
The challenges of the quality of audit evidence in Libya

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Abstract: This paper attempts to investigate the quality of audit evidence obtained by auditors in the Libyan context. In particular, this study explores the effects of the professional and academic qualifications of the auditor, consistency of evidence, and amount of evidence on the evidence. A questionnaire was used to collect data regarding the perceptions of the external, internal, state and taxation auditors on the effect of the three selected factors on evidence. To confirm and support the questionnaire findings semi-structured interviews were conducted with four target group. The results of the study indicate that professional and academic qualifications of the auditor, consistency of evidence, and amount of evidence all have a direct bearing on quality of evidence.

Keywords: Libya; audit evidence; ISA 500.

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1 Literature review

Although there have been several studies recently dealing with the status and the quality of auditing evidence in Libya, however, the topic still raises interest and calls for further and more in-depth research. The following provides an overview of the key literature in order to gain a deeper understanding of the topic under consideration.

1.1 *Auditors' accountability and transparency*

The International Standard on Auditing (ISA) together with International Financial Reporting Standards (IFRS) [Fontes et al., (2005), p.416] aim at producing "transparent, comparable and consistent financial information" to guide investors in making "optimal investment decisions" [Jacob and Madu, (2004), p.357]. The 2002 high-profile auditing failures in the United State (US) have, however, brought to light the paramount importance and the significant function of setting auditing standards. This accounting scandal which led to a loss of public confidence in the capital markets has caused shock waves across the globe. As a result and according to Pitt (2002), Chairman of the Securities and Exchange Commission (SEC),

"The SEC is introducing new requirements for firms to explain the impact of their choice of accounting treatments, and to make them disclose sooner any material changes to their business outlook. Firms will no longer be allowed to hide behind their use of the standard Generally Accepted Accounting Principles if they still manage to paint a misleading picture."

These high profile and media hyped cases have had little or no bearing on Libya. For the simple reason that, Libya at the time was under the US embargo. The US unilateral sanctions against Libya date back to the early 1980s and was designed to isolate and cripple the Libyan regime. The Reagan Administration decision-makers imposed economic sanctions which were then followed by the use of military force after it became evident that the economic sanctions did not work. These sanctions have had devastating impact on Libya's economic, social and educational sectors.

1.2 *Corporate fraud and secrecy in Libya*

Under the former regime corporate fraud in Libya is widespread. There are nooks and crannies where the audit would not dare go. In fact, audits and control is neither comprehensive nor systemic. The Gaddafi's family has outright personal control over the state funds invested in the Libyan Investment Authority. Gaddafi firmly believes that Libya's wealth is his own and he makes no distinction between his personal assets and the resources of the country. Use of fraudulent declarations, unrecorded transactions and illegal transfer of hard currencies to foreign bank accounts are but few of the common practices by some of the regime cronies. Although, there are no statistics and no official data on the scope of fraud and embezzlement in the Libyan corporate world, it is rife. In addition, it is common knowledge that some use whatever loopholes to avoid paying taxes and defraud the system. There is plenty of whispering but nobody speaks out about it. Auditing compliance policies and procedures are regularly being floundered. To be fair, corporate fraud is not a Libyan disease, it is prevalent in most societies including western societies.

In a recent development, major western bank refused to disclose Libyan state funds they manage. Hong Kong and Shanghai Banking Corporation (HSBC) and Goldman Sachs are among the key western bankers for Colonel Gaddafi's regime. They both refused, with HSBC citing client confidentiality. Numerous other banks and financial firms are listed including Société Generale, Uni Credit and the Arab Banking Corporation. Thus, lack of disclosure of information lead to auditing evidence being flawed often on the grounds that compliance with the existing legal framework and law enforcement which often end up being compromised anyway.

1.3 The academic and professional qualifications of the auditor

There are significant differences between experienced and inexperienced auditors with respect to knowledge, problem solving skills, searching and evaluating evidence, and decision quality (Qing, 2006; Sheng-wen, 2006; Bruynseels et al., 2007; Marietta and Arnold, 2008; Marris, 2010; Ali et al., 2010). Abou-Seada and Abdel-Kader (2003) also found that the evidence process by auditors is influenced by the extent of their knowledge of a client's operations and industry. In addition, the results from Sim's study (2010) indicate that the group culture towards consensus that the auditors have experienced within their organisation will affect their beliefs significantly when evaluating internal control of the client. Bowlin et al. (2006) argue that financial reporters who have experience as an auditor are more sensitive to large penalties for misreporting than other financial reporters who have the same amount of experience but have only exclusively worked in the accounting reporter role.

Moreover, previous literature (e.g., Arthur, 2001; Hoffman et al., 2003; Jarboh, 2005) on the effect of auditor experience on audit evidence revealed that the well-developed knowledge structures of experienced auditors help them to consider the risk, the cost and the time of searching for audit evidence. Bruynseels et al. (2007) concluded that an increased level of experience is predicted to have an increasing effect on auditors processing of audit evidence. Abou-Seada and Abdel-Kader (2003) state the role of professional expertise is significant in auditing decisions and especially in the evidence process. For example, audit evidence collected by a competent and experienced auditor is expected to be more reliable than evidence from a novice (Bruynseels et al., 2007). Arthur (2001, p.253) states that:

“It is a matter of personal skill for auditors to judge how much, what kind, and what combinations of different types of evidence are necessary to enable an opinion justifiably to be formed and a report to be made.”

