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The Role of the Audit Committee as a Corporate Governance Mechanism: The Case of the Banking Sector in Libya

Abdulhakim Mohamed Masli

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ABSTRACT

Financial scandals in developed countries such as the USA and the UK have highlighted the need for greater transparency and credibility in order to protect shareholders and stakeholders alike. It has been argued that the audit committee (AC) is a key mechanism for achieving this transparency and protecting shareholders' interests. While there have been numerous attempts to investigate AC practice and effectiveness in developed countries, little is known about how these committees operate in developing countries such as Libya. Therefore, this research aims to: (1) explore the current role of ACs in the Libyan banking sector, (2) investigate the factors that affect their performance and (3) identify actions to enhance their effectiveness.

To achieve these aims, the study employed a combination of quantitative (questionnaire survey) and qualitative (semi-structured interviews) methods to understand how five groups of actors within Libya's banking sector (i.e. board and AC members, executive managers, and internal and external auditors) perceive the role and practice of ACs. The questionnaire survey was designed to collect initial data, while follow-up interviews sought to gain an in-depth understanding of all relevant aspects of the subject. In total, 218 survey responses were analysed, and 20 semi-structured interviews were conducted with senior directors and managers.

Although the findings broadly support agency theory's assumption that ACs play a vital role, they also indicate that ACs in the Libyan banking sector are not performing to a satisfactory standard; they play too limited a role in monitoring financial statements and enhancing the external audit process, and their effectiveness is too dependent on the strength of their relationship with the internal audit department. Institutional theory provides one possible explanation for this: ACs may be primarily designed to create legitimacy outside the organisation rather than to protect the interests of shareholders. The findings also show that a number of factors variously enable (e.g. independence, financial expertise and size) or inhibit (e.g. weak board governance and Government intervention) AC effectiveness. Finally, a number of actions were identified that could be taken to enhance the effectiveness of these committees (e.g. the proposal to strengthen the accounting and auditing profession in Libya).

The study contributes to the ongoing debates about the AC's role by being the first to investigate how this role is performed in Libyan banks, which are in the early stages of implementing corporate governance. It addresses an information gap by providing new evidence from a developing country regarding the AC's role in corporate governance and discussing the impact of fourteen enabling and inhibiting factors on AC effectiveness. Finally, it is the first step towards identifying ways of enhancing the effectiveness of these committees and encouraging regulators and shareholders in Libya to pay greater attention to corporate governance mechanisms, including ACs.

بِسْمِ اللهِ الرَّحْمٰنِ الرَّحِيمِ

In the Name of Allah, Most Gracious, Most Merciful

(سُبْحَانَكَ لَا عِلْمَ لَنَا إِلَّا مَا عَلَّمْتَنَا إِنَّكَ أَنْتَ الْعَلِيمُ الْحَكِيمُ)

(سورة البقرة: الآية 32)

"Exalted are You; we have no knowledge except what You have taught us. Indeed, it is You who is the Knowing, the Wise"

(Quran, 2:32)

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All praise be to Allah, the Lord of the worlds, prayers and peace be upon the Messenger of Allah. I bear witness that there is no god but Allah alone who has no partner, and I bear witness that Muhammad is His Servant and Messenger. All praise be to You, we have no knowledge except what You have taught us.

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LIST OF ABBREVIATIONS

SYMBOL	FULL TERM
AC	Audit committee
AICPA	American Institute of Certified Public Accountants
BD	Board of directors
BRC	Blue Ribbon Committee
CBL	Central Bank of Libya
CEO	Chief executive officer
CG	Corporate governance
CICA	Canadian Institute of Chartered Accountants
EA	External auditor
EM	Executive manager
FRC	Financial Reporting Council of the UK
GDP	Gross domestic product
IA	Internal auditor
IAS	International Accounting Standard
IIA	Institute of Internal Auditors
LAAA	Libyan Accountants and Auditors' Association
LBS	Libyan banking sector
LCGC	Libyan Corporate Governance Code
LD	Libyan dinar
LSM	Libyan Stock Market
LSMA	Libyan Stock Market Authority
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act
MENA	Middle East and North Africa
NACD	National Association of Corporate Directors
NED	Non-executive director
OECD	Organisation for Economic Cooperation and Development
UK	United Kingdom
USA	United States of America

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Chapter 1. Introduction

1.1 Background

It has long been recognised that audit committees are central to good corporate governance (CG). From the Institute of Internal Auditors (IIA) (1985) and the Canadian Institute of Chartered Accountants (CICA) (1988) to the Cadbury Committee (1992) and the Blue Ribbon Committee (BRC) (1999), numerous bodies have recommended that listed companies should establish an AC in order to protect the interests of shareholders. Mangena and Pike (2005) observe that the AC is widely acknowledged as an important element in the CG process, while Vera-Munoz (2005) and Turley and Zaman (2014) note that recent years have seen a much greater emphasis being placed on AC effectiveness. Song and Windram (2004), Rezaee (2009) and Liao and Hsu (2013) all identify the main roles of the AC as being to ensure responsible CG, to review the firm's financial reporting and to provide a channel of communication between the board, external auditors and internal auditors in order to protect the interests of shareholders and other stakeholders.

Recent episodes of corruption and collapse in a number of major corporations have revealed weak control mechanisms (Suchan, 2004; Stewart, 2006) and highlighted the need for greater transparency to protect shareholders and stakeholders alike (Glaum et al., 2004; Fearnley and Beattie, 2004). Western governments have responded with initiatives such as the Sarbanes Oxley Act (SOX) (2002) and the UK Combined Code (FRC, 2003), which set out governance mechanisms to help boards of directors and shareholders improve the management of firms and prevent collapse. Fichtner (2010) suggests that the Enron collapse in particular led regulators and governments throughout the developed world to pay renewed attention to the AC as one of the key governance mechanisms. Similarly, Rustam et al. (2013) observe that recent corporate scandals have resulted in the creation of CG guidelines which give a prominent role to ACs.

However, while these are the expectations that surround ACs in developed countries, the weak institutional framework for CG in developing countries (Boubakri et al., 2005) means that ACs in these countries operate in a very different environment. In Nigeria, for example, Okpara (2011) found a number of constraints that hinder the implementation and promotion of CG, including weak or non-existent law enforcement mechanisms and lack of transparency and disclosure. This is likely to have an impact both on practice in these committees and on their effectiveness as mechanisms of CG. Other studies, meanwhile, have argued that governance characteristics such as board independence, size and meeting frequency may affect the level of

commitment ACs in developing countries display towards their oversight responsibilities (Raghunandan and Rama, 2007; Sharma et al., 2009; Braswell et al., 2012).

From early investigations into why voluntary ACs are formed (Bradbury, 1990; Collier, 1993; Wild, 1994) to recent explorations showing the links between AC characteristics and audit quality (Mangena and Tauringana, 2008; Bronson et al., 2009; Engel et al., 2010; Zaman et al., 2011; Bierstaker et al., 2012; Turley and Zaman, 2014), the vast majority of studies have focused on developed countries such as the UK, the USA, Canada and Australia. However, the research findings from these countries are not necessarily applicable to developing countries, which may have a very different economic and political context (Barghathi et al., 2017). Shibani and Fuentes (2017) assert that no single governance model can cover all societies, cultures and companies because of national variations in social structure and culture. Mangena and Chamisa (2008) argue that these national differences make it necessary to examine governance structures country by country, but so far, few investigations have focused on ACs in the context of developing countries (e.g. Al-Moataz, 2003; Bett and Tibbs, 2017; Chanda et al., 2017). Among the few studies that have been conducted in these countries, Soliman (2003) found ACs in Egypt to be largely ineffective in their oversight of the public banking sector, while Al-Moataz (2003) identified a similar lack of effectiveness among ACs in Saudi Arabia.

1.2 Research Motivations and Problems

Researchers have described CG in developing countries as generally weak (Denis and McConnell, 2003; Klapper and Love, 2004). Many of these countries lack the institutional framework necessary for effective CG (Boubakri et al., 2005); for example, many have an ineffectual legal system (Nganga et al., 2003; Owusu and Vaaland, 2016). This is the case in Libya, which is still in the early stages of implementing CG (Magrus, 2012; Iswaissi and Falahati 2017) and where CG regulation remains inadequate (Larbsh, 2010; Abdou, 2015). Apart from the weak legal system, however, ACs in Libya also face a variety of other challenges, including state interference in the board appointment process, a general lack of knowledge about CG, and a lack of training among directors (Larbsh, 2010; Magrus, 2012). This environment affects both the practice and the effectiveness of ACs, but lack of research means that neither the nature of this impact nor the current status of ACs in Libya are fully understood. This is therefore the focus of this research.

As the Libyan economy moves towards privatisation, with the accompanying broadening of ownership and expansion of foreign investment (Abdo and Aldrugi, 2012; Masoud, 2014a), it

has become a matter of urgency to review and improve the ways in which CG operates in Libyan firms, particularly the AC mechanism (Larbsh, 2010). In order to assess the effectiveness of Libya's ACs, more must be understood about their composition, systems and structure and whether they are given sufficient resources to perform their function (Morgan, 2010). In the absence of an institutional Libyan CG framework (Larbsh, 2010; Magrus, 2012), and given the dearth of research on AC practice in developing countries (Al-Moataz, 2010), and the clear deficit of research on the practice of CG in the Libyan banking sector (LBS) (Zagoub, 2016), this research thus addresses a significant information gap; it seeks to explore the current role of ACs as mechanisms of CG in this sector, to investigate the factors that affect their performance and to identify actions to enhance their effectiveness.

Up-to-date information on these issues is especially crucial because of the sector's importance within the Libyan economy (Alrshah, 2015); it is both the main artery of economic development and central to attracting foreign investment (Hawashe, 2016a). The sector faces numerous obstacles, including a lack of support from the Central Bank of Libya (CBL) and a lack of trained staff (Zaed et al., 2016), but one of its greatest challenges is the high level of Government intervention. Researchers (e.g. Iswaissi and Falahati, 2017) have expressed concern that Government interference in the appointment of board members could have an adverse effect on banks and their CG if it impacts on the decisions and performance of the board, including the selection of AC members, especially given that the banking environment is already weakened by inadequate and ineffective regulation, unprofessional boards and underperforming directors (Abdou, 2015; Zagoub, 2016).

1.3 Research Aim and Objectives

This research analyses the main roles played by ACs in CG in Libya's banking sector, one of the most important sectors of the country's economy, and explores those factors that enable or inhibit ACs in their performance of these roles. To achieve this, the following objectives were specified:

1. To explore the current role of audit committees in the Libyan banking sector.
2. To investigate the factors that affect the effectiveness of audit committees in this sector.
3. To identify ways of enhancing the effectiveness of audit committees in this sector.

1.4 Research Questions

These aims and objectives led to the following main questions:

1. What role do audit committees currently play in the Libyan banking sector?
2. How do these committees perform their role?
3. What factors impact on the effectiveness of audit committees in this sector?
4. How do these factors affect the role of audit committees?
5. What can be done to enhance the effectiveness of audit committees in this sector?

1.5 Methodology and Methods

The study used a combination of a quantitative questionnaire survey and qualitative semi-structured interviews to boost data quality and minimise the risk of bias (Esteves and Pastor, 2004). Data were first gathered from the questionnaire responses. This was supported by the data gathered from the semi-structured interviews, which were used to gain a better understanding of the research questions and to confirm and further explore the questionnaire survey findings.

Following Saunders et al., (2009), the questionnaire, which underwent several drafts, began with a brief summary outlining the project and the purpose of the instrument. In the main body of the instrument, the survey questions, which were developed following an extensive literature review, all employed five-point Likert scales. These scales are widely used in social science research (Jafarabadi and Pakdaman, 2016).

Since the target population for this study is relatively small, the questionnaire was distributed to the entire population rather than to a selected sample. A list of 400 potential respondents was prepared following a search of the banks' websites and telephone conversations with Central Bank of Libya officials. This list comprised four board members, three AC members, seven executive managers, seven internal auditors and four external auditors from each of sixteen of Libya's seventeen commercial banks (the excluded bank does not have an AC). These five groups are the most familiar with AC practice, have the means and right to monitor firms, and are widely regarded as the foundation stones upon which a bank's monitoring mechanisms are built (see Rezaee, 2009; Ittonen et al., 2010; Waweru et al., 2011).

The majority of questionnaires were distributed by hand, with the remainder being sent by email. When the majority of email questionnaires had not been returned after two months, they were re-sent, prompting some recipients to return their questionnaires. Many of those

approached were initially reluctant to participate, claiming that they were too busy or did not understand the research topic. It was necessary to reassure these individuals that they could ask for further clarification of the questions at any time. In the end, 246 of the 400 distributed questionnaires were returned, 28 of which were rejected because they were incomplete. This left 218 for analysis, representing a response rate of 54.5%. Fewer questionnaires were received from board and AC members because these groups tend not to have permanent offices in the banks or attend regularly. The data were analysed using SPSS.

As interviews – particularly semi-structured interviews – can be especially useful in assisting the researcher in accessing results that cannot be reached through statistical or other quantitative approaches (Corbin and Strauss, 2008; Ritchie et al., 2013), twenty interviews were also conducted with the five groups (four per group) listed above to obtain richer insights into the role of ACs. The interviewees, who were all senior employees in this sector, were selected using the snowball method, with interviewees being asked to propose the names of other suitable candidates. A large sample was selected in the belief that collectively, it would possess the knowledge and experience necessary to answer the research questions. Care was taken to choose individuals from a range of banks in order to enhance the credibility of the findings.

The interviews, which took place after the questionnaire survey to allow the collection of more in-depth opinions, were all conducted face-to-face. The interview transcripts were thematically coded and sorted using NVivo software (Zamawe, 2015), which made it possible to handle a very large amount of data and achieve high-quality coding, increasing the reliability and validity of the results (Patton, 2015).

1.6 Significance of the Research

The main significance of this research lies in the fact that by exploring the current role of ACs in the Libyan banking sector and investigating the factors that affect their performance, it may aid regulators, shareholders and board members in the banking sector in their efforts to enhance the effectiveness of these committees. Recent episodes of corporate corruption and collapse have highlighted the dangers of weak control mechanisms, prompting theorists, researchers, regulators and governments around the world to call for renewed attention to be paid the AC as a key governance mechanism and for corporations to make the committee a central part of their efforts to improve CG. However, little is known about how ACs operate in the Libyan banking sector, which is still in the early stages of implementing CG. In order to assess whether

these committees are performing their function effectively, more must be understood about their composition, systems, structure and resources.

The research is also important because of the fact that it addresses an information gap in the accounting literature by investigating AC effectiveness in a developing country, a context which is still poorly understood. In broader terms, by offering a different perspective and new evidence from a country with its own unique business environment, culture, religion and regulatory framework, it may enhance our understanding of the concept of CG and the role of ACs. The vast majority of studies have focused on the AC's effectiveness in developed countries, but little is known about how these committees operate in developing countries such as Libya. As such, it is the first study to explore the role of ACs in the Libyan banking sector, the factors that affect their performance and measures for enhancing their effectiveness since the sector embarked on the process of implementing CG. It may offer a useful foundation for future investigation, for example of how ACs operate in other sectors within the Libyan economy or within other developing economies.

The study makes a significant contribution to the accounting literature with its discussion of the impact that fourteen enabling and inhibiting factors have on AC effectiveness in the Libyan banking sector. Finally, it takes the first steps towards identifying ways of enhancing the effectiveness of ACs in the sector; it is unique in identifying the impact of the weakness of the accounting and auditing profession on AC effectiveness and the first to explore the suggestion that this effectiveness might be improved by raising standards among the country's accounting and auditing professionals.

1.7 Structure of the Study

The study consists of nine chapters. The current chapter offers an overview of the study. It starts by providing insight into the research and explaining the research problem before presenting the research objectives and research questions. It briefly discusses the methodology and methods, and research significance before concluding with a summary of the structure of the thesis.

Chapter Two presents the background to the study. It discusses Libya's accounting and auditing profession and stock market, the structure of the banking sector and its recent shift towards the application of Islamic law, and the key legal/regulatory steps in the development of CG in Libya.

Chapter Three presents an outline of the literature regarding CG. It focuses particularly on the concept and principles of CG, the main theories that have been used to interpret and explain CG, and the main mechanisms of CG. There is a particular focus on agency theory and institutional theory, which form the theoretical underpinning of the current study. Agency theory sees the AC as playing a practical monitoring role, while institutional theory sees the AC's role as largely symbolic.

Chapter Four sheds light on the literature in relation to ACs. It discusses the concept of the AC, the committee's role in CG, and the factors (both enabling and inhibiting) that affect AC practice before presenting the conceptual framework of the research.

Chapter Five describes the methodology and methods that were employed. The main data collection method was a quantitative questionnaire survey. This was followed by qualitative semi-structured interviews. The chapter discusses the selection of the study population and sample, the design and distribution of the questionnaire and the analysis of the questionnaire data before going on to describe the profile of the interviewees, how the interviews were conducted and how the resulting data were analysed.

Chapters Six, Seven and Eight present and discuss the findings gathered from the questionnaire and semi-structured interviews and compare these findings with the results of the literature review. Chapter Six presents the findings relating to the first and second research questions; that is, the present role of ACs and how they perform this role in Libya's banking sector. Chapter Seven covers the third and fourth research questions; that is, what the respondents perceived as the main enabling and inhibiting factors affecting AC practice. Chapter Eight presents the results relating to the fifth question: what actions can be taken to enhance AC effectiveness.

Chapter Nine summarises the findings of the study and discusses their contribution and implications. Finally, it considers the limitations of the research and suggests areas for future investigation.

Chapter 2. Development of Corporate Governance in Libya

2.1 Introduction

The aim of this chapter is to provide an overview of the development of CG in Libya. It starts by giving an insight into the emergence and current status of the country's accounting and auditing profession before explaining the role played by the Libyan Stock Market (LSM) in fostering economic growth and the implementation of CG. The structure of the country's banking sector is then described. The remainder of the chapter summarises the key legislative/regulatory steps that led up to the Central Bank of Libya's (2010a) Corporate Governance Code before discussing how some of the main CG mechanisms (i.e. the board of directors, sub-committees and disclosure practices) are treated within this legislation.

2.2 The Accounting and Auditing Profession

When the modern state of Libya was established in 1951, the country's economy was based on the limited productivity of a traditional agricultural sector (Younes et al., 2013). This all changed with the discovery of oil in 1959, which transformed Libya from a poor to an extremely wealthy country (Falola et al., 2012). It was through their involvement in Libya's oil industry that western oil companies, especially those from the UK and the USA, introduced their accounting practices – and their attitudes to accounting – into the Libyan environment. These companies positively affected the development of accounting first in Libyan oil companies and then in other companies (Masoud, 2016). Early practice was also shaped by Libyan students who had studied abroad, particularly in the USA and the UK. This period saw the enactment of the Libyan Commercial Law (1953) requiring companies to prepare an annual report including an income statement and balance sheet (Masoud, 2016). The law served as an acknowledgement of the importance of the accounting and auditing function; accordingly, as oil exports increased during the 1960s, the Government took steps to improve the accounting education being offered by Libyan universities (El-Firjani et al., 2014).

The next major step in the development of the accounting profession came in 1973, when the Government issued Law No. 116. This was the first legislation to focus specifically on the accounting and auditing profession (Laga, 2013). It sought to raise standards by setting out the responsibilities of and a code of behaviour for accountants and auditors, and by requiring accountants to be registered. Finally, it laid the groundwork for the creation of the Libyan Accountants and Auditors Association (LAAA) (El-Firjani et al., 2014).

Despite this and other attempts at regulation, however, and notwithstanding the existence of the

LAAA (Masoud, 2016), the accounting profession in Libya has not yet achieved its central objective of developing accounting practice (El-Firjani et al., 2014). For example, auditing practice remains undeveloped, making it difficult to report corporate misconduct (Zakari and Menacere, 2012). The Government has sought to address this weakness, for example by issuing the Banking Law in 2005 and requiring all firms with a capital of over one million Libyan Dinars to be listed on the Libyan stock market, where they are expected to follow the International Accounting Standards (IASs) (El-Firjani et al., 2014). However, such progress as has been made is largely down to the Central Bank of Libya, which has sought to foster good accounting practice through its issuance of CG rules and guidelines (Larbsh, 2010). At the moment, the accounting and auditing profession itself does not enjoy high status, mostly due to the perceived weakness of the LAAA (Masoud, 2017). This state of affairs is unlikely to change without a thorough overhaul of the profession's regulatory systems to bring them into line with those in developed countries.

