات المراجعة الداخلية؟</p>
القسم الرابع: أسئلة تتعلق بمدى الوعي بفوائد المراجعة الداخلية الفعالة
<p>1. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث تقديم الخدمات الاستشارية للمنظمة؟ لماذا؟ يرجى التوضيح.</p> <p>2. هل منظماتكم قامت بالإستعانة بجهات خارجية لأداء نشاط في مجال المراجعة الداخلية ؟ لماذا؟ إذا كانت الإجابة بنعم ، ما هي المجالات التي يتم فيها الاستعانة بجهات خارجية؟ من هي الجهات الخارجية التي يتم الاستعانة بها؟ الى اي مدي تعتقد ان الاستعانة بجهات خارجية لأداء عمل المراجعة الداخلية يمكن ان يكون مفيد للمراجعين الداخليين؟</p> <p>3. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث توفير منهجية واضحة لتحديد المخاطر التي قد تمنع المؤسسة من تحقيق أهدافها؟ لماذا؟</p> <p>4. هل تعتقد أن المراجعة الداخلية يمكن ان تكون مفيدة للمنظمات من حيث تحسين العمليات الادارية والانتاجية؟ لماذا؟ يرجى التوضيح</p>
شكراً جزيلاً

Appendix 13: Arabic translation of the Instrument Set E: Interview guide for general auditors

القسم الأول: أسئلة تتعلق باستقلالية المراجع الداخلي					
<p>1. هل تعتقد أن مدير المراجعة الداخلية يقوم بالاتصال والتفاعل مباشرة مع مجلس الإدارة؟ يرجى التوضيح</p> <p>2. هل المراجعة الداخلية تقوم بإعداد تقرير المراجعة؟</p> <p>3. هل تعتقد أن المراجعة الداخلية تتمتع بالحرية بالتقرير عن أي نتائج تم التوصل إليها في تقرير المراجعة مثل الخطأ ، الغش الظلم ، والعيب بدون أي تأثير من أي شخص؟ لماذا؟ يرجى توضيح ذلك.</p> <p>4. هل تعتقد أن المراجعين الداخليين يستطيعون الوصول غير المقيد لجميع الموظفين بالمؤسسة والحصول على المعلومات الإدارية اللازمة للقيام بوظيفتهم؟ لماذا؟ يرجى التوضيح.</p>					
القسم الثاني: أسئلة تتعلق بكفاءة المراجع الداخلي					
<p>1. هل قسم المراجعة الداخلية يقوم باستخدام أجهزة الكمبيوتر للقيام بوظيفة المراجعة؟ لماذا؟</p>					
القسم الثاني: أسئلة تتعلق بنطاق عمل المراجعة الداخلية					
<p>1. هل نطاق المراجعة الداخلية في الواقع يمتد إلى مجال العمليات للغير مالية؟ إذا كانت الإجابة بنعم ، ماهي هذه المجالات التي يتم مراجعتها؟</p> <p>2. هل المراجعين الداخليين يقومون بتقييم النظم القائمة والعمل على تنقيح أو تطوير النظم قبل تنفيذها ، مثل إعادة النظر في أنظمة حماية الأصول وأنظمة كفاية الرقابة الداخلية؟ يرجى التوضيح.</p> <p>3. كيف تقوم المراجعة الداخلية في الغالب بالأنشطة التالية:</p>					
أبداً	نادراً	بعض الاحيان	اغلب الاحيان	دائماً	
					تقييم نظام الرقابة الداخلية
					مراجعة الاداء من حيث حالات الاحتيال الكبرى
					التحقق من دقة المبالغ في السجلات المالية
القسم الثالث: أسئلة تتعلق بأداء عمل المراجعة الداخلية					
<p>1. هل المراجعة الداخلية يقوم بتطوير الخطة المناسبة لتحقيق أهداف المراجعة الداخلية الموضوعية ؟ إذا كانت الإجابة بنعم (أ) من هو المسؤول عن إعداد خطة المراجعة الداخلية؟ (ب) ما هي محتويات الخطة التي يتم إعدادها من قبل إدارة المراجعة الداخلية؟</p> <p>2. هل المراجعة الداخلية تقوم باستخدام برامج المراجعة؟ إذا كانت الإجابة بنعم ، إلى أي مدى هذه البرامج فعالة؟</p> <p>3. هل المراجعة الداخلية تقوم بإعداد ميزانية الوقت لكل عملية مراجعة؟ إذا كانت الإجابة بنعم ، هل تعتقد إن المراجعة الداخلية للحسابات تقوم باستخدام وقتها ومواردها بكفاءة وفعالية؟</p> <p>4. في حالة قيام المراجعة الداخلية بإعداد تقرير المراجعة (أ) من هو المسؤول عن إعداد تقرير المراجعة الداخلية؟ (ب) كم عدد التقارير التي تقوم إدارة المراجعة الداخلية بإعدادها خلال السنة؟ (ج) ما هو محتوى تقرير المراجعة الداخلية ؟ (د) ما هو الجزء الهام بالتقرير لكلاً من إدارة المراجعة الداخلية والإدارة العليا؟</p>					
القسم الخامس: أسئلة تتعلق بالتنسيق ومستوى التعاون بين المدقق الداخلي والخارجي					
<p>1. كيف في الغالب يقوم المراجع الداخلي والمراجع الخارجي بمناقشة نتائج وتقرير المراجعة الداخلية ؟</p> <p>2. كيف في الغالب يقوم المراجع الخارجي باستخدام تقارير واوراق عمل المراجعة الداخلية في اداء مهامهم؟</p> <p>3. هل بإمكان كل من المراجع الخارجي والمراجع الداخلي الوصول الى اوراق عمل وتقارير بعضهم</p>					

البعض؟ لماذا؟

4. كيف فى الغالب يكون موظف إدارة المراجعة الداخلية مستفيدين من توصيات المدقق الخارجى؟
5. هل تتفق على ان اعضاء المراجعة الداخلية مستفيدة من التقنيات المستخدمة من قبل المراجع الخارجى؟
6. من هو المسؤول عن إدارة العلاقة بين موظف المراجعة الداخلية والمراجع الخارجى؟ لماذا؟ الى اي مدى يقوم موظف المراجعة الداخلية فى الغالب بمقابلة المراجع الخارجى؟

شكرا جزيلاً!!