Auditing standards require that the auditor approaches the client with professional scepticism. Any bias that impairs an auditor is judgement of either the competence or the objectivity of a source could reduce the audit's effectiveness and increase audit risk (IFAC, 2010; ISA 330).

In a tax-related context, Magro (2003) found both experts and students who were undertaking a similar audit would adequately consider directly relevant information from the different tax-authorities as part of the decision of a specific estate tax issue. However, in contrast to the experts, the students through their lack of audit experience according to Magro (2003) apparently did not distinguish between indirectly relevant and irrelevant information. This lack of experience hindered the students' ability to recognise the value of the evidence as irrelevant or relevant and thus hindered their judgement reports.

Additionally, the students either did not recognise irrelevance or they were unable to ignore irrelevant evidence when forming their judgement. As Bruynseels et al. (2007), and Abou-Seada and Abdel-Kader (2003) highlighted experience as an accountant over a number of years is needed before making the transition to an auditor. This industrial professional experience will develop the future auditor's awareness and understanding of accounting practices and processes in an operational context rather than just the theoretical academic learning in a higher education. The workplace experiences of the new auditor will be affected by the contextual location of their accounting experience according to Sim (2010).

1.4 Consistency of evidence

Boritz and Wensley (1990, p.69) stress that:

“The evidence provided by audit procedures is not necessarily of the same type. Two items of evidence may provide corroborating or conflicting information about financial assertions. We say that two different audit procedures provide corroborating evidence when both fall on the same side of 50 per cent. We say two different audit procedures provide conflicting evidence when both fall on different sides of 50 per cent.”

Similarly, the ISA 500 (2010) points out that:

“When audit evidence obtained from one source appears inconsistent with that obtained from another, the reliability of each remains in doubt until further work has been done to resolve the inconsistency. However, when the individual items of evidence relating to a particular matter are all consistent, then the auditor may obtain a cumulative degree of assurance higher than that which he obtains from the individual items.” [IFAC, (2010), Para. 17]

As an example, an auditor has three pieces of evidence available to support the receipt of stock:

- 1 a goods received note
- 2 a purchase invoice
- 3 a payment to the supplier (Goodwin, 1999).

According to Harrison et al. (2001), the quality of any such comparison as audit evidence depends upon:

- 1 the quality and independence of the evidence compared
- 2 the quality of enquiries made into any lack of consistency between the sources of evidence
- 3 the independence of the internal control operative from the sources of evidence under examination
- 4 the quality of any comparison evidence.

Goodwin (1999) argues that auditors will be less concerned with source integrity when evidence provided by the source is consistent with evidence obtained from a different source. According to Caster and Pincus (1996), evaluating the strength or persuasiveness of the evidence sets is important in auditing. Conflicting evidence may indicate an

inappropriate set of initial assumptions and those assessments of inherent risk, degree of evidential support, and other factors need to be revised. In many cases, it also will be necessary to devise strategies to collect additional evidence to resolve the conflict (Boritz and Wensley, 1990). Dutta and Srivastava (1993) argue that the process of combining pieces of evidence contributes to uncertainty because there are no uniform procedures for combining different items of evidence that relate to a single objective or a single account. Moeckel (1991) indicates that when considering evidence relating to any potentially material audit area, auditors need to take steps to ensure that items that are potentially relevant to one another are considered together.

On the other hand, as Tinker and Neimark (1988, p.56) point out that, issues of corporate accountability are open to influence. Individual auditors influence and are influenced by the political and social environment in which they operate.

“Our reliance on annual reports accords with our general contention that annual reports, like the writing of history and other systems of meaning, are not passive and neutral, but are partisan reconstructions through which individuals and institutions define themselves and are defined by others.”

Tinker and Neimark (1988, p.56) produced a valuable paper to analyse and contrast the transaction cost explanation of corporate history with an alternative, critical framework. They claim that:

“Our purpose here is to offer an alternative conceptual framework for making sense of the history of business organisations - one which emphasises social conflict over the distribution of income and wealth as the key variable for explaining changes in corporate structures and strategies over time.”

Similarly, Briloff (1981) introduced an interesting and innovative idea by suggesting that a radical change is needed to revamp the accounting profession. He calls for a ‘revolution’ in accountancy. As Briloff (1981, p.5) clearly stresses that:

“This call for a Revolution in Accountancy is intended to make us realize that the circumstances for which our present-day accounting principles or standards were designed have undergone a major metamorphosis without a corresponding development in our concepts and practices.”