2.3 The Libyan Stock Market (LSM)

Realising that a stock market was crucial to encourage investment, speed up its privatisation programme and broaden the property base in Libya, the Libyan Government established the LSM in principle in 2001 with the issuance of Act No. 21/2001 (Masoud, 2014a). The act required all public and private organisations to register in the stock market with a view to being listed (El-Firjani et al., 2014). However, the stock exchange did not officially open until 2006, when the Government issued Decision No. 134/2006 (Aljbiri, 2012). In October 2008, a collaboration contract was finalised between the LSM and the London Stock Exchange allowing groups of trainees from the LSM to work in London (Saidane, 2010). In the years since then, the LSM has become increasingly active internationally, joining the International Organisation for the Protection of the Investor, and the Executive Committee of the Deposit of Africa and the Middle East (Alameda) (Edweib et al., 2013). Its continuing aims are to boost the privatisation process, enhance finance availability and facilitate the granting of credit, encourage investment and ensure the disclosure and transparency of financial and economic information (Edweib et al., 2013).

In 2007, the LSM issued its own Code of Corporate Governance for listed companies. The code covers key areas including the responsibilities of the board of directors, the establishment of sub-committees such as the audit committee, remuneration committee, nomination committee and watchdog committee, and disclosure and transparency. At some point in the first four months after the expiry of the financial year, all companies listed in the stock market must

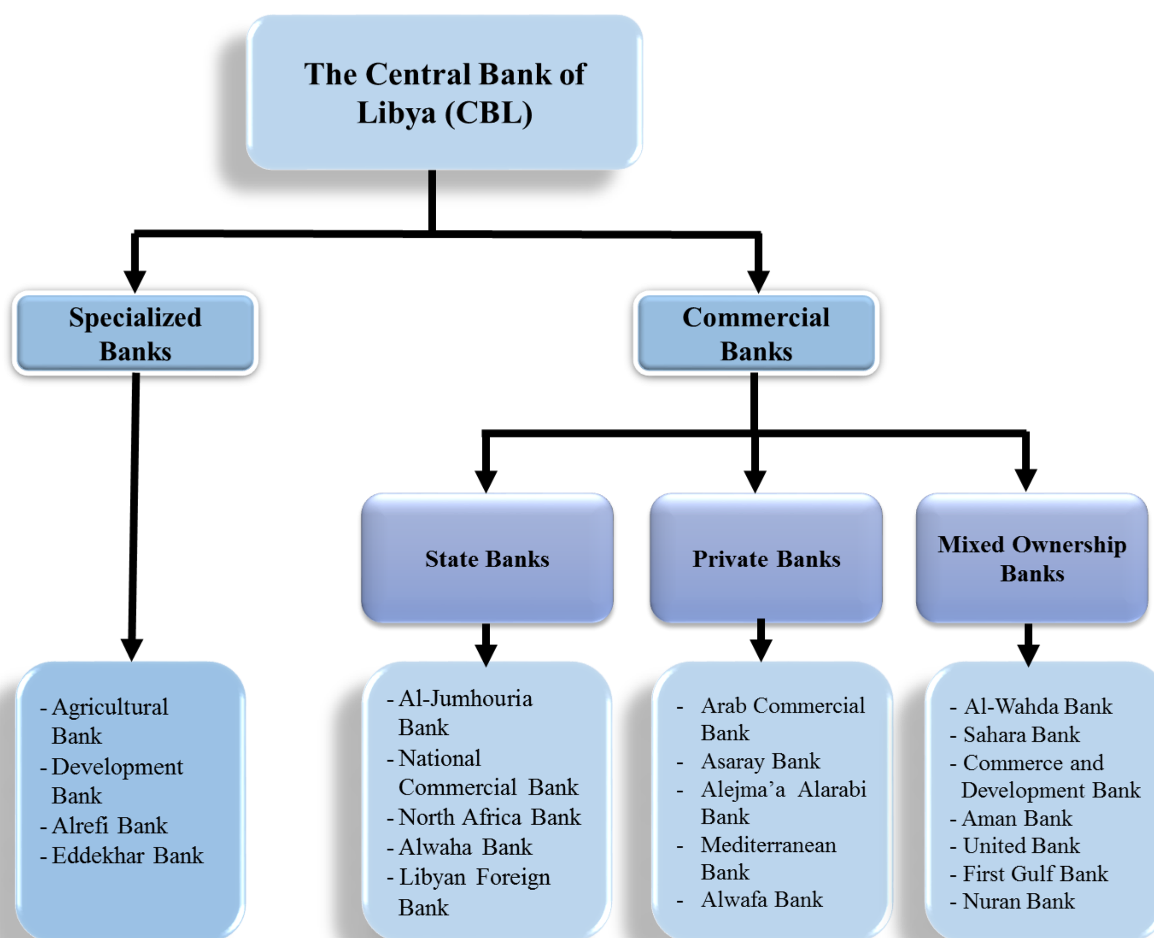
publish their annual reports. These reports must include information on investment income, overdrafts and interest on loans, proposed and paid dividends, pension and compensation payments and the remuneration and turnover of external auditors (Masoud, 2014a). The Corporate Governance Code also stresses that information accompanying the annual financial statement should include a statement on whether the company has followed the code, a list of its sub-committees and their responsibilities, the names of the members of these committees, and details of all remunerations and bonuses they receive (LSM, 2007). Ishmel's study (2010) revealed that shareholders are generally satisfied with these annual reports. Thus, the LSM has had a significant impact on the level of disclosure and transparency in the annual financial reporting of listed companies. Edweib et al. (2013) conclude that it has played a significant role in enhancing economic growth, that its strategy for attracting investors is effective and that it has created a climate that is conducive to investment.

2.4 The Libyan Banking Sector

The banking sector is one of the most important sectors of the Libyan economy (Alrshah, 2015) and one of the major financiers of projects and institutions, because of the adoption of public sector enterprises in the implementation of development plans (Shernanna, 2012). Between 2002 and 2010, the Central Bank of Libya (CBL) implemented a range of measures to improve the banking sector to bring it into line with the Government's new policies and better facilitate economic development (CBL, 2010b). These included the issuance of a voluntary corporate governance code in 2005 (made mandatory in 2010), the restructuring of commercial banks, and the transfer of ownership of some public sector banks to the private sector. In addition, new private banks were established and foreign investors and foreign banks were allowed to enter the sector (CBLa, 2010).

The banking sector in Libya consists of the CBL, seventeen commercial banks (see Figure 2.3) and four specialised banks (CBL, 2016).

Figure 2.1 The Libyan Banking Sector



Source: Central Bank of Libya (CBL) (2016)

2.4.1 Central Bank of Libya (CBL)

The CBL, which was established in 1956, is Libya's supreme monetary authority. The main purposes of the CBL are to maintain monetary stability in Libya and to ensure the continual growth of the economic system in accordance with the general economic policy of the state (CBL, 2008). The law establishing the CBL provides for its independence and gives it the authority to oversee all of Libya's banks with a view to ensuring the integrity of their financial position and performance and protecting the rights of depositors and clients (CBL, 2008). Gait (2009) notes that this is one of the CBL's main responsibilities; El-Firjani et al. (2014) also observe that it is the CBL's job to closely monitor the banking sector. Over the past two decades, the CBL has made significant efforts to attract more foreign investment by permitting

foreign banks to open branches and agencies in Libya (Hawashe, 2016a). The functions of the CBL may be summarised as follows (CBL, 2008):

- Issuing and regulating banknotes and coins in Libya;
- Maintaining and stabilising the Libyan currency internally and locally;
- Maintaining and managing the official reserves of gold and foreign exchange;
- Regulating the quantity, quality and cost of credit to meet the requirements of economic growth and monetary stability;
- Taking appropriate measures to deal with foreign or local economic and financial problems;
- Acting as a banker to the commercial banks;
- Supervising commercial banks to ensure the soundness of their financial position and protection of the rights of depositors and shareholders;
- Acting as a banker and fiscal agent to the state and public entities;
- Advising the state on the formulation and implementation of financial and economic policy;
- Supervising foreign exchange;
- Carrying out any other functions or transactions normally performed by central banks, as well as any tasks charged to it under the law of banking and currency and credit or any international convention to which the state is a party;
- Managing and issuing all state loans.

2.4.2 Commercial Banks

Commercial banks are the most significant financial institutions in Libya in terms of role, size, geographical spread and the range of services provided to customers (Hawashe, 2016a). In the move towards privatisation and openness (Abdo and Aldrugi, 2012), the Central Bank of Libya has over the past two decades implemented a series of reforms to allow the establishment of private, domestic commercial banks and the opening of branches by foreign banks (Hawashe, 2016a). Consequently, the sector now consists of seventeen banks (sixteen of which are targeted in this study), which are variously owned by the state, the private sector, or joint-owned by some combination of the state, domestic and foreign investors (Libyan-foreign). Collectively, the commercial banks operate a total of 494 branches all over Libya (see Table 2.1). As of 2013, they held total assets of 98.4 billion Libyan dinars (£46.8 billion) (CBL, 2013).

Table 2.1: Ownership Structure of Libya's Commercial Banks

No	Bank	Ownership	Number of Branches	State Owned	Private	Mixed Ownership		
						State Owned	Domestic Investors	Foreign Investors
1.	Al-Jumhouria	State	146	100%				
2.	Sahara	Mixed	49			55%	26%	19%
3.	National Commercial	State	68	100%				
4.	Al-Wahda	Mixed	76			81%		19%
5.	North Africa	State	53	100%				
6.	Commerce & Development	Mixed	30				50%	50%
7.	Alwaha	State	10	100%				
8.	Aman	Mixed	23				60%	40%
9.	United	Mixed	12				60%	40%
10.	Arab Commercial	Private	3		100%			
11.	Asaray	Private	3		100%			
12.	Alejma'a Alarabi	Private	12		100%			
13.	Mediterranean	Private	4		100%			
14.	Alwafa	Private	3		100%			
15.	First Gulf	Mixed	1			50%		50%
16.	Libyan Foreign	State	1	100%				
17.	Nuran Bank	Mixed	1				50%	50%

Source: Central Bank of Libya (CBL) (2016)

2.4.3 Specialised Banks

There are four specialised banks in Libya. These were established to finance particular activities: The Agricultural Bank grants agricultural loans, the Development Bank funds investment in industry, the Alrefi Bank grants loans to job seekers, and the Eddekhar Bank provides mortgage lending for all citizens (Hawashe, 2016b). Article 65/2 of the Libyan Banking Law (2005) defines a specialised bank as an institution whose main purpose is to finance and grant credit for specific activities and whose basic activities do not include the acceptance of demand deposits. As they do not operate according to the profit principle, their activities differ from those of commercial banks. Since specialised banks do not have audit committees, they are excluded from this study.

2.4.4 The Islamic Banking System in Libya

Deriving from the Qur'an and Sunnah (Javaid and ul Hassan, 2013), the primary objective of Islamic law (Sharia) is to guarantee safety and justice for Muslims by protecting their religious, personal, wealth and property rights (El-Halaby and Hussainey, 2015). In terms of finance specifically, Sharia places particular obligations on banks and other financial institutions, including forbidding the charging of interest and trading under uncertainty (Abdo and Wakkas, 2011). As a result, these institutions have had to develop special, Sharia-compliant financial products and services to serve the needs of Muslim customers (Grais and Pellegrini, 2006). As this market develops, Islamic financial services are playing a growing role in the international economy; worldwide, there are currently more than 600 Islamic banks and more than 700 Islamic investment funds with over 2 trillion dollars in assets. Furthermore, many non-Muslims are now using the products provided by Islamic financial institutions and Islamic windows in traditional banks (Masiukiewicz, 2014).

In Libya, the move towards Islamic banking began with Libyan Banking Law No. 1/2005, which allowed for the creation of some Islamic banking services and products as a category of licensed activities (CBL, 2005). However, prior to 2011, the Libyan Government showed little support for Islamic banking. It was not until after the 2011 revolution that the National Transitional Council issued Law No. 46/2012, which amended the 2005 Banking Law to include a detailed chapter on Islamic banking and allow the establishment of Islamic banks (Baej and Worthington, 2014). This was followed in 2013 by the issue of Law No. 1/2013 prohibiting all interest charges (Riba) (Stela and Abdulsalam, 2016). With the strong support of most segments of society (Abdulsaleh, 2017), the Central Bank of Libya (CBL) then began the process of transforming the conventional banking system into an Islamic banking system, establishing Sharia committees and opening windows within existing banks and new branches to provide dedicated Islamic banking services (Elkrghli and Yahya, 2018), mainly Murabaha and Musharaka financial products (Abdulsaleh, 2017). However, at the time of writing, the move to an entirely Islamic banking system has not yet been accomplished (Zway, 2017), and many banks remain in the early stages of transition (Elkrghli and Yahya, 2018). There are several reasons for this, including a lack of relevant experience and inadequate staff training, Libya's lack of an Islamic financial market, and the unstable political and economic situation (Abdulsaleh, 2017; Zway, 2017; Elkrghli and Yahya, 2018). These challenges notwithstanding, Baej and Worthington (2014) are optimistic that the transition will eventually be completed now that it has the support of the CBL, regulators, banks, academics and society as a whole.

Masoud (2014b) expects that Islamic finance will ultimately play a prominent role in the long-term economic growth of Libya by increasing the gross domestic product (GDP), while other supporters of Islamic banking argue that an effective Islamic banking system will attract both domestic and foreign investment (Eldlimi et al., 2013) and thereby restore liquidity levels. However, in the absence of any information from the Central Bank of Libya regarding the current extent of Sharia application in the Libyan banking sector, it is too early to assess what, if any, impact Islamic finance is having on the banking sector and its practice, including CG and audit committees. The issue is therefore not considered in this research.

2.5 Development of Corporate Governance and Audit Committees in Libya

This section identifies the key legislation that has shaped the development of CG in general in the Libyan context before focusing specifically on boards of directors, sub-committees (including ACs) and disclosure practice.

2.5.1 Historical Development

The development of CG in Libya has passed through several stages since the end of the British mandate and the arrival of Libyan independence in 1951. The first stage of this development was the issuance of the Libyan Commercial Law in 1953. This contained numerous provisions covering many of the key principles of CG, including board structure, the responsibilities of the board and the fundamental rights of shareholders. This law was technically superseded by the revised Commercial Code (No. 23/2010), which was announced in 2010. However, this new code, which was developed to address a number of shortcomings in the 1953 law, is not yet in force because the Government has not yet issued the executive regulations.

The next major step was in 1973, when the Government issued Law No. 116, which deals with the organisation of the accounting profession in Libya. This law, which was the first to focus on accounting and related fields (Laga, 2013), brought the profession into the limelight (Ritchie and Khorwatt, 2007). It sought to raise standards by setting out the responsibilities of and a code of behaviour for accountants and auditors, and by requiring accountants to be registered. Finally, it laid the groundwork for the creation of a Libyan Association of Accountants and Auditors (El-Firjani et al., 2014).

During the first decade of the 21st century, the Central Bank of Libya implemented a series of measures aimed at bringing the sector into line with the international banking system and fostering its development. These included the issuance of a (voluntary) CG code in 2005, the

restructuring of commercial banks and the transfer of ownership of some public sector banks to the private sector. New private banks were established and foreign investors and foreign banks were allowed to participate in the sector (CBL, 2010b). In 2005, the Central Bank of Libya issued the Libyan CG Code (LCGC). This code offered essential guidelines on corporate governance for commercial banks in Libya, but these guidelines were neither compulsory nor lawfully binding (CBL, 2005).

In 2010, the Libyan CG Code was finally made mandatory. The code, which applies to all banks in Libya, is made up of six sections. The first discusses the central principle of corporate governance and its importance in ensuring that banking operations are conducted safely and protect the interests of shareholders, as well as an explanation of many of the terms used in this code. The second section identifies out the Shareholders' equity including how to make decisions at the General Assembly of Shareholders. The third section sets out the criteria for appointing board members and senior management and explains what they should do in order to perform their duties towards shareholders, depositors and other debtholders efficiently and effectively. This section addresses the board’s role in choosing and supervising management, and the relationship between the board of directors and the executive management. Section four sets out the sub-committees of the board of directors for helping the board of directors to perform its duties and responsibilities. These sub-committees include audit committee, corporate governance committee, risk management committee and appointment and remuneration committee, while sections five and six addresses the disclosure of corporate governance practices implemented by banks and some other requirements, such as a number of obligations of public sector shareholders (CBL, 2010a).

The Libyan Stock Market was officially inaugurated in 2006 with the Government’s Decision No. 134. The establishment of the stock market was seen as necessary to encourage investment, foster the privatisation process, broaden the property base and facilitate the granting of credit. 2007 saw the Libyan Stock Market issue the second CG Code. The code, which is directed at listed companies, includes articles relating to the responsibilities of the board of directors, the establishment of sub-committees such as the audit committee, remuneration committee, nomination committee and watchdog committee, and disclosure and transparency. However, the only mandatory article within the code is that concerning disclosure.

As noted above, the Libyan CG Code was made mandatory in 2010. Also, in 2010, the Parliament issued Libyan Stock Market Authority (LSMA) Law No. 11, which contains a raft of articles governing the regulation of the stock market. This law is designed to ensure that all

transactions by companies listed in the market take place under conditions of transparency and disclosure. It also stipulates that the LSMA should be managed by a board of five members, who should be appointed by the Prime Minister. The law contains provisions to ensure that investors are protected; Article 78, for example, stipulates that if any company listed in the stock market finds its activities or its financial position suddenly affected by unforeseen circumstances, it must immediately disclose these to the directors of the stock market.

Despite all these legal and regulatory efforts, however, the legal environment in Libya remains weak, and there is still a widespread lack of knowledge about corporate governance (Magrus, 2012). Numerous researchers have observed that CG regulation is still inadequate in most Libyan firms (e.g. Larbsh, 2010; Magrus, 2012; Faraj and El-Firjani, 2014; Abdou, 2015), and awareness among investors remains low. This has had adverse consequences for the country, weakening the banking system, reducing Libya's attractiveness to foreign investors and exacerbating the fragility of the national economy (Larbsh, 2010; Magrus, 2012; Alrshah and Fadzil, 2013).

2.5.2 Board of Directors

A board of directors is a group of individuals who have been chosen to protect the interests of shareholders by monitoring, guiding and advising top management (Seward and Walsh, 1996; Coles et al., 2008). Zhang et al., (2015) point out that the main job of the board of directors is to resolve conflicts of interest between stakeholders. The board of directors is the main governance tool connecting the firm to its institutional context (Zhu et al., 2013; Walls and Hoffman, 2013). The model board has a mixture of inside directors who are senior employees and outside directors, who may be executives in other firms (Yoo and Reed, 2015).

The Libyan CG Code (2010) stipulates that boards in commercial banks must have between five and seven members, at least two of whom must be independent directors (CBL, 2010a). However, Article 530 of the Libyan Commercial Law (1953) states that if a firm's memorandum of association sets upper and lower limits for the number of directors, the general assembly can specify the number of directors it wants within these limits. The general assembly is also authorised to appoint board members; if it chooses not to appoint the board chairman, board members may do this themselves by selecting a candidate from among their group. The law allows the board of directors to delegate its powers to an executive committee composed of some of its members (Libyan Commercial Law, 1953).

The 2010 code states that the final responsibility for the activities and financial integrity of the bank rests with the board of directors. This responsibility means that board members must not perform any executive function in the bank. It is the board's job to set strategies and policies, to supervise the management and its commitment to these policies, and to ensure that the CG code is properly implemented. It is accountable to the Central Bank of Libya, the general assembly of shareholders and other stakeholders (CBL, 2010a).

2.5.3 Board Sub-Committees

The Libyan CG Code (2010) recommends that all banks should set up sub-committees (CBL, 2010a), according to their circumstances and requirements. The aim of these committees should be to assist the board of directors to perform its duties and responsibilities. The code advises, as a minimum, an audit committee (see section 2.6.4), a risk management committee (to set risk management policy and supervise management performance in this area), an appointment and remuneration committee (to set standards for the appointment of executive managers and develop policy for the compensation of board members and executive managers) and a corporate governance committee (to set the general framework for the bank's governance procedures, monitor the implementation of this framework, review it periodically and supervise CG-related disclosure) (CBL, 2010a).

2.5.4 Audit Committee Formation

A series of changes and reforms in Libya's banking sector, including the arrival of foreign banks and the adoption of the Basel Committee's recommendations (Abdulsaleh, 2014b), have highlighted the importance of audit committees in monitoring bank practice and protecting the interests of shareholders. However, as Abdulsaleh (2014a, p. 596) points out: "The challenge for developing countries, such as Libya, in activating the role of audit committees is to adapt them successfully to their own regulatory, legal, political, cultural and religious setting". In Libya, audit committees were not compulsory under either the Central Bank of Libya's 2005 CG code or the Libyan Stock Market's 2007 code, though their recommendation by the stock market did lead to them becoming more prevalent in listed companies (Larbsh, 2010). It was not until the CBL's CG code became mandatory in 2010 that audit committees became compulsory in the banking sector.

The 2010 code, which applies to all banks in the Libyan banking sector, stipulates that every bank must establish an audit committee (CBL, 2010a), to be appointed by the board of directors. It should comprise at least four members, at least two of whom should be independent directors. The committee members should have experience and understanding of the process

of risk management and CG, and one or two should have experience of financial disclosure, accounting and auditing. The audit committee should meet at least once every three months (or whenever needed) at the invitation of its chairman, and it should also hold periodic meetings (at least annually) with the external auditors and the director of the internal audit department. It may call upon any senior manager to attend its meetings if it requires clarification or information.

The committee has a number of roles, including monitoring the fairness and transparency of financial statements, related disclosures and other information; reviewing the plan for the internal audit, any observations in the internal audit reports and action taken thereon; supervising the work of external auditors; and ensuring the adequacy and effectiveness of internal control systems and procedures (CBL, 2010a). It is also responsible for recommending the appointment or replacement of the internal audit director and the external auditor, and for providing the board of directors with reports to help it evaluate the performance of the bank (Shalba, 2016). The committee is thus a key CG mechanism, assisting the board to carry out its responsibilities effectively and protect the interests of shareholders.

2.5.5 Disclosure Practices

Haniffa and Cooke (2002) argue that when legislation governing the disclosure of information is not enforced, firms often fail to disseminate high-quality information. In the past, Libyan disclosure requirements were low; Article 572 of the Libyan Commercial Code (1972) only required firms to produce a balance sheet, a profit and loss account, a directors' report and an external auditor's report (Libyan Commercial Code, 1972). Perhaps not surprisingly, Kribat et al. (2013) found that Libyan banks failed to comply fully with compulsory disclosure requirements during the years covered in their study (2000-2006).

The weakness of disclosure in Libya is primarily attributable to the lack of accounting standards (Kribat et al., 2013); in the absence of such standards, even firms in the same industry may apply the principles, rules, methods and measures of accounting in different ways (Ahmad and Gao, 2004). Chong and Ahmad (2010) illustrate that the accounting regulatory and institutional frameworks that govern disclosure and the reporting process in Libya are in fact made up of a mixture of rules, regulations and institutions drawn from the USA, the UK and Italy. Pratten and Mashat (2009) found that in Libya, annual reports have often in the past been utilised exclusively for the purpose of central planning, with disclosure being limited to informing employees about the firm – it has not been the custom to disclose information to all stakeholders, even though investors rely on accounting disclosures to make investment

decisions (Abdo et al., 2017). However, Pratten and Mashat (2009) point out that Libyan companies are now becoming more aware not just of their obligations regarding disclosure but also of the need to spread the word about their activities. As a result, the level of disclosure in Libyan companies is now higher than that found in the past. The trend has been driven by a number of measures that have been put in place by the Libyan Government and other concerned bodies:

- In 2007, an agreement was signed between the Libyan Stock Market and the University of Reading to provide training and technical assistance in Libya and the UK to securities traders in Libya. Training has addressed issues such as the disclosure of financial data, arbitration and dispute resolution, governance and the preparation of legal rules and regulations to protect investors. The agreement also allows for the provision of consultancy services to develop Libya's financial market (Masoud, 2014).

- In 2008, the General People's Committee (Prime Ministerial) issued Decision No. 436, which includes a set of regulations and basic rules to adjust the process of the market with the aim of protecting investors and ensuring the principles of disclosure and transparency are observed (LSM, 2008).

- 2010 saw the issuance of Libyan Stock Market Authority (LSMA) Law No. 11. This sets out a range of measures to improve the operation of the Libyan Stock Market, one of which is the mandatory disclosure of essential information to investors. The law requires all actors in the market to disclose all relevant information, data and statistics, including the status, basic biographical details and financial position of board members, financial statements certified by an outside auditor, an annual list of shareholders and any significant information that might impact the price of stock (LSMA, 2010).

2.5.6 Factors Affecting Corporate Governance Development

There is a variation between developed and developing countries in terms of the implementation of corporate governance (Huang et al., 2014; Thanathawee, 2015). This is a result of a weakness of corporate governance practices in developing and emerging countries (Ertugrul, 2015; Anas, 2015). Leuz et al., (2003) conclude that in developing countries with weak economies, investors have few rights and regulation is not enforced, while Boubakri et al. (2005) argue that many developing countries lack an established institutional framework for effective corporate governance. This is the case in Libya, which is still in the early stages of implementing

corporate governance (Iswaissi and Falahati 2017), while others have argued that the development of CG in these firms is being hindered by unprofessional boards and underperforming directors (Abdou, 2015). As a result, regulation is still inadequate, there is little training for directors on governance systems, and the lack of accounting standards and legal requirements lead to low levels of disclosure. Firms lack experience in internal and external auditing but are concerned about the financial costs of putting such mechanisms in place (Abu-Azza, 2012; Magrus, 2012; Hamuda and Sawan, 2014; Zagoub, 2016).

These results are similar to that of the study by Larbsh (2010), who found that corporate governance in Libya has impacted adversely by a number of inhibiting factors, such as weakness of the legal system that governs the activities of firms, poor management and poor company leadership, political interference, the absence of a merit system in the appointment of managers and boards of directors and weakness in their training, company ownership, the low disclosure practice, and the lack of willingness to respond to change. It has therefore proposed the following steps in order to have a good system of corporate governance in Libya:

- Encouraging the awareness of the benefit of corporate governance practice in medium and small companies.
- Developing and maintaining a healthy banking system.
- Compliance with the merit system on appointing managers and board members.
- Encouraging the private sector, reducing the bureaucracy and developing the economy.
- Supporting Government agencies and non-governmental organisations to play a role in monitoring and developing the framework of corporate governance (Larbsh, 2010).

2.6 Summary

The chapter begins with a brief overview of the development of Libya's accounting and auditing profession, explaining that it does not currently appear to have the skill or the professional standing to push for improvement, with the Libyan Accountants and Auditors Association (LAAA) being generally seen to have failed in its mission of raising standards and developing accounting practice.

The chapter goes on to explain that the Central Bank of Libya (CBL) has implemented a series of reforms over the last two decades to develop the banking sector and increase its competitiveness in the global marketplace. Central to this have been its efforts to encourage better CG among Libya's commercial banks. The chapter discusses the progress of these efforts,

highlighting in particular the central role played by the CBL's 2010 CG Code, which sets out guidelines for the formation of boards of directors and board committees (including ACs) and for disclosure practice. It also highlights the vital role played by the Libyan Stock Market in regulating and improving practice in listed companies.

On the whole, however, the chapter shows that CG in Libya is still in the early stages of development. While some Libyan researchers have suggested that there has been an improvement in regard to disclosure practice, the general view is that the legal environment remains weak and awareness of CG among stakeholders is low. There is a general lack of knowledge about CG, directors lack training on governance systems, and firms lack experience in internal and external auditing, but are concerned about the financial costs of putting such mechanisms in place.

This chapter having outlined the context of the study, the next reviews the literature concerning corporate governance, its mechanisms and the main theories to have influenced its development.

Chapter 3. Aspects of Corporate Governance

3.1 Introduction

The previous chapter gives a brief overview of the development of corporate governance in Libya. It describes the development of the accounting and auditing profession, Libya's banking sector and the main features of CG and AC practice in Libya before identifying the key legislative/regulatory steps leading up to the issuance of the Libyan CG Code (2010). This chapter discusses the literature concerning CG, its mechanisms (including the AC) and the main theories to have influenced its development. It starts by discussing the concept and principles of CG before going on to discuss at length the theories of CG and CG mechanisms.

3.2 The Concept of Corporate Governance

Ever since Berle and Means proposed the separation of ownership and control in 1932, CG has been the subject of attention from researchers (Muniandy and Hillier, 2014), but it was the financial scandals and crises of the 1980s and 1990s that made it a matter of international debate (Huse, 2007). The Asian financial crisis of the 1990s, for example, prompted numerous investigations into the causes (Long and Van Hoa, 2000) and sparked fresh interest in the relationship between CG and investor protection (Cheng et al., 2015). The Cadbury Committee's 1992 report into the financial aspects of CG was the first to raise awareness of CG issues, but this was followed by numerous other studies (e.g. Beasley et al., 1999; Beasley et al., 2000; Gillan and Starks, 2000; Chtourou et al., 2001; Cohen et al., 2002). Regulatory bodies around the world, meanwhile, set out their own guidelines for effective CG (Fichtner, 2010), particularly in the wake of the corporate collapses of 2001-2002. These collapses led to the introduction of legislation designed to enforce accountability (Gaylard et al., 2014). Legislation such as the Sarbanes Oxley Act (2002) and the UK Combined Code (FRC, 2003) and the Organisation for Economic Cooperation's Principles of Corporate Governance (OECD, 1999 and 2004) have encouraged companies to behave with regard to the principles of CG, but there is growing evidence that many companies – and not just in the west – are now waking up to the benefits that good CG can bring. These include higher investor confidence, lower capital costs and increased firm value (Garay and González, 2008). As understanding has grown of the impact that the local economy and legal system have on CG practice (AlHares and Ntim, 2017), more developed, developing and emerging market countries have issued their own CG codes and guidelines (Mangena and Chamisa, 2008; Almomania et al., 2017), and company performance has improved all over the world (Krenn, 2014).

Many authors and researchers have attempted to define corporate governance, but there is no general consensus; definitions vary in terms of their reference to cultural, political, social and economic factors and the aims of governance. The Cadbury Committee Report (1992) defined corporate governance as the system by which organisations are directed and controlled. This definition highlights the responsibilities of directors and managers for setting strategic aims and establishing and overseeing the implementation of financial and other policies (Daryaei et al., 2013). Cohen et al. (2004), using the Public Oversight Board (POB, 1993) perspective, offer a more detailed definition which considers corporate governance in terms of its responsibilities, functions and mechanisms, and the role of these mechanisms in overseeing the financial reporting process. They define corporate governance as "…those oversight activities undertaken by the board of directors and AC to ensure the integrity of the financial reporting process" (Cohen et al., 2004, p. 2).

Others have defined corporate governance in terms of its role in protecting and promoting the interests of shareholders: "The role of corporate governance is to protect and advance the interests of shareholders through setting the strategic direction of a company and appointing and monitoring capable management to achieve this" (Walker, 2009, p. 23). One recent definition emphasises the role played by both internal and external agencies in protecting the interests not just of shareholders but of all stakeholders:

> "Corporate governance is a regulatory activity that is enforced through different internal and external agencies to resolve the agency conflicts and protect the stakeholder interests of organisations. Corporate governance ensures that firms are run in a responsible and accountable manner that enhances the overall performance" (Dalwai et al., 2015, p. 20).

Another recent definition, offered by Samaduzzaman et al. (2015, p. 98), asserts that corporate governance is "…the set of rules and regulations that are framed to protect corporate values and shareholders' interests".

The widest, most comprehensive definition of corporate governance takes into account the relationships between managers, shareholders and other stakeholders such as employees, suppliers, creditors, customers and society at large. Pande (2012) argues that this definition, which was put forward by the OECD in 2004, has become a benchmark for policy makers, organisations, investors and other stakeholders all over the world:

> "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structures through which the company objectives are set, and the means of attaining those objectives and monitoring performance" (OECD, 2004, p. 11).

The fact that the health of a country's economy is closely related to the soundness of its banking system (Devi et al., 2017) makes it of paramount importance that banks achieve good corporate governance (Gagandeep and Kumar, 2016). Not surprisingly, Ahmed et al. (2017) found that corporate governance has a positive relationship with bank performance. Since the 2008 financial crisis, many central banks and related authorities have asserted the importance of effective corporate governance in controlling banks' exposure to risk (Peni and Vahamaa, 2011). Accordingly, the Libyan CG Code (2010) describes the purpose of CG as being:

> "…to build the necessary foundations for sound management and effective supervision, including audit committees, and to safeguard the interests of all parties concerned with the bank (shareholders, depositors and other debtholders), as well as the interests of its investors, and to strengthen public confidence in the banking sector" (CBL, 2010a).

Since this is the code governing ACs in the Libyan banking sector, this is the definition adopted in the current study. It is particularly useful here because of its explicit focus on monitoring and ACs, and on the importance of protecting the interests of stakeholders and fostering public confidence.

3.3 Principles of Corporate Governance

The OECD first developed its CG principles in 1999, following consultations with governments and stakeholders from around the world. The principles were subsequently reviewed and revised, and then re-launched in 2004. The revised principles reflect not just the experience of those countries that are members of the OECD but also the organisation's experience and understanding of the economies of emerging and developing countries. The OECD principles aim to provide the basis for an effective CG framework. To this end, they set out the rights of shareholders, key ownership functions and measures to ensure that shareholders are treated equitably. They also set out the responsibilities of the board and define

the role played by other stakeholders in CG. The need for disclosure and transparency is highlighted throughout (Abu-Tapanjeh, 2009).

A similar concern for transparency is evident in the set of core principles presented by the National Association of Corporate Directors (NACD) to the US Congress in 2002. Among other issues, the NACD's principles, which were designed to improve corporate governance, address disclosure requirements for publicly traded firms in the USA (NACD 2002). The principles recommend that: boards should contain a substantial majority of independent directors; that key committees (e.g. audit, compensation, nomination) should be composed of independent directors; that each of these committees should have a board-approved written charter detailing its functions and responsibilities; that the board should formally designate an independent director as chairman or lead director; that the performance of the chief executive officer should be regularly and formally evaluated; that the adequacy of the company's compliance and reporting systems should be reviewed at least annually; that the board should adopt a policy of holding periodic sessions of independent directors; that the audit committee should meet independently with both internal and independent auditors; that the board should be constructively engaged with management in developing and implementing corporate strategy; and that new directors should be put through a "director orientation" programme to familiarise them with the business, industry trends and recommended governance practices (all directors to be assured of "continuing education").

The Business Roundtable also issued its own core set of CG principles in 2002. This organisation, which is made up of chief executive officers from leading American companies, identified six key principles:

1. The board of directors should be responsible for selecting the chief executive officer (CEO) and for overseeing the CEO and other top executives;
2. The management is responsible for operating the corporation in an effective and ethical manner with the goal of creating shareholder value;
3. The management is responsible for preparing financial statements, under the oversight of the board of directors and its AC, that fairly present the financial conditions and operations of the corporation;
4. The board of directors and its AC should engage an independent accounting firm to perform financial statement audits;
5. The independent accounting firm should maintain its independence in fact and in appearance, conduct the audit in accordance with Generally Accepted Auditing

Standards (GAAS), and inform the board through the AC of any concerns regarding the quality and integrity of the financial reporting process;

6. Corporations have a responsibility to deal with their employees in a fair and equitable manner (Rezaee et al., 2003).

Kooiman (1999) argues that, notwithstanding the range of definitions, the literature almost universally sees corporate governance as having three key principles: it represents a commitment to take collective action in order to enhance legitimacy and effectiveness; it recognises the importance of rules to guide interactions between stakeholders; and it acknowledges that companies must find new ways of doing things.

3.4 Theories of Corporate Governance

It has been repeatedly asserted that no one theory is adequate to clarify CG practices completely (Daily et al., 2003; Nicholson and Kiel, 2004; Young and Thyil, 2008). As Tricker (2015, p. 74) observes: "Corporate governance, as yet, does not have a single widely accepted theoretical base nor a commonly accepted paradigm". Mallin (2007) argues that the major theories that have affected the development of CG are agency theory, stakeholder theory, stewardship theory and institutional theory. While the focus of agency theory is the board’s monitoring function (Beasley et al., 2009), stakeholder theory focuses on the firm’s need to satisfy the legitimate expectations of its stakeholders to ensure competitive advantage and survival (Roy and Goll, 2014). Stewardship theory sees directors and executives as stewards whose interests are aligned with those of the organisation and its owners (Burghausen and Balmer, 2015), while institutional theory addresses the symbolic role of governance structures (Beasley et al., 2009).

As CG practices vary from country to country as result of social, economic, legal and political factors (Iswaissi and Falahati, 2017), careful consideration of the available theoretical perspectives was necessary to ensure that those adopted for the study were the most appropriate to the Libyan case. CG is still in the early stages of implementation in Libya (Iswaissi and Falahati, 2017) and practice is generally weak (Larbsh, 2010; Zagoub, 2016; Iswaissi and Falahati, 2017). Furthermore, most firms are state-owned and have a high ownership concentration (Abdou, 2015); concerns have been expressed at the level of Government intervention, particularly from the Central Bank of Libya, which extends to the appointment of board and AC members and even board chairmen. CG practice in Libya is thus operating within an environment that is very different from that in other countries. The following sections

discuss these four main theories in detail and explain which were selected as the most appropriate for the current study and why.

3.4.1 Agency Theory

Agency theory has been utilised by thinkers and researchers in a range of disciplines including accounting, finance, economics, marketing, sociology and political science (Clark, 2004). In the accounting literature, it has been used extensively to explain and interpret accounting practices as a whole (Aldredge et al., 2017). Agency theory focuses on the relationship that arises between two parties when one (the principal) engages the other (the agent) to perform a service on their behalf (Jensen and Meckling, 1976). It is often used to describe the relationship between an organisation's owners and managers; the owners (the principals) give the managers (the agents) power to administer their interests and make decisions on their behalf.

Agency theory posits that there is a fundamental conflict of interest between principals/shareholders and agents/managers; it assumes that company directors are usually more interested in exploiting the company for their own benefit than in maximising returns for shareholders (Lane et al., 1998; Davidson et al., 2004). The fact that managers and shareholders may have very different aims means that the latter must put strict oversight controls in place to ensure their interests are being protected; mechanisms such as the board and the AC are therefore designed to monitor managers and prevent opportunistic behaviour (Beasley et al., 2009).

Information disclosure is a key part of the agent's duty towards the principals (Abdo et al., 2017), and agency problems are most likely to arise where this information is shared asymmetrically (Hussainey and Hassanein, 2017). Poor monitoring of agents by principals can also lead to agency problems (Eisenhardt, 1989; Hoque, 2006). Moral risks may arise where the contract between agent and principal is weak and the agent is able to take an action that damages the principal's interests (Clark, 2017). Jensen (1993) explains that moral risk is greater in companies whose size and complexity make oversight difficult, while Shapiro (2005) observes that agents' behaviour is likely to be impacted by the availability of financial rewards, opportunities in the labour market and their connection with outside parties who have no concern for the interests of owners. Problems may also arise as a result of adverse selection, if shareholders hire agents who lack the skills to deliver the desired returns, either because they do not know enough about the candidates or because the contracting process is itself flawed (Gomez-Mejia and Wiseman, 2007).

The AC is one of several mechanisms designed to minimise conflicts of interest and their impact on organisations, and consequently principals, by allowing the latter to monitor management (Rezaee, 2009; Liao and Hsu, 2013). Pincus et al. (1989) found that agency costs are a significant factor in the establishment of ACs; Abed and Al-Najjar (2016) explain that they reduce agency costs by monitoring the activities of management and resolving the problems caused by information asymmetry (Bukit and Iskandar, 2009). McKnight and Weir (2009) also argue that CG mechanisms such as the AC reduce agency costs, while Henry (2010) concludes that internal governance and external shareholders both act as agency-mitigating mechanisms. Agency theory posits that the presence of outside directors on the board and the AC is crucial to protect the interests of stakeholders and reduce the potential for conflicts of interest, and that the experience and knowledge these directors bring strengthen the board's monitoring function (Fama and Jensen, 1983; Klien, 2002; Yoo and Reed, 2015).

The importance of ACs is acknowledged in the Libyan CG Code (2010), which requires all banks to establish such a committee to monitor managers and protect the interests of shareholders (CBL, 2010a). The provision is particularly important given that managers in state-owned companies with high ownership concentration (common in Libya's banking sector) have little incentive to disclose information voluntarily (Rouf, 2011; Hawashe, 2016a), raising the risk of information asymmetry and agency problems (Hussainey and Hassanein, 2017). ACs are intended to reduce the resulting agency costs by enhancing the quality of information flow between managers and shareholders and averting conflict (Samaha et al., 2012). A lack of relevant research means that it is uncertain whether agency problems in the Libyan banking sector are the result of conflicts in the owner-manager relationship (Alrshah and Fadzil, 2013) or in the relationship between majority and minority shareholders (Abdou, 2015) (majority shareholders are often able to use their voting rights to gain additional benefits). In either case, the implementation of CG mechanisms such as ACs may help minimise these conflicts and mitigate their impact (Alrshah and Fadzil, 2013; Elgharbawy et al., 2016).

In general, the decision to adopt the agency view of the relationship between management and owners has implications for the methodological approach, from the choice of sector to the analytical techniques applied (Brennan et al., 2008).

3.4.2 Stakeholder Theory

Like agency theory, stakeholder theory has been employed by thinkers and researchers across a range of disciplines, including business and accounting (Jamali, 2010). The stakeholder concept, for example, has been applied in a range of contexts, including studies on corporate social responsibility (Wang and Huang, 2006), business ethics and venture management (Butterfield et al., 2004). Suter et al. (2013) define stakeholders as any groups or individuals who can impact or be impacted by the achievement of the organisation's goals, while Lewis (2011) defines stakeholders simply as individuals who have an interest in an organisation's processes and/or outputs. Stakeholder theory acknowledges that companies can have an impact on a wide range of organisations and individuals – not just investors but also clients and suppliers of services and goods (Fowler et al., 2015).