The conclusion that can be drawn from the above literature is that it covers a wide and conflicting range of invaluable information about accounting and auditing principles or standards, they appear somehow limited in scope. There is a need for dynamic and fresh insights more aligned to current turbulent and unstable markets while at the same time understanding that the rules of accounting and auditing are often circumnavigated even in the biggest democracies in the world. Improving financial reporting and auditing is essential for economic growth and stability but the aim for setting high-quality accounting and auditing standards that can be used globally seems unattainable for the time being.

1.5 Amount of evidence

According to Rittenberg et al. (2009), the auditor must collect an appropriate amount of reliable evidence concerning the fairness of the financial statements and their conformity with the Generally Accepted Accounting Principles (GAAP). Empirical auditing studies (e.g., Caster and Pincus, 1996; Blay et al., 2003; Gronewold, 2006; Al-Hadi, 2008) and

professional standards such as ISA 500 (2010) have addressed the relationship between the quantity of audit evidence and its reliability and they found that the quality of audit evidence is influenced by its amount. For example, ISA 500 (2010) indicates that the quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence (IFAC, 2010). Caster and Pincus (1996) concluded that the greater number of witnesses, the greater the persuasiveness of evidence. However, in some cases the high amount of evidence provides a limited amount of persuasiveness (Al-Hadi, 2008). Bowlin (2009) studied the effect of material risk on the amount of audit evidence, and found that the auditors tend to collect more evidence when they find high-risk on balance accounts. The amount of evidence to be obtained based on the following factors (Morariu et al., 2008):

- 1 establishing the dimension of the audit sample and the population elements that are to be tested
- 2 generated costs
- 3 the evaluation of the nature and level of risk inherent for the financial statements, an account balance or a type of transaction
- 4 the evaluation of the nature and effectiveness of internal control systems
- 5 personal expertise and skills of the auditor
- 6 the results of the audit procedures, including fraud or errors that might have been revealed
- 7 the source and credibility of the available information.

Cosserat (2000) states that the materiality and the risk of material misstatement are the main factors that affect the sufficiency of audit evidence. The higher the risk of material misstatement, the greater the quality of the audit evidence should be. If the quality of the evidence is high, the amount of audit evidence needed is less (Marris, 2010). There are several risks associated with obtaining sufficient appropriate audit evidence. These include:

- 1 Inadequate records, for example, incomplete files, excessive adjustments to books and accounts, transactions not recorded in accordance with normal procedures, and out of balance control accounts.
- 2 Inadequate documentation of transactions, such as lack of proper authorisation, supporting documents not available and alteration to documents (any of these documentation problems assume greater significance when they relate to large or unusual transactions).
- 3 An excessive number of differences between accounting records and third party confirmations, conflicting audit evidence and unexplainable changes in operating ratios.
- 4 Evasive or unreasonable responses by management to audit inquiries [American Institute of Certified Public Accountants (AICPA), 2006].

One way an auditor may overcome concerns about ensuring that they have a representative sample of the population of evidence is to use statistical sampling. Rivest (2007) advises that the lower bands of confidence for the sampling size should be identified in legislation so that the same standard for sampling is used by all in the auditing profession. This statistical value of the population provides greater confidence that the sample is representative of the population (Saunders et al., 2007). VanderStoep and Johnston (2009) identify non-probability-based sampling techniques which can be utilised by auditors and through the use of statistical standards the auditor can improve other practitioners and stakeholders in their confidence in relation to the professional practice. The use of statistically supported probability sampling enables auditors to reduce the judgement risk that they may have when using non-statistically based sampling (VanderStoep and Johnston, 2009). The current International Standard on Auditing (ISA 530) (2010) advises that the auditor use a population sample that is representative of the population and this sample size should be increased by the risk factors observed by the auditor.

The auditor may obtain more than one item of evidence for a specific assertion about reality (Gronewold, 2006). For example, the auditor will require more appropriate evidence when there is doubt about the integrity of management (Cosserat, 2000). Auditing standards require sufficient substantive audit evidence for all significant accounts, regardless of the auditor's planned reliance on controls (IFAC, 2010; ISA 500).

The main objective of external auditors is to express an opinion on the financial statements. In order to achieve this objective, an external auditor needs to evaluate the internal control system of the organisation to ensure that this system can detect and prevent any material misstatements (Haron et al., 2004). Tests of control are made to provide evidence about the effectiveness of the design and operations of the accounting and internal control systems (Cosserat, 2000). Janvrin (2001) suggests that internal control effectiveness may completely mitigate the need to use internal rather than external evidence.

2 Methods

A mixed method approach was utilised in this study to gather a range of views from all the professional groups involved in Libyan Auditing. Self-administered questionnaires were used to collect data concerning the perceptions of participants (external, internal, state auditors, and tax experts) regarding the effect of the three selected factors on evidence. Statistical analysis was undertaken on the resulting data.

To confirm and support the questionnaire findings semi-structured interviews were conducted with 12 Libyan auditors. This process aims to enhance and supplement the questionnaire findings providing an in-depth clarification and understanding of the effects that the selected factors have on evidence obtained by Libyan auditors. Content analysis was used to analyse the collected data from the interviews.