Unlike agency theory, which concentrates primarily on the relationship between owners (principals) and agents (managers), stakeholder theory is interested in a wider set of constituents (Mallin, 2010). Supporters of the stakeholder model highlight that organisations can only exist with input from a range of groups – they need the support of society as a whole, along with a benign business/political environment. Lenders, customers, workers, investors, auditors, the government and the community can all have financial, economic, social, technological and environmental impacts on the company (Clement, 2005). When making decisions, therefore, managers should aim to take into consideration all those individuals who have an interest in the company's activities and who can impact or be impacted by its failure or success (Stovall et al., 2004). Stakeholder theorists do not just see companies as having an ethical obligation to do their best to satisfy the legitimate expectations of these various groups, they believe that by acknowledging the interests of all stakeholders, companies can improve profitability (Ayuso and Argandoña, 2009).

Stakeholders have been categorised, by researchers and by organisations themselves, in various ways. For example, Hult et al. (2011) split stakeholders into two groups: primary stakeholders, upon whom the company relies directly for its survival and growth (e.g. employees, customers, shareholders, suppliers and regulators), and secondary stakeholders, who have no contractual relations with or legal authority over the company (e.g. competitors, special interest groups and trade associations) (Eesley and Lenox 2006). In contrast, Parent and Deephouse (2007) categorise stakeholders in terms of power, legitimacy and urgency, while Benson and Davidson (2010) argue that how a company classifies its stakeholders will depend on whether it is adopting the stakeholder model for strategic or moral reasons.

Various authors have attempted to explain the relationship between CG and stakeholders. Mattingly et al. (2009) conclude that stakeholder management is associated with good CG, earnings quality and low earnings management, while Mallin (2007) argues that stakeholders function like external managers and can have a major impact on monitoring mechanisms. The growing interest being shown by stakeholders in the structures of CG may be attributable to the collapse of companies like Enron; as Lee (1998) illustrates, this collapse did not just affect shareholders – all the company's stakeholders suffered. This leads Alpaslan et al. (2009) to argue that such crises can be avoided as long as firms pay attention to the interests of and cultivate good relationships with all of their stakeholders.

While supporters of agency theory dismiss the stakeholder approach on the grounds that it is impossible to balance all stakeholders' interests (Sternberg, 1997; Hoque, 2006), particularly in state-owned firms (Heath and Norman, 2004; Mbo, 2017), supporters of stakeholder theory continue to press for all of these interests to be taken into account (Stovall et al., 2004). Both theories describe a scenario in which the management of the firm acts on behalf of others (Aras et al., 2017), but stakeholder theory underlines the significant responsibility managers have towards a wider group of constituents, not just shareholders. These constituents are all stakeholders, and the company has an obligation to safeguard their interests and meet their requirements as far as possible. The difficulty lies in how to create mechanisms that can properly distribute the company's residual returns to all of these stakeholders.

3.4.3 Stewardship Theory

Stewardship theory differs from agency theory in that it starts from the premise that an organisation's managers are motivated to work in the best interests of the organisation. Albrecht et al. (2004) drew on psychology and sociology literature in their discussion of stewardship theory, explaining that the board and executives act as stewards, whose interests are aligned with those of the organisation and its owners (see also Burghausen and Balmer, 2015). They are therefore more likely to work in the interests of the company rather than in pursuit of selfish interests (Hernandez, 2012). As time passes, they are also more likely to come to view the company as an extension of themselves (Clarke, 2004).

Stewardship theory sees a strong relationship between managers and the success of the firm, with stewards seeking to protect and maximise shareholder wealth by achieving and maintaining strong firm performance (Yusoff and Alhaji, 2012). Thus, the main difference between agency theory and stewardship theory is that while the former focuses on personal

interest, the latter focuses on protecting the interests of others (Hiebl, 2015). It has been suggested that extreme agents and extreme stewards represent the polarised ends of a shared continuum, which ranges from a complete focus on self-interest to a complete focus on the interests of others (Davis et al., 1997). However, Caers et al. (2006) explain the difference between stewardship theory and agency theory as being simply that stewardship theory does not rest on the assumption that the relationship between shareholders and managers will always be characterised by conflicts of interest. Rather than presenting the two theories as diametrically opposed, Caers et al. (2006) argue that stewardship theory should be seen as a modification of agency theory.

Georgiou et al. (2012) argue that, in contrast to agency theory, stewardship theory does not regard the mechanisms of CG as being necessary to ensure good financial performance. For example, proponents of stewardship theory assert that CEO duality is a way of improving performance because it allows more effective and efficient decision making (Donaldson and Davis, 1991). Cornelius (2005), meanwhile, sees CG as the responsibility of managers, whose role as stewards is to supervise and implement the aims and strategies of the firm. Unlike agency theory, which sees the role of the board of directors as being to monitor managers' activities, stewardship theory sees it as being to lend support, give advice, and share experience and skills with the management (Glinkowska and Kaczmarek, 2015). Such arguments have led Hu and Alon (2014) to claim that although agency theory is the approach most often employed in governance literature, there is enough evidence to suggest that stewardship theory offers researchers a viable alternative. A note of caution is necessary, here, however. Critics of stewardship theory point to numerous corruption cases around the world as evidence that managers in state-owned firms in particular often act in their own, rather than the enterprise's, best interests (Mbo, 2017). This is made easier by shareholders' relative lack of involvement in the day-to-day business of the company (e.g. they play no part in the nomination of directors) and the lack of transparency (Nix and Chen, 2013). In Libya's case, the high level of state ownership and ownership concentration in the Libyan banking sector (Abdou, 2015) rendered stewardship theory unsuitable for the study.

3.4.4 Institutional Theory

Institutional theory is one of the dominant perspectives within organisation and management theory (Greenwood et al., 2008); it has been widely utilised to assess the practical influence of CG codes (Solomon, 2013). Fiss (2008) explains that institutional theory is uniquely positioned to contribute to researchers' knowledge of CG because of the insights it offers into the nature

of authority and control structures. For example, Beasley et al. (2009) argue that institutional theory confirms that governance structures are often primarily symbolic/ceremonial; their legitimacy is paramount, but the formal processes are only loosely coupled with true monitoring. The theory posits that many organisational structures, such as the AC, are established merely to conform to social expectations (Kalbers and Fogarty, 1998; Cohen et al., 2004). In fact, according to institutional theory, the board of directors' two main roles are linkage and administration (Stedham and Beekun, 2000). In its linkage role, the board concentrates on establishing relations between the organisation and the external environment, while in its administrative role, it oversees the performance of top management, particularly the chief executive officer (CEO).

Institutional theory suggests that the introduction of new CG codes will usually be met with resistance (Solomon, 2013). This resistance can result in "decoupling", whereby the organisation appears to comply with the code but continues its internal practice with little or no genuine change in corporate behaviour. This highlights the need to address embedded social, historical and political factors which might impact on an organisation's ability and willingness to embrace new regulations or practices (Cohen et al., 2007), and hence its approach to CG (Fiss, 2008).

Institutional theory sees governance mechanisms as generally the products of either coercion by legislators looking to improve organisational effectiveness through the imposition of specific practices, or imitation (Yasser and Al Mamun, 2016). In the latter case, an organisation may adopt a system that has been applied successfully by other organisations as a way of enhancing its legitimacy (Cohen et al., 2007). Over time, this inter-organisational imitation may lead to the homogenisation of CG practice (Braiotta and Zhou, 2006; Lee, 2012). However, critics of institutional theory argue that this emphasis on imitation limits the theory's ability to account for variation and change (Lee, 2012).

There is a general consensus among researchers that institutional theory offers a useful lens for investigating the role and activities of ACs, particularly when used in conjunction with agency theory. Stedham and Beekun (2000) argue that the two theories are complementary and can together allow a deeper understanding of CG mechanisms, including ACs. Kalbers and Fogarty (1998), Beasley et al. (2009) and Yasser and Al Mamun (2016) all recommend using both theories as they allow for varying interpretations of the AC's role; while agency theory sees

the AC as playing a practical monitoring role, institutional theory assumes that it may be more concerned with creating legitimacy.

3.4.5 Theories Adopted in the Study

The preceding sections show that no one particular theory can fully explain and interpret CG practice. All are more relevant to some environments than others, and these environments themselves differ from country to country (Mallin, 2007). As noted above, the high level of state ownership in the Libyan banking sector made stewardship theory inappropriate for the study (Abdou, 2015), as this theory assumes that managers in state-owned firms are more likely to act in their own rather than principals' best interests (Mbo, 2017). The high level of state ownership and ownership concentration were also incompatible with stakeholder theory's assumption that stakeholders are a diverse group with very divergent interests (Heath and Norman, 2004; Mbo, 2017). As agency theory is most closely related to the study's research focus – the role of ACs in CG – it was adopted as the main theoretical lens. The review of the literature confirmed that the AC is regarded as a key mechanism for tackling the agency problem and preventing opportunistic management behaviour (Beasley et al., 2009). This is recognised in the Libyan CG Code (2010), which stipulates that all banks should set up an AC to assist the board of directors in monitoring managers and protecting the interests of shareholders. The fact that managers in state-owned companies with high ownership concentration (common in the Libyan banking sector) have little incentive to disclose information voluntarily (Rouf, 2011; Hawashe, 2016a), which significantly raises the risk of information asymmetry and agency problems (Hussainey and Hassanein, 2017). ACs are intended to reduce the resulting agency costs by improving the information flow between managers and shareholders and averting conflict. It is uncertain whether agency problems in Libya are the result of conflicts in the owner-manager relationship (Alrshah and Fadzil, 2013) or in the relationship between majority and minority shareholders (Abdou, 2015), but in either case, the implementation of CG mechanisms such as ACs is crucial to minimise these conflicts and mitigate their impact (Alrshah and Fadzil, 2013).

However, an alternate view of ACs in Libya's banking sector is that they may be primarily symbolic and intended only to demonstrate outward compliance with the Libyan CG Code (2010). In other words, they may be best understood through the lens of institutional theory. Accordingly, this study follows previous Libyan accounting studies (e.g. Abu-Azza, 2012; Alrshah and Fadzil, 2013; Shalba, 2016; Iswaissi and Falahati 2017) by using these theories and authors such as Kalbers and Fogarty (1998), Stedham and Beekun (2000), Beasley et al.

(2009) and Mulyadi (2018) by combining institutional theory and agency theory to investigate the role and activities of ACs in the Libyan banking sector. The theories were employed in tandem to describe and interpret the results, in the expectation that this would yield a deeper understanding of the role being played by these committees.

3.5 Corporate Governance Mechanisms

Supporters of agency theory assert that effective CG mechanisms are essential to protect the interests of shareholders (Fama and Jensen, 1983). Dalwai et al. (2015) point out that it is necessary to understand what effect these mechanisms are having, and that they should be reviewed continuously to ensure that the interests of managers are aligned with those of other stakeholders. Wahba (2015) also argues that the mechanisms of CG should be assessed regularly. A wide range of CG mechanisms have been identified (Al-Baidhani, 2012) and broadly classified as either internal or external (Rezaee, 2007), but opinions vary on what should be in which category and the effectiveness of each mechanism.

The implementation of CG is still at a very early stage in Libya (Iswaissi and Falahati, 2017); CG regulation remains inadequate and ineffective (Larbsh, 2010; Abdou, 2015; Iswaissi and Falahati, 2017), and the development of CG is being hindered by unprofessional boards and underperforming directors (Abdou, 2015). Other challenges include the weak legal system (Magrus, 2012), state interference in the board appointment process (Iswaissi and Falahati, 2017), a general lack of knowledge about CG (Zagoub, 2016), lack of training among directors on governance systems (Larbsh, 2010), and the lack of accounting standards, which leads to low levels of disclosure (Kribat et al., 2013). Firms lack experience in and are concerned about the cost of implementing internal and external auditing systems (Abu-Azza, 2012; Magrus, 2012). The Libyan CG Code (2010) seeks to address some of these issues by requiring banks to adopt a set of CG mechanisms, including the board of directors, board committees (particularly ACs), internal auditing, and disclosure and transparency. This section highlights the role played by these mechanisms and considers the factors that can impact upon their effectiveness.

3.5.1 The Board of Directors

The board of directors plays a significant role in the corporate governance process (Voß and Xia, 2009). The main task of the board is to ensure that the interests of the owners are protected (Yoo and Reed, 2015); Monks and Minow (2008) point out that the main premise of corporate governance is that it is the duty of the board of directors to ensure that all economic decisions

are in favour of the shareholders. Mallin (2007) suggests that the board protects shareholders' interests by putting in place aims, strategies, plans and policies that will maximise the firm's chances of success. As Volonté (2015) argues, prescriptive legislation serves both to stipulate the board's responsibilities and to define public expectations regarding board performance. This legislation requires boards to protect shareholders' interests by fulfilling two key tasks: monitoring (Fama and Jensen, 1983; Keay and Loughrey, 2015) and advising senior management (Bankewitz, 2017).

The board of directors is the main governing body in a firm and one of its most significant decision-making groups. It plays a central role in the company's most important strategic, investment and financing decisions and in the hiring, firing and assessment of top managers (Frijns et al., 2016; Brooks, 2016). It is the main monitoring and advisory body, plays a significant role in resource acquisition, and is responsible for resolving any conflicts of interest between directors and other stakeholders (Derbali and Ayeche, 2014). Al Daoud et al. (2015) describe the board of directors as a crucial mechanism of corporate governance that balances the interests of managers and other stakeholders of the firm.

Given the central importance accorded to the board of directors in the CG literature, it is unsurprising that there has been extensive focus on the links between board size and composition, and performance. In terms of size, for example, Abidin et al. (2014) conclude that having a large board enhances the overall performance of the firm because it means that directors have a wider range of ideas, skills and experiences available to them. Albu et al. (2015) argue that this makes large boards better monitors and more efficient, and that their CG practice is likely to be more advanced and their level of disclosure higher. In terms of board composition, there is a particular focus in the CG literature on why firms should appoint non-executive directors (NEDs) and what effect this has on firm performance (Goergen, 2012). Agency theory proposes that the presence of outside directors on the board is crucial to protect the interests of stakeholders and that the experience and knowledge these directors bring strengthens the board's monitoring function, ultimately leading to improved firm performance (Fama, 1980; Fama and Jensen, 1983). This is echoed by Hussainey and Al-Najjar (2012), who argue that boards with a higher proportion of independent directors are more effective at monitoring managers. Similarly, Yoo and Reed (2015) found that having a large proportion of outsiders on the board is a prerequisite for ensuring owners' interests are protected – Volonté (2015) argues that outside directors are more likely to do this than inside directors. Derbali and Ayeche (2014) show that outside directors are more likely than inside directors to challenge decisions that have been made by management or the board, while Abidin et al. (2014) argue that

independent outside directors play a significant role in fostering long-term performance. Other authors argue that achieving the right balance of executive and non-executive directors reduces the likelihood that board decision making will be dominated by one individual or clique (El-Faitouri, 2014; Yatim and Yusoff, 2014). Finally, Muravyev et al. (2014) point to the importance afforded to outside directors in numerous CG codes and stock exchange laws and regulations as evidence of their perceived value.

Investigations into the causes of corporate collapse have focused particularly on the role played by the board (Popli and Popli, 2015), with a number concluding that boards bear a large share of the blame because they have failed to carry out their oversight function adequately and allowed corporate fraud and manipulation to go unchecked. Such findings have led Abidin et al. (2014) to call for CG guidelines regarding board structure and ownership configuration to be revised.

Under Libyan law, the board is responsible for governing and directing the firm, which it does by formulating organisational plans, policies and objectives; overseeing the firm's internal administrative and financial systems; determining the responsibilities of the management and their compensation; organising shareholder meetings; and presenting the annual report detailing the firm's activities (Libyan Commercial Code, 1972; Libyan Banking Law, 2005; Libyan CG Code, 2010). In practice, however, boards in Libya have been criticised for failing to accept and implement internal audit recommendations (Abu-Azza, 2012) and for failing to train members in governance practices (Magrus, 2012). Shalba (2016) also points to the continuing influence of nepotism when it comes to board appointments, and to weaknesses in the legislation governing the way boards and their mechanisms function. Finally, he observes that concentrated ownership frequently affects board performance, with decisions being taken that prioritise the interests of major shareholders.

3.5.2 Board Committees

An important CG mechanism (Green and Homroy, 2018), board committees allow the board to delegate responsibility for specific tasks (Spira and Bender, 2004), thereby helping it carry out its duties more efficiently (Jiraporn et al., 2009). Reeb and Upadhyay (2010) argue that board committees help boards to achieve more effective decision making by dividing responsibilities and tasks among board members, thereby avoiding the coordination and communication difficulties/costs associated with bringing the full board together, especially if the board is large. Such is the perceived importance of these committees, Chen and Wu (2016) go so far as to argue that most board activity actually takes place in committee meetings, rather

than in board meetings. The Libyan CG Code (2010) also recognises their value in its stipulation that all banks in the Libyan banking sector should set up sub-committees to assist the board of directors in performing its tasks and responsibilities. These committees should include, at least, an AC, a risk management committee, an appointment and remuneration committee and a CG committee.

3.5.3 Audit Committee

Recent incidences of corruption and collapse have revealed weak control mechanisms at the heart of a number of major corporations. Fichtner (2010) suggests that the Enron collapse in particular led regulators and governments throughout the developed world to pay renewed attention to governance mechanisms, especially the AC. Similarly, Rustam et al. (2013) observe that in many countries, these scandals have resulted in the creation of CG guidelines (such as the USA's Sarbanes-Oxley Act (2002) and the UK's Combined Code (FRC, 2003)) which give a prominent role to ACs. The Smith Report (2003) placed particular emphasis on the importance of appointing an independent AC; as appreciation of their centrality to good CG has grown (Mangena and Pike, 2005; Salleh and Haat, 2014), there has been an increasing focus on promoting AC effectiveness (Vera-Munoz, 2005; Turley and Zaman, 2014).

Song and Windram (2004), Rezaee (2009) and Liao and Hsu (2013) identify the role of the AC as being to ensure responsible CG, to review the firm's financial reporting and to provide a channel of communication between the board, external auditors and internal auditors in order to protect the interests of shareholders and other stakeholders. As stated earlier, the Libyan CG Code (2010) made the establishment of ACs compulsory in Libyan companies. The code requires these committees to be made up of three NEDs with experience in accounting, auditing and banking. As the main focus of this research, the AC, its role and functions are discussed in detail in Chapter Four.

3.5.4 Internal Audit

Recent financial crises and corporate scandals have further highlighted the importance of the internal audit function (Eulerich et al., 2017). The main role of the internal audit is to provide independent assurance that risk management, governance and internal control processes are operating effectively (Tricker, 2015; Abbott et al., 2016). The Sarbanes-Oxley Act (2002) emphasises the importance of the internal audit, observing that the external auditor must be able to rely on its work.

The primary purpose, nature and scope of internal auditing are set out by the Institute of Internal Auditing (IIA) (2017), which states that:

> "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (IIA, 2017).

According to this view, the key responsibilities of the internal audit include the following: overseeing the financial reporting and disclosure process; monitoring the choice of accounting policies and principles; overseeing the hiring, performance and independence of the external auditors; overseeing regulatory compliance; monitoring the internal control process; and discussing risk management policies and practices with management (Jones, 2013). Ahmad et al. (2009) argue that the internal audit function can be enhanced by the presence of an AC, but in truth, the creation of an effective monitoring environment is heavily dependent on the relationship between these two entities (Marx and Voogt, 2010; Alzebana and Sawan, 2015). The UK Combined Code (FRC, 2012) acknowledges this relationship in its assertion that the AC should review and approve the internal audit function, while at the same time ensuring that it has the resources and access to information it needs to fulfil its mandate. In Libya, the importance of the internal audit function is highlighted in the CG Code (2010), which advises that in order to ensure the department's independence, the board of directors should be guided by the AC and the appointment and remuneration committee whenever it appoints a new internal auditing director (CBL, 2010a).

3.5.5 Disclosure and Transparency

The OECD Principles (2004) hold up the disclosure process as one of the mechanisms of good CG (para V, p. 22): "The corporate governance should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company". Accordingly, the subject of disclosure has received considerable attention from authors, a number of whom have given their own definitions. For example, Bushman et al. (2004, p. 207) define disclosure as "firms making available specific information to people outside publicly-traded firms", while Dubbink et al. (2008) define disclosure as the delivery of information allowing economic actors to access all information about a firm's condition and activities.