The first part of the questionnaire was designed to obtain the views of external, internal, state and taxation auditors relating to the effects of the professional and academic qualifications of the auditor on quality of evidence. The second section aimed to gather the participant's opinions regarding the effects of the consistency of evidence

on audit evidence. The final section asked the participants about the effects of amount of evidence on quality of evidence.

A five-point Likert-scale ranging from strongly undermines evidence to strongly enhances evidence was utilised to measure perceptions regarding quality of audit evidence (Saunders et al., 2009).

A sample size of 288 auditors was selected from the four target groups (external, internal, state, and taxation auditors) out of the 387 auditors.

3 Analyses and results

3.1 Academic and professional qualifications of the auditor variable

The overall mean (mean = 3.55 in Table 1) indicates that quality of evidence were perceived by Libyan auditors to be enhanced by academic and professional qualification of the auditor through their experience (item 1), qualifications (item 2), auditor independence (item 3) and the analytical skills demonstrated by the auditor (item 5).

Regarding this factor, the interviews addressed three sub-themes of:

- qualifications (experience, knowledge) of auditor
- independence and skills of auditor
- errors and biases in auditor perception.

For the first thematic point, all interviewees agreed that the experience and education of the auditor are important elements for collecting and evaluating audit evidence. Seven interviewees explained that auditor's experience is more useful in evaluate audit evidence than education. However, they suggested that both have an effect on the quality of audit evidence. For example:

"The more years of work experience and higher level of education of an auditor lead to him obtaining greater evidence. Because I think that the high experience and education are very helpful for the auditor to gather the best evidence." (State Auditor 4)

"In my opinion, the experience is more important than education. Because experience is a key to discovering the errors in accountants work. However, in some cases, the education is a good base in evaluating audit evidence obtained." (Internal Auditor 8)

In terms of independence and skills of auditor, all interviewees agreed that auditors need to be independent in collecting audit evidence. The interviewees added that the more independent the auditor, the greater the confidence in collecting and evaluating evidence. Regarding auditors' skill, four interviewees explained that the skill factor does not have a major effect on quality of audit evidence. Commenting on these issues, two interviewees mentioned that:

"The independence of the state auditor is a major factor influencing obtaining audit evidence. Moreover, we feel more confident when we have independence in work." (State Auditor 6)

"From my past experience, the auditor's skill has an effect on the quality of audit evidence obtained. Because the skills in obtaining and determining evidence lead to an increase in the quality of evidence." (Internal Auditor 8)

Table 1 Frequency and means of academic and professional qualifications of the auditor items

No.	The statements	STUE		SLUE		N		SLEE		STEE		Mean
		No.	%	No.	%	No.	%	No.	%	No.	%	
1	The experience of auditor	0	0	0	0	12	6.4	23	12.3	152	81.3	4.75
2	The academic qualifications of the auditor	1	.5	2	1.1	15	8.0	50	26.7	119	63.6	4.52
3	Independence of auditor	0	0	0	0	13	7.0	26	13.9	148	79.1	4.72
4	The auditor exercises professional scepticism in evaluating the quantity and quality of audit evidence	5	2.7	21	11.2	33	17.6	71	38.0	57	30.5	3.82
5	The analytical skills of the auditor	0	0	0	0	6	3.2	38	20.3	143	76.5	4.73
6	Questions are clear	0	0	4	2.1	42	22.5	47	25.1	94	50.3	4.24
7	The errors in auditor perception	115	61.5	53	28.3	19	10.2	0	0	0	0	1.49
8	The bias in auditor perception	147	78.6	33	17.6	7	3.7	0	0	0	0	1.25
9	The techniques of obtaining evidence	2	1.1	5	2.7	22	11.8	59	31.6	99	52.9	4.33
10	The deviations from expectations of auditor	80	42.8	87	46.5	20	10.7	0	0	0	0	1.68
Overall mean												3.55

Notes: Reliability = .691; sample size = 187; STUE = strongly undermines evidence (1); N = neither (3); SLEE = slightly enhances evidence (4); SLUE = slightly undermines evidence (2); STEE = strongly enhances evidence (5)

The last point discussed in the issue of academic and professional qualifications of auditor was errors and bias in auditor perception. With the exception of one interviewee, all agreed that errors and bias in auditor perception reduces the quality and reliability of audit evidence. For example:

“When the tax expert includes errors or biases in evidence, the evaluation of tax is incorrect. Moreover, the tax will be reduced or increased depending on the value of error or bias. Thus, the errors and biases lead to undermine the quality and fairness of audit evidence.” (Taxation Auditor10)

3.2 *Consistency of evidence*

Table 2 indicates the results of means, frequency and percentage for consistency of evidence items. The overall mean (mean = 2.86) revealed that quality of evidence were perceived by Libyan auditors to be undermined by consistency of the evidence.

For this variable, there was a difference in the distribution of frequencies where the responses to the first and last items leaned more towards slightly undermines or strongly undermines evidence, thus suggesting that evidence presented to auditors can be inconsistent. Items no. 2, auditor reassessment of reliability, and item 3, evidence commensurate with audit objectives were positively responded to and these enabled a more even spread of frequencies for this section of statements.