As the financial information given in the annual report is some of the most important information that any company must disclose, a considerable number of studies have focused on this topic. Maheshwari and Maheshwari (2009) point out that one of the central accounting

principles is that the disclosure in annual reports should be full and fair. However, Archambault and Archambault (2003) found that the disclosure of financial information is a complex process which is impacted by a wide range of cultural, economic, political and financial factors, as well as by the firm's own operating systems.

With respect to transparency, Barth and Schipper (2008, p. 174) define financial reporting transparency as "the extent to which financial reports reveal an entity's underlying economics in a way that is readily understandable by those using the financial reports". Martin (2014) suggests that transparency requires governments, organisations, firms and individuals to be open and to disclose information about their plans, rules, processes, procedures and activities, so that their work is clear and comprehensible to stakeholders. This allows individuals outside the institution to monitor its activities, enhancing the organisation's accountability and stakeholders' participation. The literature suggests that a company's commitment to transparency is indicated by the amount of accounting information it releases and the availability of this information (Bushman et al., 2004).

A number of researchers see transparency as an important CG mechanism because it facilitates the safe transmission of information between management and investors and mitigates information asymmetry (Shiri et al., 2016). Solomon and Solomon (2004) show that in all countries of the world, an increase in corporate transparency is seen as a key indicator of CG reform. Summers and Nowicki (2006) argue that transparency is a series of actions that together create credible governance systems. Melendéz (2001) asserts that it enhances public trust and promotes good governance, while Ball (2009) simply states that it helps improve governance.

Some authors differentiate between disclosure and transparency; Oliver (2004), for example, argues that there is a substantial difference between allowing others to obtain information (transparency) and providing it proactively (disclosure). However, this difference is often overlooked. Hood (2006) points out that many accounting dictionaries do not include entries for transparency, though they may have several entries for disclosure. Consequently, the two terms are often treated as synonyms.

In recent years, inadequate disclosure and lack of transparency have helped to create conditions which have allowed unethical commercial transactions to take place unchecked. Too often, the result has been corporate failure (Kaur and Mishra, 2010). Both disclosure and transparency are evidently crucial to good CG (Louizi and Kammoun, 2016), and the AC can play a central role in enhancing them (Talha et al., 2009; Naveed et al., 2015). This is recognised in the UK Guidance on ACs (FRC, 2012), which recommends that the committee should review the

clarity and completeness of disclosure in the financial statements. The Libyan CG Code (2010) also identifies full disclosure as one of the pillars of good CG, but firms often fail to comply fully with disclosure requirements (Iswaissi and Falahati, 2017). This is mostly attributable to the lack of accounting standards (Kribat et al., 2013) and companies failing to submit financial statements on time (Iswaissi and Falahati, 2017).

3.6 Summary

The chapter discusses the mechanisms of corporate governance which are regarded as potentially the most effective. The effectiveness of these mechanisms may depend on the responsibilities and size of the board, the balance of executive and non-executive directors, the nature of the ownership structure, the level of disclosure and transparency and the influence and scope of the audit committee. Existing studies consider the board to be the main monitoring mechanism because it is responsible for elaborating the company's aims, strategies, plans and policies and for ensuring that all decisions are made in favour of the shareholders and stakeholders. Institutional ownership is widely regarded as important in consolidating corporate governance and reducing agency costs, while greater disclosure and transparency are seen as leading to more reliable and responsible management, lower capital cost, more long-term investment and therefore higher stock prices. Previous studies have seen audit committees as an effective mechanism for monitoring the integrity of financial reporting and the effectiveness of the internal and external audit, thus protecting the interests of shareholders and other stakeholders.

The discussion has asserted that no one theory is adequate to clarify corporate governance practices completely. While agency theory posits that the mechanisms of corporate governance, including the AC, are necessary to protect the interests of shareholders and reduce agency costs, institutional theory sees the AC's role as largely symbolic. This is the case in Libya, where the formation of an AC is public evidence of the bank's compliance with the CG Code. Accordingly, the two theories will be combined in order to describe and interpret the results, in the expectation that this will yield a deeper understanding of the role being played by ACs in Libya's banking sector. The following chapter discusses the issues regarding the audit committee as a mechanism of corporate governance.

Chapter 4. Audit Committees

4.1 Introduction

The purpose of this chapter is to discuss the literature regarding the role of the audit committee (AC) as a mechanism of corporate governance and the factors affecting AC practice. The following paragraphs examine the various definitions of the AC, discuss the role of the committee (including reviewing and monitoring financial reporting, the internal audit function and the external audit process) and investigate the factors affecting its practice before finally setting out the conceptual framework of the study.

4.2 Overview of the Development of the Audit Committee

Financial scandals in developed countries such as the USA have highlighted the need for greater transparency and credibility in order to protect shareholders and stakeholders alike (Glaum et al., 2004; Fearnley and Beattie, 2004). It has been argued that ACs are a key mechanism for achieving this transparency and protecting shareholders' interests (Mangena and Pike, 2005); Song and Windram (2004), Rezaee (2009) and Liao and Hsu (2013) identify the role of the AC as being to ensure responsible corporate governance by reviewing the firm's financial reporting and providing a channel of communication between the board, external auditors and internal auditors. Such is their perceived importance, countries such as the UK, the USA and Canada issued legislation in the final decades of the twentieth century requiring listed companies to have an AC. The committee's responsibilities and tasks were defined in a series of documents produced by a range of institutions (see section 1.1).

However, this did not prevent major corporate collapses such as that of Enron in 2001 (Fichtner, 2010), and, as Turley and Zaman (2014) note, recent years have seen a much greater emphasis being placed on AC effectiveness. Regulators and governments (particularly in the developed world) have refocused their attention on the AC and its role as the most prominent corporate governance mechanism (Fichtner, 2010) in publications such as the US Sarbanes-Oxley Act (2002), the UK Combined Code (FRC, 2003) and the Smith Report (2003).

4.3 The Concept of the Audit Committee

The audit committee has been defined as:

> "A committee of directors of a corporation which represents the full board, serves as a channel of communication between the board, external auditors, internal auditors, finance directors and other directors" (Song and Windram, 2004, p. 199).

Another definition also considers the AC in terms of its responsibilities and functions:

> "The Audit Committee is a committee composed of independent, non-executive directors charged with oversight functions of ensuring responsible Corporate Governance, a reliable financial reporting process, an effective internal control structure, a credible audit function, an informed whistleblower complaint process and an appropriate code of business ethics with the purpose of creating long-term shareholder value while protecting the interests of other stakeholders" (Rezaee, 2009, p. 120).

The two definitions share a number of common features. Firstly, they stipulate that the AC is a sub-committee of the board of directors. Secondly, they argue that the AC should consist of independent, non-executive directors so that it is able to protect the interests of shareholders and consider issues in an objective manner. Finally, the definitions suggest that the main aim of the AC is to monitor the integrity of the financial statements and reporting process.

Audit committees are primarily intended to increase the credibility of financial statements for their shareholders and investors and review the internal control and risk management systems (FRC, 2012). Liao and Hsu. (2013) state that ACs play a major role in monitoring financial reporting of a company, while Vera-Munoz (2005) notes that interest in AC effectiveness has increased dramatically in past decades. Turley and Zaman (2014) argue that during recent years ACs have become a common corporate governance mechanism internationally. Woidtke and Yeh (2013, p. 5) argue that:

> "When controlling shareholders assign directors to the audit committees, they can potentially increase the credibility of the accounting earnings reports by choosing independent financial and legal experts, if the objectivity and professional backgrounds of these members are seen to contribute to high-quality financial statements".

Salleh and Haat (2014) also argue that appointing non-executive directors to the AC helps boost the board's ability to meet its legal responsibilities and ensure the credibility and integrity of financial statements and reports. Finally, the FRC (2012) points to the AC's role in reviewing internal control and risk management systems.

Putting these various definitions together, the following definition of the AC was arrived:

> "The AC is one of the key mechanisms of corporate governance; a board committee usually made up of independent and non-executive directors, it helps the board to carry out its responsibilities effectively by ensuring the integrity of financial statements and overseeing the internal audit function and external audit process".

4.4 The Role of Audit Committees in Corporate Governance

There is a range of views about the role of the AC, particularly in recent years: more attention has been paid to the role of Audit Committees across the world during the last two decades. The considerable number of studies have resulted in many views regarding this role (e.g. Alles et al., 2005; Lin et al., 2008; Tengamnuay and Stapleton, 2009; Fulop, 2014; Akinteye et al., 2015). This study will address the main role of the Audit Committee as regards the monitoring of the integrity of the financial statements, the monitoring and reviewing of the effectiveness of the internal audit function, including the internal control systems, and the oversight of the work of the external auditor.

4.4.1 The Role of Audit Committees in the Financial Statements

An effective AC can promote reliability and credibility in the financial statements (Beasely et al., 2009; Abernathy et al., 2013) and contribute much to the financial reporting monitoring process (Lin et al., 2006). This is acknowledged in SOX (2002) and by the FRC (2012), which suggests that the AC should play a central role in financial reporting. It summarises the AC's role in this regard as follows:

1. The AC should review, and report to the board on, the significant financial reporting issues and judgements made in connection with the preparation of the company's financial statements interim reports, preliminary announcements and related formal statements.
2. The AC should consider significant accounting policies, any changes to them and any significant estimates and judgements. The management should inform the AC of the methods used to account for significant or unusual transactions where the accounting treatment is open to different approaches.
3. When the AC is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board.
4. The AC should review related information presented with the financial statements, including the business review, and corporate governance statements relating to the audit and to risk management.
5. The AC should review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Several writers have focused on the importance of the AC in preventing fraud and errors in the financial statements; Beasley et al. (2000), for example, state that companies investigated for financial statement fraud are less likely to have an AC, while Xie et al. (2003) argue that ACs play a significant role in preventing (or revealing) any irregularities in the financial reporting process. Goodwin and Seow (2002) also conclude that ACs have an impact on the detection of management fraud and errors in financial statements. They add that companies that have an effective AC seem to have a greater ability to avoid financial statement misstatements and to uncover fraud. No one has yet explored the role ACs in Libya play in monitoring financial statements in the Libyan banking sector, or how they perform this role. This was therefore one of the areas investigated in this study.

4.4.2 The Role of Audit Committees in the Internal Audit Function

The AC and internal audit are both designed to improve financial transparency and protect shareholders' interests (Khelil et al., 2016). The relationship between these two CG mechanisms largely determines the effectiveness of the firm's monitoring and risk management (Marx and Voogt, 2010; Alzebana and Sawan, 2015); as Cohen et al. (2004) explain, where the two are closely linked, the governance capabilities of both parties are enhanced. The IIA (2002) also points out that a strong functioning relationship between those responsible for the internal audit and the AC is necessary for each to perform its responsibilities.

Those involved in the internal audit see the AC as giving greater significance to their activities (Turley and Zaman, 2007) and as promoting their independence (Ahmad et al., 2009) by insisting that 1) internal audit reports are submitted directly to the AC rather than top management (Tricker, 2015), and 2) the committee, rather than managers, recommends the appointment or replacement of the chief internal auditor (Goodwin and Yeo, 2001). Finally, the committee can enhance the function of the internal audit by acting as an independent forum for internal auditors to raise issues regarding the management of the company (Goodwin and Yeo, 2001). For its part, the AC relies on the internal audit department for access to information on financial and operating matters within the organisation (Oxner and Oxner, 2006). Often called the "eyes and ears" of the AC, the internal audit is able to assist the committee in a number of ways, such as recommending external auditors, negotiating their fees and then evaluating their work (Saint, 2013; Eller, 2014).

The AC also plays a significant role in the implementation, monitoring and verification of internal control procedures (Klein, 2003; Rich and Zhang, 2014; Bardhan et al., 2015). This

may include working with internal and external auditors to remediate any material weaknesses in the internal control systems (Goh, 2009).

This study aims to extend the literature by demonstrating the major role ACs play in monitoring the internal audit function in the Libyan context.

4.4.3 The Role of Audit Committees in the Work of the External Audit

Numerous regulators and researchers recommend that the AC should have a role in the organisation of the work of the external audit. This role should include monitoring the independence, effectiveness and objectivity of external auditors (Sarbanes-Oxley Act, 2002; Smith Report, 2003) and making recommendations to the board in relation to the appointment and removal of external auditors (Beasley et al., 2009; Rezaee, 2009; Bédard and Compernolle, 2014). The Smith Report (2003) recommends that UK ACs should review the letter of appointment of the external auditor, the scope of the audit and the adequacy of the planning process. At the end of the audit, the committee should review the results of the audit, the management representation letter, the report submitted by the auditor to management, and then the response of management to the results and recommendations of the auditor.

The AC is responsible for overseeing the company's relationship with the external auditor. It should ensure that a proper relationship exists between the external auditor and the management whose financial reporting is being audited (Alrshah and Fadzil, 2013), and help resolve any disputes between the two sides. This all helps to ensure the quality of the external audit and strengthen confidence in the final report (Bédard and Compernolle, 2014). Carcello and Neal (2003) suggest that an independent AC functions as a monitoring tool, and that it can stop managers terminating the services of auditors who want to issue a going-concern report to the company. Abbott and Parker (2000) point out that companies that have independent ACs are more likely to choose external auditors who are industry specialists. This may indicate that these committees want to boost the quality of their financial statements.

Most researchers conclude that ACs play a significant role in promoting the independence, effectiveness and objectivity of the external audit process, but there are some who question the degree of impact they have in practice. For instance, Cohen et al. (2002) found that the AC plays a less significant role in the process of the external audit than top management or the board, while Bédard and Compernolle (2014) argue that managers still tend to drive the relationship with external auditors, and that ACs have little power to protect these auditors' independence. Cohen et al. (2002) attribute this weakness to the facts that most committees'

remit is limited to monitoring the financial reporting process, and that committee members generally lack the financial expertise to carry out their tasks properly.

There has been little empirical investigation of the role played by CG mechanisms, including ACs in Libya's banking sector (Zagoub, 2016). Accordingly, this study seeks to add to the literature by identifying how much of a role ACs are able to play in the external audit process in the sector, given that CG is still in the early stages of implementation.

4.5 Factors Affecting Audit Committee Practice

The AC's ability to perform its responsibilities and duties is impacted by a number of factors, which may be either enabling or inhibiting in their effect. Numerous studies have investigated the factors affecting AC effectiveness in developed countries (e.g. DeZoort et al., 2002: Benkel et al., 2006; Braswell et al., 2012; Baxter, 2010; Salleh and Steward, 2012), and a few have done the same for developing countries (e.g. Saat et al., 2012; Modum et al., 2013; Mbobo and Nweze, 2015; Qasim 2018), but no one has yet attempted to investigate the factors affecting AC practice in Libya. This section discusses the main enabling and inhibiting factors identified in the literature and considers the extent to which their impact in the Libyan environment is understood.

4.5.1 Enabling Factors

Significant attention has been paid in the literature to AC characteristics such as independence, financial expertise, size, meetings, authority, resources (particularly their access to information) and diligence, and how these enable the committee's effectiveness.

4.5.1.1 Audit Committee Independence

A recurring theme in the literature is the importance of AC independence, which is seen as vital if the committee is to be able to perform its duty (Collier and Zaman, 2005). Most researchers and institutions recommend that the AC should be made up of non-executive and independent directors. The BRC (1999) recommends the exclusion of former and current employees, relatives of the administration and individuals receiving compensation from the firm (excluding directors' fees); in other words, AC members should not be receiving any consultancy, advisory or other fee from the company or be affiliated to it in any way. This is echoed in the Cadbury Report (1992), which suggests that NEDs should have no business or other relationship with the company which could materially interfere with the exercise of their independent judgement. Keay (2015) underlines this when he points out that NEDs appointed for reasons of nepotism, business connections or reputation in the community are severely hindered in their

independence and ability to supervise. Finally, the UK Corporate Governance Code (FRC, 2014) stipulates that all members of the AC must be independent.

The emphasis on director independence is not surprising, given the key role this plays in improving the quality of management monitoring (Hussainey and Al-Najjar, 2012) and preventing (or revealing) any irregularities in the financial reporting process (Xie et al., 2003). Empirical studies have shown that independent ACs make the best contribution to financial reporting (Lin et al., 2006) and that they offer more credible judgements on the firm's financial decisions (Bedard et al., 2004). They are also more likely to appoint external auditors who are industry specialists (Abbott and Parker, 2000). Having independent directors in the AC reduces the potential for conflicts of interest and opportunistic earnings management (e.g. Klien, 2002). Benkel et al. (2006) studied a sample of 666 Australian firms and found that the incidence of aggressive earnings management was reduced in companies with an independent AC, while Davidson et al. (2005) identified similar findings with a cross-sectional sample of 434 listed Australian corporates. Similarly, Xie et al. (2003) and Kao and Chen (2004) reveal a negative relationship between independent managers and earnings management.

ACs are expected to strengthen the links between governance mechanisms within the corporation and between the corporation and external governance mechanisms (Rezaee, 2009); their independence is crucial to their ability to perform these functions effectively. Wolnizer (1995) argues that ACs support the relationship between the external auditor and the internal audit function, while Rainsbury et al. (2008) see them as supporting the relationship between management and the external auditor, both in normal times and at times of conflict. In all cases, independent ACs are seen as being better able to deal with issues in an objective and unbiased way and to balance the interests of managers and other stakeholders (Hasan and Xie, 2013).

Research conducted in developing countries has also underlined the importance of committee independence; Qasim (2018), for example, found the independence of AC members to be the single most important factor enhancing committee effectiveness in UAE companies. The Libyan CG Code (2010) seeks to enhance AC independence by stipulating that at least two committee members should be independent directors who have no commercial relationship with the bank or any related institution, and who have held no executive management position in the bank for at least three years. However, in Libya, lack of research means that it is uncertain whether banks are complying with these requirements in practice. An investigation is therefore required to identify whether this factor is enabling AC effectiveness.

4.5.1.2 Audit Committee Financial Expertise

A significant number of studies focus on the link between the level of financial expertise of AC members (that is, their ability to read and understand financial communications) and committee effectiveness (Ho et al., 2014). Some argue that at least some AC members must possess financial expertise if the committee is to be able to properly perform its duties; Salleh and Steward (2012), for example, identify AC members' accounting and business expertise as two of the central factors that contribute to enhancing the committee's effectiveness. This is also the view of SOX (2002), which states that it is generally desirable for at least some members of the AC to have financial accounting knowledge, and the UK's Combined Code, which stipulates that listed companies should have at least one independent NED on the board with financial experience (FRC, 2003). The Smith Report (2003), meanwhile, says that the AC should consist of at least three independent NEDs, one of whom should have significant, recent and relevant financial experience.

Among those researchers demonstrating the value of relevant expertise among AC members, McDaniel et al. (2002) conclude that these individuals are better able to judge the quality of financial reporting than their unskilled counterparts, while DeZoort (1998) argues that they make better estimations of internal controls. Krishnan and Lee (2009) argue that corporations most at risk from major lawsuits are particularly likely to appoint accounting and financial experts to their ACs. Lee et al. (2004) found that independent ACs with a higher standard of financial expertise are more likely to make an effort to work with the external auditor, while DeZoort and Salterio (2001) conclude that committee members with more financial expertise are more likely to support the external auditor in conflicts with the management. On the other hand, Chen et al. (2005) argue that the level of financial expertise in the AC has no effect on the selection of specialist external auditors, and Carcello and Neal (2003) found no significant association between the level of financial expertise on the AC and the probability of an external auditor being called in following a going concern report.

In Libya, the CG code (2010) states that at least one member of the AC must have expertise in financial disclosure, accounting and auditing, but again, lack of research means that it is uncertain whether banks are complying with this requirement. Nor is it clear to what extent this factor, when present, impacts on AC effectiveness in the sector.

4.5.1.3 Audit Committee Size

Much AC literature focuses on the size of the committee, generally measured as the number of committee members (Pucheta-Martínez et al., 2014). Utama and Leonardo (2014) suggest that

the AC should consist of at least three independent members, one of whom should chair the committee. This is echoed by the BRC (1999) and the UK Combined Code (FRC, 2014), both of which recommend a minimum of three members. The Libyan CG Code (2010), meanwhile, requires at least four members.

Size is significant because as Albring et al. (2014) point out, it is widely used as a measure of effectiveness. Its influence has been investigated by a number of researchers, with varying results. Zaman et al. (2011) point to a positive link between committee size and non-audit service fees, suggesting that even when the AC is large, corporations continue to buy in non-audit services. In their survey of 500 firms, Vafeas and Waegelein (2007) found that AC size was positively associated with audit fee levels. However, while Kent et al. (2010) and Soliman and Ragab (2014) found a significant negative association between the size of the committee and the management of earnings, Bedard et al. (2004) found no significant relationship between AC size and aggressive earnings management in a sample of 300 US companies.