The second theme which was investigated was the consistency of evidence used in audits. With respect to this issue, all interviewees agreed that the consistency of evidence increases the quality and persuasiveness of evidence obtained. In addition, the interviewees explained that the reliability of evidence will be reduced if one item of evidence conflicts with another item obtained for the same issue. For example:

“From my past experience, if the evidence obtained were inconsistent this is because there are errors in evidence.” (Internal Auditor 8)

“The quality and reliability of evidence increase when the each single item of evidence obtained was consistent with evidence set.” (State Auditor 4)

One interviewee explained that in some cases, evidence collected is inconsistent with the some laws for Libyan banks. Thus, the evidence gathered which is not to the official standards and conflicts within the evidence set.

“In fact, the main reason for [*the*] inconsistent evidence set obtained by internal auditor who work in banking sector is [*the*] conflict of evidence collected with laws.” (Internal Auditor 8)

Interviewee Internal Auditor 8 identified that there are times when internal auditors in the banking sector collect evidence which does not meet the legislative requirements. This non-standard evidence should be ignored to maintain the consistency of the evidence set. The internal auditor according to interviewee (Internal Auditor 8) should be following the internal and external regulations and collect the appropriate standard of evidence as defined in the regulations.

Table 2 Frequency and means of consistency of evidence items

No.	The statements	STUE		SLUE		N		SLEE		STEE		Mean
		No.	%	No.	%	No.	%	No.	%	No.	%	
1	One item of evidence conflicts with another item obtained over long periods from different sources	72	38.5	89	47.6	26	13.9	0	0	0	0	1.75
2	The auditor reassesses the reliability of early evidence in the light of more recently collected evidence	8	4.3	14	7.5	37	19.8	64	34.2	64	34.2	3.87
3	The evidence obtained is commensurate with the audit objectives	0	0	3	1.6	25	13.4	60	32.1	99	52.9	4.36
4	If procedures of auditing are not in place	126	67.4	34	18.2	27	14.4	0	0	0	0	1.47
Overall mean												2.86

Notes: Reliability = .689; sample size = 187; STUE = strongly undermines evidence (1); N = neither (3); SLEE = slightly enhances evidence (4); SLUE = slightly undermines evidence (2); STEE = strongly enhances evidence (5)

3.3 *Amount of evidence*

The overall mean (mean = 3.25, Table 3) indicated that quality of evidence were perceived by Libyan auditors to be enhanced by the amount of evidence through their assessment of significance in the audit process (sensitivity to fraud or role in the process – item 1), risk factors (item 2), perception of the effectiveness of the internal control (item 4) and receiving evidence to support a specific assertion about reality (item 8).

The last theme investigated through the interview process was an examination of the external, internal, taxation, and state auditors' perceptions regarding the effect of the amount of evidence collected on the quality of evidence. Three sub-themes that were addressed in the interviews are as follows:

- the significance of findings and risk of material misstatement of financial statement
- the cost of the time in obtaining evidence
- the effectiveness of internal control and sample size.

The first issue discussed under the amount of evidence factor was the significance of findings and risk of material misstatement of financial statement. All interviewees agreed that the significance and risk have a major effect on amount of evidence that should be obtained by the auditor. They explained that if there is a high level of risk, the auditor should collect more of evidence. Commenting on this issue, two interviewees stated that:

“For the tax expert, there are some important accounts that have a major risk (e.g. sales accounts, expenses accounts). Therefore, the taxation auditor should obtain more evidence to reduce the risk.” (Taxation Auditor 11)

“As an internal auditor, I focus on cash accounts. Because it has a high level of risk, I should collect more evidence to make sure it is true and correct.” (Internal Auditor 8)

The second point discussed in the issue of amount of evidence was the cost and the time spent of obtaining evidence. Four interviewees explained that the high cost and the long time decreases the amount of evidence required. However, five of the interviewees indicated that the cost of collecting and determining evidence has no effect on amount of evidence. Two external auditors mentioned that:

“As external auditor, the cost and the time are very important issues for me. Because I must finish my report on time and with less cost.” (External Auditor 1)

“The cost of evidence is considered when the external auditor collecting evidence to support his/her opinion. In some cases, because of a high evidence cost, I rely on small amount of evidence. Thus, this leads to a reduction the quality and quantity of evidence.” (External Auditor 3)

Another internal auditor stated that:

“In term of evidence cost, most internal auditors in banks do not consider the cost when they collect audit evidence.” (Internal Auditor 7)