Other studies also offer apparently contradictory results. For example, while Mangena and Pike (2005) found no significant relationship between AC size and the level of interim disclosure in their sample of 262 UK listed companies, Kent and Stewart (2008) found a negative association with the level of disclosure in a sample of 965 firms listed on the Australian Securities Exchange. Abbott et al. (2004), using a small sample of 41 firms and financial restatements, found that the size of the AC had no significant impact on the quality of financial reporting. On the other hand, Pucheta-Martínez and De Fuentes (2007) conclude that this variable significantly affects a company’s chances of obtaining a qualified audit report.

These mixed results may suggest that committee size affects different aspects of AC performance in different ways. The general expectation is that the committee's effectiveness is enhanced by expanding the membership, but lack of research means that it is not clear whether the Libyan CG Code’s (2010) four-member minimum is sufficient for ACs in the Libyan banking sector to carry out their duties and responsibilities effectively.

4.5.1.4 Audit Committee Meetings

Smith (2003) describes formal meetings as being at the heart of the AC’s work. Regulatory bodies such as the Treadway Commission (1987) and the BRC (1999) suggest that regular meetings improve communication between AC members and internal and external auditors and make the committee more effective. However, opinions vary on the optimal meeting frequency; Burke et al. (2008) explain that committees generally meet between two and four times per

year, depending on the size and activities of the company (additional meetings may be convened as necessary), but Yang and Krishnan (2005) argue that to be effective in its monitoring function, the committee needs to meet at least four times per year. Ebrahim (2007) and Ali (2014) found that increasing meeting frequency results in the AC playing a more active and effective monitoring role, and Sharma et al. (2009) also assert that meeting frequency is a significant indicator of AC effectiveness. However, others argue that multiple meetings may actually be a sign that the committee is trying to prevent financial reporting failure (Hogan et al., 2014), or, if these failures still occur, that it is ineffective. Neither Soliman and Ragab (2014) nor Baxter and Cotter (2009) found any positive association between meeting frequency and financial reporting quality, and while Xie et al. (2003) and Lin and Hwang (2010) found a significant negative association between the number of meetings and earnings management, Davidson et al. (2005) found the relationship between these two variables to be insignificant.

As far as the Libyan environment is concerned, the CG Code (2010) stipulates that the AC must meet at least once every three months (or whenever needed), at the invitation of its chairman, but investigation is required to determine whether this stipulation is enhancing AC effectiveness in practice.

4.5.1.5 Audit Committee Authority

The AC derives its authority from the board of directors and the law, but not all ACs fully understand their responsibilities or remit (DeZoort et al., 2002). Consequently, numerous bodies have offered guidance to assist ACs in understanding these responsibilities (e.g. Cadbury Committee, 1992; Treadway Commission, 1987; SOX, 2002; Combined Code, 2003). The committee's authority is central to its ability to monitor the financial reporting process and therefore a key determinant of its effectiveness (Rittenberg and Schweiger, 2007; Mbobo and Nweze, 2015), but its influence also depends on the strength of its relationships with external and internal auditors, managers and the board as a whole (DeZoort et al., 2002).

In Libya, the CG Code (2010) states that all board committees, including the AC, must be given adequate authority and powers to carry out their tasks properly. This study aims to investigate whether this provision is indeed enabling the effectiveness of ACs in Libya's banking sector.

4.5.1.6 Resources of the Audit Committee (Access to Information)

Steinberg and Bromilow (2011) argue that the AC needs significant resources to perform the full range of its responsibilities effectively, but there is as yet little empirical evidence in the literature that AC resources are an indicator of AC effectiveness (Contessotto and Moroney,

2014). According to DeZoort et al. (2002), the AC needs sufficient committee members to perform the functions and duties assigned to it, and full access to internal and external auditors, managers, the full board and legal counsel, upon whom it relies for information and specialist expertise. The Libyan CG Code (2010) recognises the importance of information resources in its stipulation that ACs must have full access to internal and external auditors and executive managers, but the practical effect of this factor on AC effectiveness in the Libyan banking sector requires investigation.

4.5.1.7 Audit Committee Diligence

Hornby (2010, p. 407) defines diligence as being careful and thorough in one's work or efforts. The diligence of AC members is crucial in ensuring that the committee performs its responsibilities effectively and with integrity (Sharma et al., 2009). Previous studies have highlighted the positive link between AC diligence and committee effectiveness (e.g. Elijah and Ayemere, 2015) and between AC diligence and improved CG practice in general (Thiruvadi, 2012), with specific associations being demonstrated between committee diligence and characteristics such as financial expertise (Braswell et al., 2012). However, most of these studies were conducted in developed countries, and it is as yet unclear whether this factor has a similar effect in developing countries such as Libya.

4.5.2 Inhibiting Factors

The literature pays considerable attention to the internal and external factors that inhibit AC practice. Internal factors include weak board governance, a lack of clear legal requirements governing the AC's responsibilities and obligations, poorly qualified or inexperienced committee members, and inadequate compensation. External factors such as the legal and regulatory environment, the accounting environment and government intervention are likely to affect the organisation as a whole and by extension its CG and AC. These factors are discussed in the following sections.

4.5.2.1 Weak Board Governance

The quality of the information produced in the financial reporting process and the monitoring practices of the AC are influenced by the strength of board governance as a whole. Beasley and Salterio (2001) emphasise that the board has a significant impact on the quality of the AC, particularly its independence and knowledge, as it appoints the committee's members. They argue that strong, independent boards, those with an independent chairman, and larger boards are more likely to select a higher quality AC. In contrast, Modum et al. (2013) found that, in Nigerian companies, which tend to have weak board governance, board control over the

appointment process has impacted adversely on the functioning of ACs and left them unable to improve CG. Other governance characteristics such as the meeting frequency of the board may also impact the degree to which ACs will be committed to their oversight responsibilities (Raghunandan and Rama, 2007; Sharma et al., 2009; Braswell et al., 2012); Karim et al. (2016) argue that in an environment with weak governance, the AC's monitoring efforts will be similarly weak.

In terms of Libya specifically, Larbsh (2010) points to the continuing lack of independence of boards and their committees. Given that strong board governance is more likely to encourage effective AC practice, this does not bode well for ACs in the Libyan banking sector. This study seeks to explore how far this factor inhibits AC performance in the sector.

4.5.2.2 Lack of Clear Legal Requirements Governing the AC's Responsibilities

Given the importance of the AC as a mechanism of CG, regulations need to be put in place to ensure that it performs its responsibilities fully. The need for outside controls is underlined by Lin et al. (2008), who argue that ACs in Chinese listed companies are unlikely to be effective unless stringent obligations are imposed on them by competent authorities. SOX (2002) simply requires AC members to fully understand their obligation to improve CG and prevent financial fraud; at company level, Saad et al. (2006) argue for clear, practical and flexible terms of reference and responsibilities, deliberated on and accepted by the board of directors and re-evaluated periodically. In the Nigerian banking sector, the scope of the committee's responsibilities and how it performs these responsibilities are set out in a formal written charter (Mbobo and Nweze, 2015). In Libya, meanwhile, the CG Code (2010) stipulates that regulations must be produced for each board committee, taking into account the bank's governance policies and procedures. If these regulations are absent, the responsibilities and duties of the AC may be ill-defined, potentially compromising its legitimacy and undermining its ability to perform its role. Investigation is therefore required to determine whether ACs in the Libyan banking sector are being given this regulatory guidance, and if not, whether this is inhibiting their effectiveness.

4.5.2.3 Poorly Qualified and Inexperienced Members

Previous studies have found a positive link between the competence (i.e. qualifications and experience) of AC members and committee effectiveness (Bedard and Gendron, 2010). A number of writers have observed that the majority of members of the audit committees suffer from a lack of experience in the process of examining financial statements and auditing, as well as poor qualifications (e.g. Zhang, 2002; Lin et al., 2008). In Libya, the tendency of boards to

prioritise personal relationships and family ties over academic qualifications and experience during the appointment process (Larbsh, 2010) means that too many AC members lack the specialist knowledge to carry out their tasks effectively. It is reasonable to assume that this collective lack of qualifications and experience is inhibiting the ability of these committees to play a full role.

4.5.2.4 Inadequate Audit Committee Compensation

A number of studies investigate the impact of inadequate compensation; Engel et al. (2010), for example, found that it has an adverse effect on the quality of the AC's financial monitoring. Campbell et al. (2013) suggest that the level of compensation paid to AC members can affect both the independence and the effectiveness of the committee. Malik (2014) echoes this view, suggesting that future studies should investigate the interaction between different forms of compensation and AC attributes such as independence and expertise.

The Libyan CG Code (2010) stipulates that members of the board and its sub-committees should be compensated, but it is unclear whether this is happening in practice. Larbsh (2010) found that low compensation is perceived as having a negative effect on the development of CG in Libya, but there has been no investigation of the impact of this factor on AC effectiveness in the Libyan banking sector. It seems likely, however, that AC members will be more inclined to carry out their duties attentively if they feel they are being fairly recompensed.

4.5.2.5 Weak Legal and Regulatory Environment

The OECD (2004) recognises the significance of the prevailing legal, regulatory and institutional environment in shaping and supporting the CG framework. Fundamentally, the legal system underpins this framework by determining the responsibilities of stakeholders and enabling the enforcement of their rights (Larbsh, 2010). In a number of developing countries, however, slow and ineffective legal systems mean that investors in these countries seldom go to court to resolve problems (Nganga et al., 2003). In the case of Libya, an outdated legal system and inconsistent enforcement do little to inspire confidence in investors (Larbsh, 2010; Faraj and El-Firjani, 2014). Shalba (2016) argues that the legal system is adversely affecting governance in Libya by failing to define the board's responsibilities in law, while Iswaissi and Falahati (2017) argue that CG regulation in Libya's banking sector is inadequate. This has implications for AC practice, but lack of research means that the nature of this impact is not fully understood. The evidence so far suggests that weaknesses in the legal and regulatory environment inhibit CG, and particularly AC practice, in the Libyan banking sector.

4.5.2.6 Weak Accounting Environment

Despite the creation of the Libyan Accountants and Auditors Association and foreign firms bringing UK and US accounting standards into Libya (El-Firjani et al., 2014), accounting professionals in the country still lack expertise in accounting, auditing and financial reporting (Zakari and Menacere, 2012; Alfatiemy, 2013; Maatoug, 2014). El-Firjani et al. (2014) argue that the accounting profession has failed to achieve its objective of developing accounting practices. Zakari and Menacere (2012), meanwhile, refer to the general weakness of the external audit function, particularly as regards the collection of audit evidence. Part of the problem is that accounting education in Libya still follows a traditional, now outdated, curriculum, but the sector lacks the qualified academics and researchers it needs to update it. There are also no Libyan accounting and auditing standards. This leads Hamuda and Sawan (2014) to recommend the adoption of international auditing and accounting standards.

The accounting and auditing profession does not enjoy high status in Libya, mostly due to the perceived weakness of the Libyan Accountants and Auditors Association (Masoud, 2017). This state of affairs is unlikely to change without a thorough overhaul of the profession's regulatory systems to bring them into line with those in developed countries. At the moment, low standards within the profession lead to too many serious errors, and even to ACs being given false information. This not only undermines the credibility of the accounting and auditing profession but also that of ACs, organisations and the CG concept itself. In light of these concerns, it is important to investigate the extent to which the weak accounting environment is seen as impacting AC effectiveness.

4.5.2.7 Government Intervention

Politics may impact on CG arrangements; Roe (2003, p. iii) asserts that "politics can press managers to stabilise employment, to forego some profit-maximising risks with the firm, and to use up capital in place rather than to downsize when markets are no longer aligned with the firm's production capabilities". In terms of government intervention specifically, Wu and Patel (2015) point out that government intervention exists in CG and accounting because of the political structure and the controlling shareholder situation of the government in numerous restructured state-owned corporations. Pučko (2005) argues that government involvement in governance systems means that governments are becoming one of the main stakeholders of companies, such as when they intervene radically in the practice of profit sharing. Larbsh (2010) asserts that a governance system which is based on the law might not be effective in developing countries where political intervention and social connections have a significant effect on the practice of governance.

It has been argued that the Libyan Government has been half-hearted in its attempts to reform governance because, as the largest shareholder in most major firms and institutions, it has the most to gain from the status quo – it controls the economy at the expense of other shareholders (Abdou, 2015). Both Larbsh (2010) and Iswaissi and Falahati (2017) found that political intervention affects CG in Libya, for example through the Central Bank of Libya's involvement in the appointment of board members (Iswaissi and Falahati, 2017). This has a knock-on effect on the selection of AC and other committee members and, in turn, the decision making and performance of these entities. This study seeks to investigate how far this intervention inhibits AC performance in the Libyan banking sector.

4.6 Conceptual Framework

Effective CG practice is rare in developing countries (Ans, 2015). Boubakri et al. (2005) argue that many of these countries lack an established institutional framework for effective CG, while Leuz et al. (2003) conclude that in countries with weak economies, investors have few rights and regulation is not enforced. This is the case in Libya, which is still in the early stages of implementing CG (Iswaissi and Falahati 2017). As a result, regulation is still inadequate in Libyan firms, and practice is generally weak (Larbsh, 2010; Magrus, 2012; Zagoub, 2016). Libyan ACs thus operate within an environment that is very different from that in developed countries, though it is as yet unclear how far this environment impacts on the practice and effectiveness of these committees in Libya's banking sector (Zagoub, 2016).

From a conceptual perspective, it is imperative to explore the current role of AC practice in Libyan banks, and then to investigate the impact of any obstacles on this practice, so that action can be taken to improve AC effectiveness. Burke et al. (2008) argue that the main objectives when gathering information on AC performance are firstly, to assess this performance against the duties, responsibilities and activities set out in the charter, and secondly, to identify where it should be by comparing it with leading best practice. The goal is to identify what resources are needed for the committee to achieve its objectives and execute its functions and to discover any obstacles blocking its improvement. This is therefore the aim of this study.

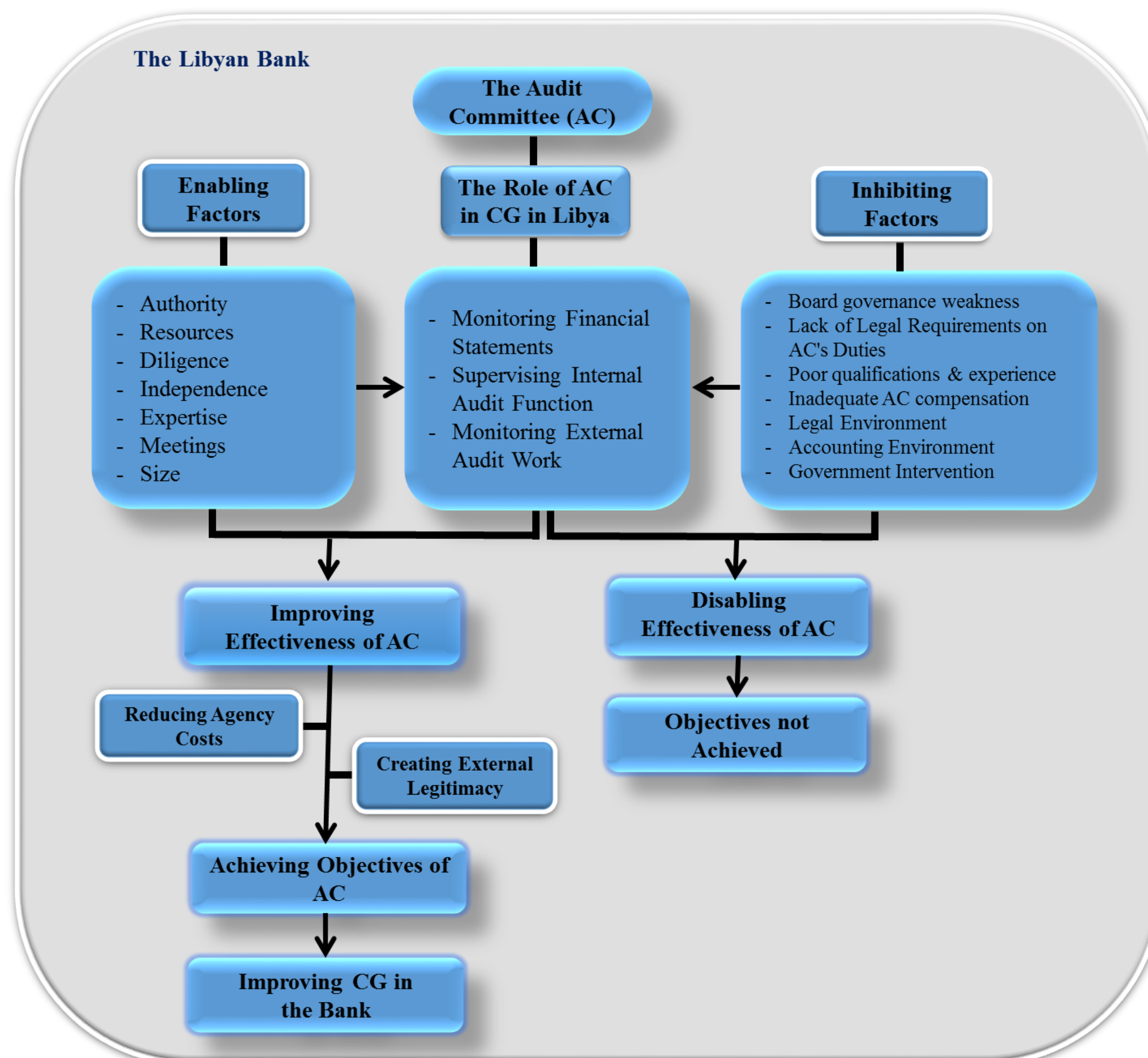
The literature review indicates that researchers have approached the AC's role from a number of angles. Many have highlighted potential enabling factors (e.g. DeZoort et al., 2002; Braswell et al., 2012); a number of studies, particularly in developed countries, have focused on the impact primary characteristics such as independence, financial expertise, size and meeting

frequency have on AC practice (e.g. Beasley and Salterio, 2001; Carcello and Neal, 2003). DeZoort et al. (2002) identify authority, access to information and diligence as additional factors that contribute positively to AC performance. Others have focused on the impact of inhibiting factors such as weak board governance, the lack of clear legal requirements governing AC responsibilities and obligations, the lack of requirement for AC members to be qualified or experienced, inadequate AC compensation, the legal and regulatory environment, the accounting environment and government intervention (e.g. Lin et al., 2008; Fernando, 2009; Modum et al., 2013; Wu and Patel, 2015; Shalba, 2016).

Figure 4.1 presents the conceptual framework for the study. As a board sub-committee, the AC in a Libyan bank performs a number of main responsibilities and roles that are delegated to it by the board of directors, in line with the CG Code (2010). These roles are: reviewing the financial statements, reviewing and supervising the internal audit function and the internal control system and monitoring the work of external auditors. The model shows that the AC's effectiveness in these roles and responsibilities may be affected by a number of enabling and inhibiting factors. The enabling factors include: authority, access to information, diligence, independence, financial expertise, meetings and size. The inhibiting factors include: weak board governance, the lack of clear legal requirements governing the AC's responsibilities and obligations, the lack of a requirement for AC members to be qualified or experienced, inadequate compensation, the weak legal and regulatory environment, the weak accounting environment and government intervention. The framework demonstrates that the enabling factors enhance the effectiveness of the AC by reducing agency conflicts and creating external legitimacy (as suggested by institutional theory). This helps the AC achieve its ultimate objective of improving CG in the bank. By contrast, the inhibiting factors adversely affect AC performance and prevent it from achieving this objective.

The conceptual framework provides the means to explore the current practice of ACs in Libya's banking sector from different perspectives. It demonstrates the factors that impact on their effectiveness, and then identifies actions to enhance this effectiveness in this sector.

Figure 4.1 Diagram of the Conceptual Framework for the Current Study



4.7 Summary and Gap in the Literature

The review of the literature indicates that significant attention has been paid to ACs as a key mechanism within the CG process (Mangena and Pike, 2005), especially in recent years. Turley and Zaman (2014) and Fichtner (2010) among others note the role of recent corporate collapses and scandals in refocusing regulator and government attention in the developed world on ACs, with the result that many of these countries have created CG guidelines in which these committees are given a prominent role (Rustam et al., 2013). These guidelines have generally identified the roles of the AC as being to ensure responsible CG, to review the firm's financial reporting and to provide a channel of communication between the board, external auditors and internal auditors (e.g. Rezaee, 2009; Liao and Hsu, 2013).

From investigations into the AC's roles and responsibilities (e.g. Keune and Johnstone, 2012; Campbell et al., 2013; Fulop, 2014; Hogan et al., 2014; Turley and Zaman, 2014; Eulerich et al., 2017) to explorations of AC characteristics and the factors affecting their performance (e.g. DeZoort et al., 2002; Sharma et al., 2009; Baxter, 2010; Engel et al., 2010; Bierstaker et al., 2012; Braswell et al., 2012; Malik, 2014; Abernathy et al., 2014; Albring et al., 2014; Alzeban and Sawan, 2015; Ghafran and O'Sullivan, 2017; Poretti et al., 2018), the vast majority of studies so far have focused on ACs in developed countries, such as the UK, the USA, Canada and Australia. Only a few have focused on developing countries, which generally offer a significantly different operating environment for CG and ACs (Barghathi et al., 2017; Iswaissi and Falahati, 2017). These differences are likely to have an impact both on practice in these committees and on their effectiveness as mechanisms of CG; in other words, the research findings from developed countries may not be applicable here.

The limited number of studies investigating CG, and particularly AC practice, in developing countries means they are still poorly understood (Al-Moataz, 2010; Bett and Tibbs, 2017; Chanda et al., 2017). Early investigations, such as those by Soliman (2003) and Al-Moataz (2003), focused on the effectiveness of ACs in developing countries, generally finding them to be largely ineffective in their oversight role, but more recent explorations have begun to give a more detailed picture of the role played by ACs in these countries. A growing body of literature now examines, for example, the effect of AC characteristics on company performance (Alqatamin, 2018), factors that may enhance AC effectiveness (Qasim, 2018), the role of ACs and boards in reducing earnings management (Khosheghbal et al., 2017), and the influence the AC-internal audit function relationship has on the moral courage of the head of the internal audit function (Khelil et al., 2016). The current study seeks to add to this literature by offering a new perspective and evidence from a developing country regarding the AC's current role as a mechanism of CG, the factors affecting these committees and how to improve their effectiveness.

The literature review indicates that insufficient attention has been given either to the factors that affect AC practice or to ways of enhancing their effectiveness. To this end, the study highlights fourteen factors and divides them, for the first time, into factors that enable and inhibit ACs. A number of prior studies have focused on investigating and evaluating the factors that influence the effectiveness of the AC (Baxter, 2010; Saat et al., 2012; Kituku and Ahmad, 2016), but most have limited themselves to only a few factors. Furthermore, none have considered how a weak accounting and auditing profession impacts specifically on the AC; Fernando (2009) argues that CG in general is affected by the accounting environment,

including the accounting and auditing profession, while Srivastava and Lognathan (2016) point out that unqualified accountants generate inaccurate information which leads to poor decision making that can affect the whole organisation, including CG and the AC. The current research therefore contributes to the literature by exploring the particular impact that this factor can have on AC performance.

Many developing countries lack the institutional framework necessary for effective CG (Boubakri et al., 2005). This is the case in Libya, which is still in the early stages of implementing CG in the banking sector (Iswaissi and Falahati 2017) and where CG regulation remains inadequate (Larbsh, 2010; Abdou, 2015). There has been little empirical investigation of CG mechanisms and systems in this sector (Zagoub, 2016), with the result that very little is known about the composition, authority, independence, meetings, responsibilities and resources of ACs in the Libyan banking sector. However, as the country's economy opens up further to privatisation and foreign investment (Abdo and Aldrugi 2012; Masoud, 2014a), a full understanding of how these committees operate – and how effective they are – becomes ever more important in order to protect the interests of shareholders. Only two studies have been conducted in Libya so far (Abdulsaleh, 2014a; 2014b), and these examine the potential (rather than the current) role of the AC in just three banks, relying on data from questionnaires distributed to a very small sample. Furthermore, Abdulsalehh's research was conducted before the Libyan CG Code (2010) made ACs compulsory in the banking sector. It is this information gap that the current study seeks to address by using a combination of quantitative questionnaire surveys and qualitative semi-structured interviews and combining elements of agency theory and institutional theory to gain the richest possible understanding of the results (Kalbers and Fogarty,1998; Beasley et al., 2009).

It is hoped that the study's findings will not only contribute to academic discussion but also help Libya's policy makers and shareholders in their decision making (and encourage them to pay greater attention to the AC mechanism), and that they will prove instructive to board members, AC members and regulators as they attempt to reduce the obstacles facing ACs and enhance their effectiveness. The main concerns of the study are to identify just how much influence ACs have within the country's banking sector and to investigate the impact of a number of factors on their practice, so that action can be taken to improve their effectiveness. The following chapter discusses the research methodology and methods that were employed to pursue these aims.

Chapter 5. Research Methodology and Methods

5.1 Introduction

This study aims to assess the current status and performance of ACs in the Libyan banking sector, to investigate the factors that affect their practice and to identify actions to enhance their effectiveness. The previous chapters having shed light on the literature pertaining to CG and ACs and their application in Libya, this chapter discusses the methodology and methods adopted in this research. It starts by discussing the research paradigm and restating the research objectives and questions before going on to discuss the research design and the use of quantitative and qualitative methods. It focuses at length on the questionnaire survey that was employed, describing the selection of the study population and sample, the design of the questionnaire and the way in which the gathered data were analysed.

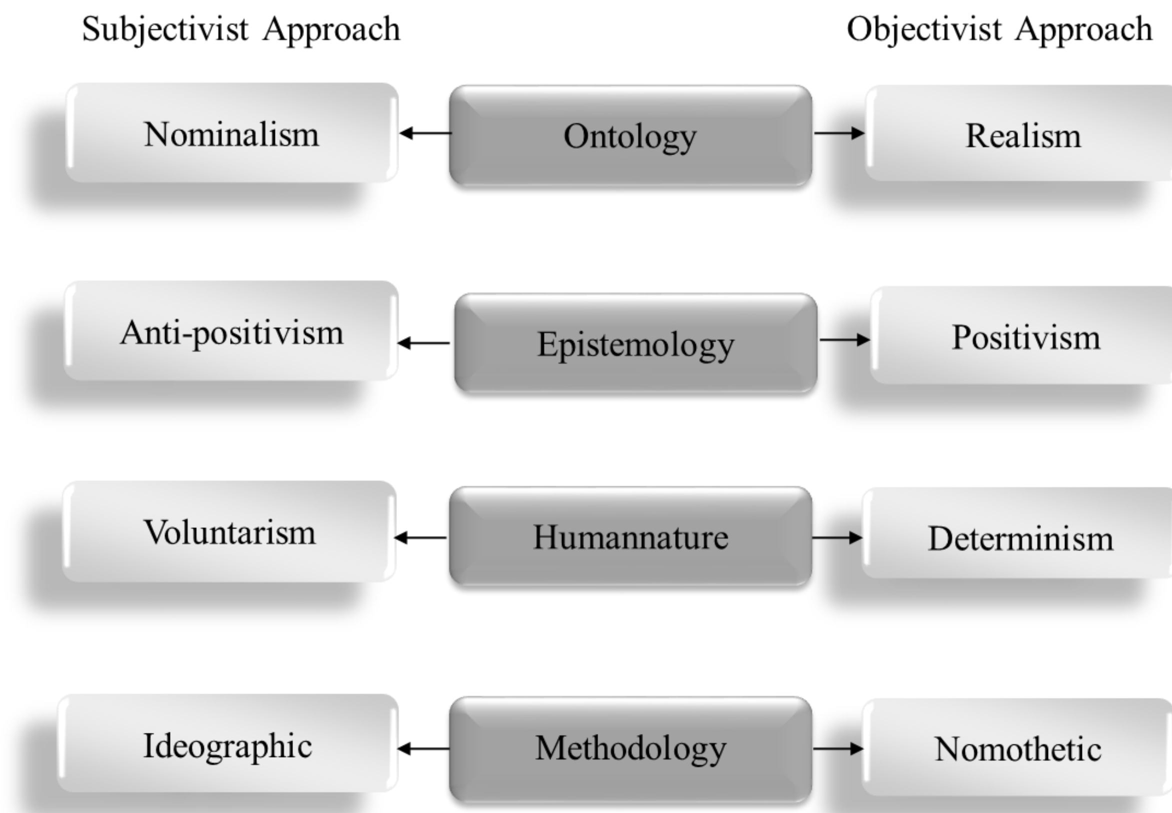
5.2 Research Philosophy and Methodology

Research methodology has been defined as the scientific study of the methods, tools or devices that support the collection of data (Daniel et al., 2018). Burrell and Morgan (1979) suggest that social scientists must give careful consideration to the ontological, epistemological and methodological assumptions that underlie their research, just like researchers in the natural and physical sciences. The sociological dimension involves a choice between two views of society: that is, whether it evolves rationally (the regulatory view) or as a result of radical change (Holden and Lynch, 2004). The scientific dimension involves selecting either a subjective or an objective approach – each of these has its own assumptions regarding ontology, epistemology, human nature and methodology (Holden and Lynch, 2004). Goles and Hirschheim (2000) suggest that the first two of these – ontology (how we know what we know) and epistemology (how we gain knowledge) – are the central issues in social science. Crotty (2003) defines ontology as the study of the nature of reality and existence. Zhu et al. (2015) point out that ontology research is burgeoning and widespread in the discipline of information. Frestadius (2015) defines epistemology as the investigation of how things are known, or as Langdridge (2007, p.24) puts it: “what we can say we know about human nature”. Both are crucial because, as Ryan et al. (2002) argue, the researcher’s assumptions regarding a phenomenon’s reality (ontology) will affect how they gain knowledge of the phenomenon (epistemology), and in turn, the methodology they employ.

Burrell and Morgan (1979) developed a comprehensive philosophical framework to describe the nature of social science research (see Figure 5.1). The framework presents the four key

dimensions of ontology, human nature, epistemology and methodology, together with the philosophical stands associated with each. In the objective (or quantitative) approach, these are realism, positivism, determinism and the nomothetic approach, while in the subjective (qualitative) approach, they are nominalism, anti-positivism, voluntarism and the ideographic approach.

Figure 5.1 Scheme for Assumptions Concerning the Nature of Social Science



Source: Burrell and Morgan (1979, p. 3)

Objectivism posits that reality exists independent of the observer, and that it can be perceived through the senses and measured to yield objective knowledge (Rand et al., 1990). In contrast, Saunders et al. (2009, p.111) argue that:

> “The subjectivist view is that social phenomena are created from the perceptions and consequent actions of social actors. What is more, this is a continual process in that through the process of social interaction these social phenomena are in a constant state of revision”.

In other words, the subjectivist approach supposes that reality is created by humans, while the objectivist approach supposes that reality is external and that the researcher can maintain a

detached, objective stance (Savin-Baden and Major, 2012). The epistemological dimension is concerned with how this reality can be known (Borim-de-Souza et al., 2015), particularly the extent to which it is possible to obtain objective data to "measure" or quantify social phenomena (Lee and Jones, 2015).

Human nature, the third dimension in Burrell and Morgan's framework, refers to those essential or core features that make us human (Haslam and Loughnan, 2014). While objectivists regard humans and their experience as products of the environment (represented by the determinist standpoint), subjectivists take the view that individuals are completely autonomous and their actions the result of free will (voluntarism) (Burrell and Morgan, 1979).

5.2.1 Research Paradigm

Borim-de-Souza et al. (2015) define a research paradigm as a basic collection of beliefs which guide the researcher's actions. In developing a philosophical paradigm, the researcher must consider a number of core assumptions about the nature of society and the nature of science (Burrell and Morgan, 1979). The selection of an appropriate research paradigm maximises the likelihood of achieving high quality results (Healy and Perry, 2000). According to Saunders et al. (2003), the philosophical standpoints most often employed in business research are positivism, anti-positivism and realism. Accordingly, these approaches are discussed in more detail in the following sections.

5.2.1.1 The Positivist Approach

Ryan et al. (2002) argue that with the growing emphasis on empiricism, positivism has become one of the most important philosophical approaches for researchers. According to O'Sullivan and Irby, "The positivist research paradigm assumes that reality is ordered, predictable and ultimately knowable through objective measures and rigorous application of scientific method" (2014, p. 375). The positivist approach is linked with quantitative research methods (Johnson and Onwuegbuzie, 2004). It is assumed to be totally objective (Johnson and Onwuegbuzie, 2004) as data collection and analysis methods are value-free rather than reliant on subjective interpretation (Krauss, 2005).

The positivist paradigm assumes that the methods, aims and concepts of the natural sciences can be applied to the social sciences (Lather and Lather, 1991); its proponents argue that social reality is observable and that social science research can produce law-like generalisations such as those generated by natural scientists (Saunders et al., 2009). However, Cohen et al. (2007) are less convinced, arguing that positivism is less successful when applied to the complexities

of human nature and intangible, elusive social phenomena. Henn et al. (2005, p.13) point out that:

> "The logic of a positivist research design is that: We seek to identify processes of cause and effect to explain phenomena, and to test theory; Knowledge should be based on what can be tested by observation of tangible evidence; Researchers should use scientific methods which emphasise control, standardisation, and objectivity".

The ultimate goal of most positivist researchers is to discover the generalisations that represent the current best understanding of a phenomenon and to communicate these concisely to an audience that shares their underlying assumptions (Malsch and Salterio, 2015).

A number of previous authors have supported the use of the positivist paradigm in accounting research. Ryan et al. (2002) argue that positivism has had a profound impact on the recent development of accounting, economics and finance research, while Laughlin (1995) claims the positivist perspective is widely employed in mainstream accounting research. Not all social scientists support its use, however, with some being alienated by the positivists' appeal to value-free knowledge and their rejection of metaphysics (Ryan et al., 2002).

The accounting research that is sometimes labelled as positivist seeks to empirically validate general causal explanations of accounting-related phenomena. It aims at objectivity, in the sense that empirical results and the inferences drawn from them are meant to be independent of the characteristics of the individual researcher (Luft and Shields, 2014). Within the critical accounting literature, there are numerous examples of studies that have used quantitative indicators to describe the status quo and to provide a starting point for a more in-depth qualitative analysis. These studies have inverted the usual relationship between qualitative and quantitative methods found in positivistic research, in essence using quantitative methods to provide a first-order mapping of the field (Everett et al., 2015).

5.2.1.2 The Anti-positivism Approach

Anti-positivism is subjective and qualitative in orientation; it assumes that reality is internally based on the description the researchers attach to it (Wang, 2015). In this approach, the social world is understood by investigating the meanings it holds for individuals (Marsh and Stoker, 2002). Since these individuals differ, the researcher must be prepared for variation and inconsistency (Saunders et al., 2009). Anti-positivism comes from two intellectual traditions: phenomenology and symbolic interactionism (ibid). Phenomenology refers to the way in which we as humans make sense of the world around us, while symbolic interactionism describes the

process whereby individuals interpret the actions of others and adjust their own understanding and actions accordingly. Malsch and Salterio (2015) argue that one of the main challenges of the interpretive researcher is to establish connections between the local and global level of analysis so that they can transfer local results to the global context in order to gain a better understanding of the phenomenon under investigation.

5.2.1.3 The Realist Approach

The realist paradigm combines elements of positivism and anti-positivism. Like positivism, it employs the methods and logic of the natural sciences (Hibberd, 2010), but unlike positivism, it does not claim that the resulting knowledge will perfectly reflect the object of study (Fisher, 2007). According to Saunders et al.,

> "Realism is another philosophical position which relates to scientific enquiry. The essence of realism is that what the senses show us as reality is the truth: that objects have an existence independent of the human mind. The philosophy of realism is that there is a reality quite independent of the mind. Realism is a branch of epistemology which is similar to positivism in that it assumes a scientific approach to the development of knowledge" (2009, p. 114).

These authors explain that two types of realism are evident in business and management research: direct realism and critical realism (Saunders et al., 2009). While direct realism posits that our five physical senses perceive the true state of the world (or as Keefe (2015) puts it, we perceive things rather than ideas of things), critical realism posits that these perceptions are merely illusions of the real world. In both approaches, the researcher is able to employ a combination of qualitative and quantitative methods (Healy and Perry, 2000), which, as Krauss (2005) points out, allows him or her to mitigate the effects of any methodological variance by triangulating the results.

Saunders et al. (2003, p. 85) suggest that "business and management research is often a mixture between positivism and interpretivism, perhaps reflecting the stance of realism", and a number of authors have supported the use of the realist paradigm in accounting research; Bisman (2010), for example, argues that it is necessary to consider how human behaviour and social relations impact upon the process and outcomes of decision making in accounting, and that accounting studies conducted within a realist paradigm and applying both qualitative and quantitative methodologies are more likely to generate reliable and coherent results.

In light of the findings from the literature review above, it was decided that the realist paradigm would be the most appropriate for this research. This approach allows the researcher to employ positivist methods to gather empirical and quantitative data, and anti-positivist, qualitative methods to gain an insight into the subjective views and experiences of participants and make better sense of the statistical results (see Maxwell and Mittapalli, 2010; Allmark and Machaczek, 2017). In the current study, the questionnaire survey allowed the capture of quantitative information from a large sample of respondents, thus facilitating generalisation of the findings. The questionnaire data were supported by the qualitative data gathered from the semi-structured interviews, promoting data quality and minimising the risk of bias. The deductive approach was considered appropriate because the study seeks to test known concepts and theoretical patterns rather than to infer new patterns and concepts from the empirical data (see Saunders et al., 2009; Bhattacherjee, 2012; Trochim et al., 2015).

5.3 Research Design

The study employed a combination of quantitative questionnaire surveys and qualitative semi-structured interviews to boost data quality and minimise the risk of bias (Hussey and Hussey, 1997). Data were first gathered from the questionnaire responses. This instrument allowed information to be gathered from a large number of participants (Mohamed et al., 2015). Semi-structured interviews were then used to gain a better understanding of the research questions, and to confirm and further explore the questionnaire survey findings. The respective merits and drawbacks of these methodologies, and the justification for the use of a mixed method approach, are discussed in the following sections. The issues surrounding data access and ethical considerations are also discussed below.

5.3.1 Quantitative Research

Quantitative research applies statistical methods, usually to a wide range of data sources, to gather numerical data. These data are subjected to statistical analysis in order to achieve outcomes which can be generalised to the general population (Laurie et al., 2015; Amaratunga et al., 2002). Creswell (2009) observes that quantitative research methods focus on quantifiable variables, while Abu Bakar and Abdullah (2008) identify experiments and surveys as the most common quantitative research methods.

The quantitative approach has a number of advantages; in addition to its potential to yield generalisable results, Hyde (2000) argues that it produces quantifiable, reliable information, while Babbie (2015) argues that it generally makes observations clearer and that it is easier to

aggregate, compare and summarise data. Statistical analysis may be used to generate anything from simple averages to complex mathematical formulas and models; Fielding and Schreier (2001) argue that these can enhance our initial understanding of a phenomenon by giving an overall snapshot.

On the other hand, Johnson and Onwuegbuzie (2004) argue, quantitative results may not accurately reflect the respondents' understanding, and the knowledge that is produced might be very abstract and too general for direct application to specific local contexts. Similarly, Larsen (2009) suggests that if the researcher is dealing with large amounts of numerical data, the data processing is likely to lack precision. Langdridge and Hagger-Johnson (2009), meanwhile, argue that quantitative methods over-simplify the intricacies of human nature, and fail to recognise the individuality and autonomy of respondents and the subjective nature of social science research. Despite these objections, Everett et al. (2015) observe that quantitative methods can help researchers to better understand accounting and auditing practice.

5.3.2 Qualitative Research

Qualitative research is generally defined as any type of research in which the results are not arrived at by statistical means (Golafshani, 2003). The outcomes of qualitative research are presented in narrative rather than numerical form; Simbolon describes the aim of this kind of research as being "…to describe the phenomenon in detail" (2014, p. 24). In recent decades, qualitative methods have become indispensable to social scientists; indeed, some researchers argue that they should take priority over quantitative methods (Chesebro and Borisoff, 2007; Fitzsimmons, 2007; Thompson and McPherson, 2011). Supporters of the qualitative approach argue that these methods allow the researcher to understand the lived experience of respondents and to examine individuals in their natural context. The researcher can capture a range of perceptions and attitudes in the respondents' own words (Bless et al., 2013), while instruments such as the semi-structured interview also enable the researcher to ask supplementary questions to gain a better understanding of the phenomenon (Larsen, 2009). Qualitative methods are also open to innovation, whether this involves developing a completely new method, using a tried and tested method with new respondents, or bringing in methodological expertise from another discipline (Takhar-Lail and Ghorbani, 2015).

Critics of the qualitative approach counter that: "Qualitative data bring the disadvantages of purely verbal descriptions" (Babbie, 2015, p. 24). Smith (2015) points to the difficulty of interpreting naturalistic verbal reports, while Johnson and Onwuegbuzie (2004) state that results may be influenced by the researcher's personal bias and idiosyncrasies, rendering them

less credible. Furthermore, qualitative research usually uses small samples that are selected for particular characteristics and therefore cannot represent the general population (Laurie et al., 2015). Finally, critics point to the length of time it takes to collect and analyse qualitative data (Larsen, 2009).