Table 3 Frequency and means of amount of evidence items

No.	The statements	STUE		SLUE		N		SLEE		STEE		Mean
		No.	%	No.	%	No.	%	No.	%	No.	%	
	If the significance of the findings is higher	0	0	0	0	14	7.5	36	19.3	137	73.3	4.66
2	If the risk of material misstatement of financial statements is higher	2	1.1	1	.5	40	21.4	56	29.9	88	47.1	4.21
3	If the cost of obtaining evidence is higher	47	25.1	79	42.2	60	32.1	1	.5	0	0	2.09
4	If the effectiveness of internal control is higher	1	.5	1	.5	13	7.0	30	17.1	140	74.9	4.65
5	Time constraints	64	34.2	74	39.6	49	26.2	0	0	0	0	1.92
6	If the evidence is needed for negative findings	1	.5	32	17.1	87	46.5	35	18.7	32	17.1	3.35
7	If the size of samples that the auditor would choose is small	78	41.7	64	34.2	24	12.8	20	10.7	1	.5	1.94
8	If the auditor obtains evidence for a specific assertion about reality	0	0	2	1.1	39	20.9	60	32.1	86	46.0	4.23
	Overall mean											3.25

Notes: Reliability = 693; sample size = 187; STUE = strongly undermines evidence (1); N = neither (3); SLEE = slightly enhances evidence (4); SLUE = slightly undermines evidence (2); STEE = strongly enhances evidence (5)

Regarding the effectiveness of internal control, most interviewees (10/12) stressed that internal control plays major role in determine amount of evidence required. They added that when the level of effectiveness of internal control is higher, the evidence collected from accounting systems of client is reliable and credible. With regard to sample size, 11 interviewees explained that the small sample size, the more evidence obtained. Thus, the quality of evidence is increased. Following some opinions about these issues:

“Before starting to collect evidence from the accounting system, I must test and evaluate internal controls in order to make sure they are strong and have high level of reliability. Additionally, the amount of evidence depends on the results of evaluation.” (External Auditor 1)

“From my experience, I think that small sample size leads to an increase in the amount of evidence. Because there is a likely risk with small size of sample.” (State Auditor 4)

The interview results regarding the effect of internal control and sample size factors on amount of evidence showed that strong internal controls and big sample sizes leads to an increase in the quality and reliability of audit evidence. When querying the interviewees over their sample sizes it was noted that these auditors are not using computerised statistical analysis applications or computational selection processes. If a random sample was undertaken by an auditor it would be on their random selection of items and the number of items would depend on their opinion of the organisation rather than just whim. If the internal control appeared to be weak some auditors indicated that this was a prime example of when they ask for a large samples size.

4 Discussion

4.1 Academic and professional qualifications of the auditor

4.1.1 Experience and knowledge of the auditor

There is triangulation between the literature and the primary research of the interview and the survey as all confirm that the experience and knowledge of the auditor are important elements that effect the collection and evaluation of audit evidence. The experience of the auditor affect on the collection of evidence in the survey has a very high mean (mean = 4.75). This strong result of 93% agreeing that experience impacts on the audit evidence supports literature (Arthur, 2001; Qing, 2006; Bruynseels et al., 2007; Hao and Wen-Ming, 2007; Marris, 2010) who argue that the experience of the auditor impacts on the their ability to deal with problems, to search and collecting evidence and make quality decisions about the evidence obtained. As one state auditor (State Auditor 4) suggested in the interview process the higher the qualifications and the wider the range of professional experience the better the quality of the audit evidence. From the responses particularly from the taxation auditors in the interviews about the types of evidence consideration of the organisational culture needs to be measured in a future studies. Sim (2010) stresses that group thinking may be present in auditors who have experience in their organisational practices and policies. The consistent high level of scepticism and attitudes towards indirect evidence could be representative of organisational cultural thinking.

4.1.2 Independence and skills of auditor

Boynton and Johnson (2005), Arens et al. (2006) and Soltani (2007) all state that the role of the auditor is to be an independent assessor of the financial statements of an individual or business organisation.

In terms of independence and skills of auditor, all interviewees agreed that auditors need to be independent in collecting audit evidence. The interviewees added that the more independent the auditor, the greater the confidence in collecting and evaluating evidence. This literature view about the independence of the auditor is reflected strongly in the survey (mean = 4.72). This independence of the auditor was supported in the interviews but was clarified with comments about the skills of an auditor. A total of 68.5% of the survey respondents believe that the skills of the auditor impact on their ability to conduct an audit while 75% of the interviewees perceive that analytical skills impact on the audit evidence. Oprean and Span (2009) stress that without strong analytical skills auditors are not able to gain assurance that accounts are fair representation of the actual financial status of the organisation, assist in fraud and error detection and provide evidence to support audit objectives. There is not as strong as support for skills in the Libyan context but this could be a reflection of the low number of higher degrees amongst participants (19.7%) of the questionnaire while there was greater support in the interviewees who had a higher number of advanced higher education qualifications (58.33%) and as a group the interviewees averaged over ten years (mean = 13.88) professional experience. The lower than expected reaction about the skills of the auditor in the questionnaire could be a reflection of the experience or educational levels of the respondents. The recent political history described by Khorwatt (2006) could have impacted on the development of professionals in their accounting education (Mashat et al., 2005). Ahmad and Gao (2004) argue that education development had been hampered in Libya as result of the UN and US embargo and this lack of development could be a reason why the skills and competence of the auditor may not have achieved as strong response as would be expected from the literature for developed countries such as Bruynseels et al. (2007), and Marietta and Arnold (2008). Further research into the actual skill levels of auditors could be undertaken to see if the auditor perceptions that the skill level does not impact on the audit process. Current education programmes and awareness of the development education programmes need to be investigated.

Michas (2010) found that auditors who are involved in the Big 4 organisations such as external auditors in Libya who work for Big 4 regional offices are likely to have incentives through these organisations to conduct higher quality audits. The multinational organisations have a global reputation and they are likely to use internal control procedures to ensure that audits undertaken in the company name maintain the global company reputation. As Lopez and Smith (2010) identified there are differences in the perceptions of the auditors of Big 4 and non-Big 4 audit firms due to their concerns over professional risk and potential litigation. International organisations investing in Libya are more likely to use a Big 4 firm as they want to catch trust the reputation of the firm and maintain the Libyan enterprise is operating and held to their investors' home country expectations and international standards. Also the current accounting standards for Libya are based on upon *Financial Law* of 1967 while the auditing professional standards are covered in the *Organisation of the Accounting and Auditing Professions in Libya Law*

No. 116 (Libyan State, 1974) and these statutory instruments could be seen as lacking modern international standards and the necessary requirements for professional practice. Faraj and Akbar (2010) discovered that current non-availability of auditing standards in Libya is major factor that undermines Libyan auditor independence. The perception of deficiency in the current Libyan professionalism is likely to impact on international stakeholders desire to have audit evidence which is sufficient to their needs (Joshi and Deshmukh, 2009).

4.1.3 Errors and biases in auditor perception

There is a strong consensus between the primary data and that of literature concerning bias and the detection of errors has an impact on the techniques for obtaining evidence within the audit. Marietta and Arnold (2008), and Ohta (2009) emphasise the importance of the judgemental decisions of the auditor to consider bias when assessing evidence and help in the identification of errors. This ability of auditors to maintain their independence and to use their experience to review the evidence according to Abou-Seada and Abdel-Kader (2003) has a significant impact on auditing decisions and especially in the evidence process. This emphasis on professional objectivity is supported in the interviews when the majority of the respondents (93%) confirmed that bias and errors undermine the quality and fairness of audit evidence.

4.2 Consistency of evidence

With regard to the professional literature, ISA 500 (2010) indicates that if audit evidence obtained from one source appears inconsistent with that obtained from another, the reliability of each remains in doubt until further work has been done to resolve the inconsistency (Para. 17). The interviewees and the survey respondents (86.1%) supported the opinion that evidence which conflicts with another items undermines the evidence collected. While the survey respondents (mean = 4.360) state that evidence collected is appropriate for the audit objectives the internal auditor interviewees from the banking sector indicated that was some discrepancies between the various legislative requirements and government policy documents. Interview Internal Auditor 8 identified that auditors may have inconsistent evidence as there is conflict within the laws about the evidence and purpose for the collection of this evidence. To address this inconsistency, the internal auditors recommended that the auditor verifies what the latest policy directive is and ensures that the latest legislative requirements are being followed and then gathers the most appropriate evidence to meet these requirements. To clarify what is causing the inconsistent legislation, policies and official guidance for the banking sector further study needs to be undertaken. The inconsistency could be a direct reflection of the recent systematic changes within Libya such as the transition from a planned economy to the open market economy. The inconsistency in the appropriateness for the audit objectives described by the interviewees is further supported by the survey respondents (85.6%) who indicated that the audit process is undermined by the lack of audit procedures in place. Marietta and Arnold (2008) identify when there are clear standards in place for practice, the professional practice of the auditor is enhanced. Malkawi et al. (2010) stress that the reliability of information has an impact on the professional.

4.3 Amount of evidence

4.3.1 Significance of findings and risk of material misstatement of financial statement

From the survey there was a strong response which reveals the significance of account item (mean = 4.66), risk of material misstatement (mean = 4.21), and the amount of evidence need to support negative findings (mean = 3.35). All the interviewees support the view that the quantity of evidence collected was affected by the type of account item the evidence collected was for, if for example the account item was cash the auditor would undertake larger investigation and collection process than when compared with other account items. Rittenberg et al. (2009) supports the collection of evidence to confirm the validity and reliability of the financial statements. The significance of the evidence is a result of the risks that the account item has for material misstatement or deviance. Interviewees from different auditing sectors identified that if they perceive a high level of risk for particular items related to their role they would collect more evidence to ensure that there is no misstatement. This also ties in with the viewpoint that auditors believe they need a high level of confidence to support their negative findings and thus prove that misstatement or deviance has occurred. The respondents in the interview and questionnaire are demonstrating characteristics which Bowlin (2009) identified that auditors need to have in place when considering the effect of risk.

4.3.2 The cost of the time in obtaining evidence

While there were similarities between the literature and the auditor's attitude to risk when it came to the cost of obtaining evidence and time need to gather this evidence there was a difference between the current literature and the perceptions within the Libyan professional groups interviewed. Morariu et al. (2008) identified that the cost of collecting evidence is a factor which impacts on the amount of evidence collected and the survey respondents agreed that it impacts on their evidence collection (67.3%), however, there was a large neutral response (32.1%) which included all the state auditors. The state auditors in the interview suggested that cost and time was not a factor which impacts on their cost and the time spent of obtaining evidence. The professional grouping of the auditor in the interview differentiated whether they considered cost or time factors that impacted on their evidence collection. It appears from the interview that only the external auditor is affected by these factors when collecting evidence. This response could be the result of the organisational culture or structural culture of the other auditors. The external auditor is working in competition and running an independent business while the other auditors are all employed in some manner by a government agency. Further investigation of the organisational culture needs to be undertaken. The culture in government agencies is likely to change as further development of the government activities is undertaken to bring current practices up to the current world best practice. There is pressure on Libya as a developing economy to develop its processes and procedures in line with developed countries practice as part of the foreign investment process. It is foreign investment which helps to bring technology, skills and development to Libya which is likely to impact on the local professional practices and government standards. The impact of global investment can be observed in the recent developments in the Gulf States [UAE (Elbanna, 2010); Bahrain (Ramadhan, 2009)] who further into the development of their

economic structures when compared to Libya. As the various Libyan organisations are changing fast and developing through their access to technology and improved professional practices the attitudes are likely to change in relation to cost and the time it takes to gather evidence. With the western development influence, it is likely that the concept that governments should be using modern accounting practices and greater levels of accountability for the utilisation of government resources will be introduced. With these new attitudes it will impact on the evidence collection process as time and cost will become considerations for government auditors. With the instability of income from oil revenues Libya cannot afford spending its government resources haphazardly so there needs to be more internal control within government agencies over the costs that auditors' incur when undertaking audits. The time that it takes to complete audits will also need to decrease in the future as there will be further demands by stakeholders such as foreign investment companies to have reporting which is judicious, appropriate and timely.

4.3.3 The effectiveness of internal control and sample size

The survey respondents (92.0%) emphasised that the effectiveness of internal control enhanced audit evidence (mean = 4.65). This was supported by the interviewees and the literature (Janvrin, 2001; O'Leary et al., 2006; Sarens and De-Beelde, 2006; Kaplan et al., 2008; Owojori and Asaolu, 2009; Ali et al., 2010; Malkawi et al., 2010; Sim, 2010) who point out that if the internal control is high the auditor is not required to collect a large evidence sample. In the interview process, it was clarified by the auditors that they are not using sophisticated processes when selecting their sample sizes. The interviewees reported that it was based on the experience on how they selected the sample size and the sample items. The key factors which they expressed which influenced their decision-making process in relation to sample size was their observations about the internal control within the organisation they were auditing. The survey respondents (75.9%) indicated that a small sample size undermines the audit evidence. Marris (2010) suggests that if the quality of the evidence is high the amount of evidence that is needed to be collected in the audit process can be reduced while Morariu et al. (2008) observe that auditors needs to consider at the start of the audit process the dimensions of the audit sample. Bowlin (2009) argues that the sampling needs to reflect the material risk observed. The current process of using just the professional experience judgement of the auditor is not enough as there is no guarantee that the amount of evidence collected is a representation of the population of the audit. To improve the validity and reliability of the sampling the sample size selected by the Libyan auditor it is recommended that analytical statistics be utilised to generate the required sample size to ensure the probability of a true reflection of the population of the financial transactions of an organisation. Use of ISA 530 recommends the use of statistical sampling selection rather than individual auditor judgements.

5 Conclusions

The literature review revealed and emphasised the importance of the quality and credibility of audit evidence. It also indicated that auditors' competence and expertise in Libya seem to be compromised by various sets of circumstances and factors putting in

question the credibility of financial statements. The Libyan auditors' professional judgement used to measure and to evaluate financial statements has also been undermined by the UN and US sanctions which impacted on the development and enhancement of accounting in general.

From the literature that has been reviewed the gaps that appear are evident, there is little information on auditing and staff development and training. One area that seems to show a consensus of opinion is lack of consistency of audit practices and evidence. The challenges facing the auditors does not only concern the accountancy profession, but also those involved in regulating a profession that has such a significant involvement and plays a vital role in the economy of the country.

In conclusion, the state of auditing in Libya is rudimentary; it is often difficult to incriminate the auditors' skills for corporate misconduct. As a matter of fact auditors fail to voice their qualms about the state of affairs for fear of future retaliations for their statements. The factors that directly impact and curb the auditor's sense of independence in collecting audit evidence may be summed up as follows:

- absence of a clear leadership structure whereby the auditing process is often subject to decisions being taken on the basis of evidence but counter decision swiftly come into play to cancel the first decision
- shortage of managerial auditors; lack of top management support
- inadequate active training programmes
- centralisation of decision-making
- lack of professional managerial auditing bodies.

Following regime change in Libya there are some serious hurdles ahead in order to upgrade auditing standards. Significant structural reforms for auditing standards and other relevant infrastructure elements are required.

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