5.3.3 Mixed Method (Triangulation)

Creswell and Miller (2000, p. 126) define triangulation as “a validity procedure where researchers search for convergence among multiple and different sources of information to form themes or categories in a study”. Denzin (2012, p. 82) argues that “The use of multiple methods, or triangulation, reflects an attempt to secure an in-depth understanding of the phenomenon in question”. Blanche et al. (2006) agree, explaining that the combination of quantitative and qualitative methods in the same study allows researchers to investigate different aspects of a phenomenon in order to understand it properly. Thus, quantitative methods might be used to collect general data around the field of study, with qualitative methods being employed to access local knowledge and develop theoretical explanations and concepts (Kelle, 2006). Creswell and Clark (2011) go further, arguing that some questions can only be answered using the mixed method approach.

Triangulation boosts data quality and minimises the risk of bias (Hussey and Hussey, 1997); as Johnson and Turner (2003) point out, both quantitative and qualitative methods have limitations which may be mitigated to some extent by using them in combination. This leads Esteves and Pastor (2004) to conclude that employing multiple methods increases the robustness of the results. For these reasons, this study adopted a mixed method approach to data collection. The study’s conceptual framework provides the means to explore from different perspectives current practice among audit committees in Libya’s banking sector, to identify the issues or obstacles that affect their performance, and to identify actions to enhance their effectiveness. These objectives were achieved by means of a questionnaire, which elicited the views of five groups of actors in Libya’s banking sector, and through semi-structured interviews with senior employees in the sector. These sought to obtain in-depth insights into the role of audit committees and to gather data beyond the scope of the questionnaire. The mixed method approach was particularly vital in this instance, given the absence of secondary data in the areas addressed in the research questions.

Table 5.1 Summary of Methods and their Link to Research Objectives and Questions

Research Objectives	Research Questions	Data Collection
To explore the present role of AC in the Libyan banking sector.	What role do ACs currently play in Libya's banking sector?	- Main: Questionnaire survey with the five groups
	How do these committees perform their role?	- Support: Interviews with senior employees
To investigate the factors that affect the effectiveness of ACs in this sector.	What factors impact on the effectiveness of ACs in this sector?	Main: Questionnaire survey with the five groups
	How do these factors affect the role of ACs?	- Support: Interviews with senior employees
To identify ways of enhancing the effectiveness of ACs in this sector.	What can be done to enhance the effectiveness of ACs in this sector?	Main: Questionnaire survey with the five groups - Support: Interviews with senior employees

5.3.4 Data Access

The data collection process may be adversely affected by a number of factors, from the social, cultural, economic and religious context of the research (Lægaard, 2011), to the dearth of relevant studies in the field, particularly in developing countries (Al-Moataz, 2010). In the current study, data collection was made more difficult by the reluctance of target banks to participate in the research. Only after they had seen the ethical approval granted by Nottingham Trent University and support letters from both the Libyan Embassy and Misurata University (the researcher's sponsor), did banks consent to the distribution of questionnaires and allow individuals to be interviewed. Even then, gaining access to board members and audit committee members was extremely difficult as these individuals tend not to be permanently quartered in the bank. A further hurdle was the sheer size of the country (679,362 square miles or 1,759,540 square km) (O'Neal, 2012), especially as the banks in the sample were located in different cities. Fortunately, the researcher was able to call on friends working in these banks to assist in distributing and collecting the questionnaires and to conduct some of the interviews.

All prospective interviewees were fully briefed about the nature and objectives of the study, interview duration, and the arrangements for ensuring the confidentiality and safe storage of data. They were also informed that they had the right to withdraw at any stage without giving

a reason and that their anonymity would be respected. Despite these assurances, however, many were initially reluctant to be interviewed; they were only persuaded to participate when they had come to trust the researcher and developed curiosity about the research. A similar reluctance was initially evident in the case of the questionnaire survey, with many of those approached claiming that they were too busy or did not understand the research topic. Consequently, care was taken to reassure these reluctant respondents that any unclear or ambiguous questions would be explained to anyone who asked at any point in the survey process. The survey was administered in two stages. In the first stage, the majority of questionnaires were distributed by hand (the others by email) to participants in sixteen of Libya's seventeen commercial banks (the one bank without an audit committee was excluded from the sample) to be collected subsequently. After two months, the majority of email questionnaires had not been returned, so the second stage was to resend these email questionnaires. This prompted some of these recipients to return their questionnaires.

5.3.5 The Translation of Interview Transcripts and Questionnaire

The questionnaire and interview forms were originally written in English and then translated into Arabic to ensure that they would be easily understood by the respondents. The accuracy of this translation was then checked by translating them back into English. The translation of the questionnaire and interview schedule had to be done carefully to ensure that the questions had the same meaning for all respondents and would yield useful data (Saunders et al., 2009). Bradley (2013) argues that translation should be carried out by someone who is both fluent in the languages concerned and who understands the purpose of the questionnaire and the intention underlying the design of each item. In this case, the researcher's own translations were reviewed by a professional translator, a Libyan Arabic native speaker with a PhD in English Literature from a UK university and more than fifteen years' experience. As a Libyan national, the translator was familiar with the target country and the local dialect used by respondents. After the field study, the interview transcripts were translated from Arabic into English for analysis. Again, the researcher's translations were reviewed by the same professional translator. A few ambiguous phrases in the transcripts were also referred to the translator. All transcripts sent to this translator were fully anonymised in order to protect confidentiality.

5.3.6 Ethical Considerations

In accordance with the University Research Governance Framework and the ethical guidelines published by the relevant associations, an application was submitted to the College Research Ethics Committee (CREC) for approval of the proposed research plans prior to the fieldwork. This contained an explanation of the steps that would be taken to maintain data security and participant confidentiality. The application was formally approved by the committee in November 2015.

The field study was conducted in accordance with the ethical guidelines. A letter was attached to each questionnaire when it was first distributed giving the researcher's contact details (address, email address and mobile number) in case the respondents felt they needed to contact him. This letter emphasised that the information and personal opinions they provided would be kept strictly confidential. To ensure that the participants were fully informed about the research, they were also given Participant Information Sheets. As explained in section 5.4.4, they were assured that they could withdraw from the research at any time.

Data confidentiality and the participants' anonymity were protected at every stage of the research process, primarily by ensuring that there was nothing in the questionnaires or the interviews that could indicate the identity of the participants/interviewees. Returned questionnaires were kept secure in a locked filing cabinet at NTU, while the interview data were transferred from Libya to the UK in a password-protected file which was not accessible to anyone else. This was also stored in a safe place. As a result of these measures being put in place, no ethical concerns arose either during or after data collection.

5.3.7 Validity, Reliability and Generalisability of the Findings

According to Gill and Johnson (2002, p. 118), "validity refers to the accuracy of the measurement process while the reliability of measurement refers to its consistency". A number of researchers point to the use of a mixed methods research design as a way of enhancing both validity and reliability; for example, Guion et al. (2011) argue that combining questionnaires with interviews adds a depth to results that would not have been possible using a single method, Golafshani (2003) notes that methodological triangulation reduces bias and increases the truthfulness of the findings, and Bentahar and Cameron (2015) argue that it is vital to overcome the weaknesses of individual methods. In this study, the use of questionnaire surveys and interviews allowed the findings to be triangulated and checked for consistency.

The most popular way to measure the reliability of quantitative survey data is Cronbach's Alpha. This allows the researcher to check the internal consistency of items within the survey (Sijtsma, 2009; Gadermann et al., 2012) by measuring the extent to which the participants' responses correlate with each other (Vaske et al., 2107). A Cronbach's Alpha coefficient of 0.70 is considered sufficient to indicate data reliability (e.g. Narkwilai et al., 2015; Valikhani and Karpardaz, 2015). The Alpha coefficient in this study was 81.3% for all quantitative tests, indicating that all the data are reliable.

Gill and Johnson (2002) differentiate between internal and external validity, defining internal validity as the extent to which the conclusions regarding cause and effect are warranted, and external validity as the extent to which conclusions might be generalised to other people (population validity) and to other environments (environmental validity). The internal validity of this study was strengthened by distributing the survey to virtually the entire population of those with the greatest experience and awareness of AC practice in the Libyan banking sector (see section 5.1.4) and then interviewing twenty senior staff from this population. This interview sample was considered large and diverse enough to yield adequate information to support and further explore the survey findings (see Baker and Edwards, 2012; Fontaine and Letaifa, 2012). The quality, relevance and usefulness of the semi-structured interviews were enhanced by ensuring that the participants were fully informed about the scope and aims of the study and relaxed and confident about taking part (they were provided with consent forms and a copy of the ethical approval). They were reassured of the confidentiality of the findings, and care was taken not to influence their responses in any way, for example by maintaining a neutral tone throughout. Both the survey and interview questions were developed following a careful review of the CG literature.

The fact that the entire population of the target sector (commercial banks in Libya's banking sector) was studied means the findings are already generalised to this sector; in other words, the study has external population validity. It does not, however, have ecological validity because the findings are not necessarily generalisable to non-banking sectors in the Libyan economy, which differ from the banking sector in key ways (e.g. in the CG code followed). While the study's findings overall reliability and validity are good, it is not advisable to generalise the findings beyond the intended scope of the study.

5.4 Questionnaire Survey

The questionnaire survey is the most frequently employed data-gathering tool among social scientists (De Munck, 2009). An effective way of collecting responses from a large sample, it allows concepts to be translated into measurable values for the purpose of quantitative analysis (Saunders et al., 2009). The questionnaire survey is generally utilised to measure phenomena at the group rather than the individual level (Ciciriello et al., 2014) and tends to be employed for explanatory or descriptive research (Adeoye, 2015); that is, to investigate and explain the links (particularly cause and effect) between variables, or to identify and describe the variability within a phenomenon (Saunders et al., 2009).

Saunders et al. (2009) identify two kinds of questionnaire: self-administered (this may be internet-mediated, postal or delivered and collected by hand) and interviewer-administered (either by telephone or in a structured interview). Self-administered questionnaires are widely employed by researchers; not only can they cover a large sample and a wide geographical area relatively cheaply, but they can also be used to reach a population which might otherwise be difficult to access. Furthermore, when the information being sought is sensitive in nature, the anonymity they offer may make respondents more likely to complete them honestly (Kazi and Khalid, 2012). This was a particularly relevant consideration in this study. The major drawbacks of this method are the possibility of a low response rate (particularly if the questionnaire is being administered by email) and the danger that questions may be left unanswered, which may affect the validity of the findings (Lubbe et al., 2006; Mbatha, 2015; Garwe, 2016). An attempt was made to overcome these limitations first, by distributing the majority of questionnaires by hand and second, by sending the emailed questionnaires a second time if the first yielded no response. The data from the questionnaires were also supplemented by the data from the semi-structured interviews.

5.4.1 Study Population and Sample

Usually, the researcher identifies a population that exhibits the characteristic(s) of interest and then selects a sample from this population with the aim of eliciting information that can be extrapolated to the population as a whole. However, since the target population for this study is relatively small, the questionnaire was distributed to virtually the entire population. A list of 400 potential respondents was prepared following a search of the banks' websites and telephone conversations with the Central Bank of Libya officials. This list comprised four board members, three AC members, seven executive managers, seven internal auditors and four external auditors from each of sixteen of Libya's seventeen commercial banks (the

excluded bank does not have an audit committee). Each of these individuals received a copy of the questionnaire. Of these sixteen banks, five are state-owned, five are privately owned and seven are under mixed ownership (Libyan and foreign) (see Table 2.1, p. 21).

The questionnaires were directed towards those individuals with the greatest experience and awareness of audit committee practice; that is, individuals from the five groups listed below. These groups have both the means and the authority to monitor firms; indeed, they are widely regarded as the foundation stones upon which a bank's monitoring mechanisms are built (see Stewart and Munro, 2007; Rezaee, 2009; Ittonen et al., 2010; Waweru et al., 2011).

- Board members: as part of one of the main mechanisms of corporate governance (Voß and Xia, 2009), board members play a central role in the company's most important strategic, investment and financing decisions (Frijns et al., 2016). Many studies have focused on the perceptions of board members (e.g. Millstein et al., 2000; Cornforth, 2001).

- Audit committee members: are obviously of central importance in this research. It was therefore crucial to discover their views on issues such as the extent to which it is important for audit committees to have financial expertise and independence, and whether the size of the committee and the frequency and conduct of its meetings impact its effectiveness (Marx, B., 2009; Marx and Van Der Watt, 2011).

- Executive managers: work closely with the audit committee (Corgel et al., 2004). Several studies have pointed out that the audit committee works with managers to monitor the financial reporting process (Campbell et al., 2013; Abernathy et al., 2013). Since this necessitates regular meetings between the two groups, managers are familiar with audit committee practice.

- Internal auditors: also work closely alongside the audit committee (Song and Windram, 2004; Rezaee, 2009; Cohen et al., 2004) and are consequently familiar with its role and practice. The interaction between the AC and the internal audit department is a key factor in achieving effective CG (see Rich and Zhang, 2014; Bardhan et al., 2015). Oxner and Oxner (2006) found that the former often relies on the latter to give it greater access to information within the organisation. Equally important, however, is the fact that the relationship promotes effective monitoring (Alzebana and Sawan, 2015).

- External auditors: meet the audit committee regularly to discuss a range of issues, in particular the results of the audit process (Vasile and Mitran, 2016). The audit committee also serves as a channel of communication between the external auditor and the management, and as mediator in any dispute between the two (Song and Windram, 2004; Keune and Johnstone, 2012). For this reason, the external auditor may be in a position to provide an objective assessment of the committee's practice.

5.4.2 Designing the Questionnaire

Jankowicz (2005) suggests that preparation of a questionnaire requires less skill than conducting semi-structured or in-depth interviews, though Saunders et al. (2009) caution that producing a good questionnaire is more difficult than one might think. They work best with standardised questions that will be interpreted in the same way by all participants (Robson, 2002), as this is likely to produce data that are more internally consistent and coherent for the purposes of analysis (Farnik and Pierzchała., 2012). In the current study, the aim of the questionnaire was to gather the perceptions of five groups of actors regarding the research questions. These research questions, which were developed following the literature review, in turn guided the development of the questionnaire.

The questionnaire was divided into two sections, the first of which gathered respondents' demographic information (role, educational level, degree subject and work experience). The second section aimed to obtain respondents' perceptions regarding current audit committee practice, the impact of obstacles on this practice and measures which might enhance their effectiveness. This section consisted of four parts: The **first** asked respondents to indicate whether their audit committee plays a role in monitoring financial statements and in internal and external auditing, and how it performs this role. Little is known about the current status of audit committees in Libya, so it was important to gain greater insight into their systems and structure and any perceived deficiencies in performance. The **second** part asked respondents to indicate whether they agreed that the listed enabling factors affect audit committee practice (the listed factors were the committee's authority, access to information, diligence, financial expertise, independence, meeting frequency and size). This part was designed to gain insight into the extent to which ACs are perceived as benefiting from these factors. The **third** did the same for inhibiting factors (listed internal factors were weak board governance, the lack of a clear statement of the committee's legal responsibilities and obligations, no entry requirements in terms of qualifications and experience, and inadequate compensation, while external factors included the legal and regulatory environment, the accounting environment and government

intervention). The aim here was to understand the extent to which ACs are perceived as being adversely affected by these factors. The identification of these factors laid the groundwork for the crucial **fourth** part, which asked respondents to indicate whether they agreed that the listed corrective measures (actions) would enhance the effectiveness of ACs (these measures were: strengthening the country's accounting and auditing profession, appointing AC members according to their experience and qualifications, establishing legal requirements governing ACs, ensuring board support for ACs, improving the legal and regulatory environment and ensuring that AC members are sufficiently compensated).

The questions in the survey were developed from some of the issues and questions raised in previous studies (e.g. DeZoort et al., 2002; Bedard et al., 2004; Turley and Zaman, 2007; Lin et al., 2008; Beasley et al., 2009; Sharma et al., 2009; Braswell et al., 2012), though care was taken to ensure that they were relevant to the Libyan context and the Libyan CG Code (2010) whenever possible. New questions were also developed to investigate issues particularly relevant to the Libyan context, such as the impact of the accounting and auditing profession on AC practice. All of the questions in the second section were closed-ended with five-point Likert scales. Not only are these widely used in social science research (Jafarabadi and Pakdaman, 2016), but they have been shown to work well in the Libyan environment (Libyan participants are more familiar with the five-point Likert scale than with larger scales) (e.g. Larbsh, 2010; Magrus, 2012).

The questionnaire began with a brief summary outlining the project and the purpose of the questionnaire. Within the main body of the instrument, care was taken to word each question in clear and direct language, and to avoid any that might be confusing, too complex or embarrassing. The layout was designed to make the instrument quick and easy for respondents to complete, while still ensuring that answers would be clear and sufficiently detailed for analysis. Spaces were also left in the survey for respondents to offer comments and reflections. Finally, the English questions were translated into Arabic to ensure that they would all be equally well understood by all participants. The answers in the completed questionnaires were translated back into English for analysis, with the translations being revised by a professional translator.

5.4.3 Pilot Study

A pilot study is vital for producing an effective questionnaire. Its prime purpose is to estimate the possibility of developing a comprehensive questionnaire that will produce helpful

information in the main survey (El-Zamly and Amin, 2011). Accordingly, it should allow space for participants to make comments or suggest revisions. The pilot study also allows the researcher to perform a preliminary analysis to establish whether the wording and content of the questionnaire are likely to present any difficulties in the main analysis (Burgess, 2001; Bell, 2014).

The questionnaires in the pilot study were distributed to the same five groups of actors as the main study (see section 5.5.1). Fewer questionnaires were distributed to board members and audit committee members because these are numerically smaller groups within banks. In total, 100 questionnaires were distributed with the help of university colleagues in Libya and by email. 64 completed questionnaires were returned. Five incomplete questionnaires were excluded, leaving 59 usable questionnaires, or a response rate of 59%. Table 5.2 indicates that the group with the highest response rate (counting completed questionnaires only) was the executive managers group with 72%, followed by the external auditors group with 65%.

Table 5.2 Pilot Study Response Rate

Groups	Questionnaires Distributed	Questionnaires Received	Questionnaires Excluded	Questionnaires Analysed	Analysed (Percent)
Board Members	15	6	-	6	40%
AC Members	15	7	-	7	46.7%
Executive Managers	25	19	2	17	72%
Internal Auditors	25	19	3	16	64%
External Auditors	20	13	-	13	65%
Total	**100**	**64**	**5**	**59**	**59%**

In response to suggestions from the pilot study participants, the instrument was amended, with the wording of some questions being made clearer and the formatting being improved. Scaling was modified in certain questions and additional spaces inserted for feedback. The participants also recommended that the answers on the Likert scale should be numerically coded. The pilot exercise was valuable in validating the main survey and enhancing its potential as an instrument for collecting useful data.

5.4.4 Questionnaire Distribution

The distribution of questionnaires began in early February 2016 and continued until July of that year. In most instances, questionnaires were distributed and collected by hand. The few remaining questionnaires were sent by email. When the majority of the questionnaires had not been returned after two months, they were resent. This prompted some recipients to return their questionnaires.

In total, 400 questionnaires were distributed across the five groups. 246 questionnaires were returned, 28 of which were rejected because they were incomplete. This left 218 for analysis, representing a response rate of 54.5%. This was acceptable: response rates in previous Libya-based studies have ranged between 40% and 70% (e.g. Larbsh, 2010; Magrus, 2012; Zagoub, 2016). Table 5.3 indicates that the highest response rate came from the executive managers group (66.1%), followed by the internal auditors group (63.4%), then external auditors (54.7%), AC members (35.4%) and board members (32.8%). Fewer questionnaires were received from board and AC members because these groups tend not to have permanent offices in the banks or attend regularly.

Table 5.3 Questionnaire Survey Response Rate

Groups	Questionnaires Distributed	Questionnaires Analysed	Analysed (Percent)	Overall Percent
Board Members	64	21	32.8%	9.6%
AC Members	48	17	35.4%	7.8%
Executive Managers	112	74	66.1%	33.9%
Internal Auditors	112	71	63.4%	32.6%
External Auditors	64	35	54.7%	16.1%
Total	**400**	**218**	**54.5%**	**100%**

5.4.5 Analysis of Questionnaire Survey Data

Raw quantitative data need to be processed and turned into statistics, graphs and charts in order that the researcher can explore, describe, present and examine the relationships and trends therein (Saunders et al., 2009). There are two approaches to statistical analysis: in descriptive

analysis, the aim is to statistically describe, aggregate and present the constructs of interest or associations between these constructs; while in inferential analysis, statistical tools are used to test hypotheses (theory testing) (Bhattacherjee, 2012).

Statistical methods are classified as either parametric or non-parametric (Kumawat et al., 2013). Parametric statistical procedures depend on assumptions about the shape of the normal distribution in the underlying population and about the form or parameters (i.e. means and standard deviations) of the assumed distribution (Hoskin, 2014). Non-parametric procedures, on the other hand, do not depend on assumptions about the shape or form of the probability distribution of the data (Hoskin, 2014). The use of parametric procedures is appropriate when: the data cases selected for the sample are independent; the data cases are drawn from normally distributed populations; the populations from which the data cases are drawn have equal variances; and the data are numerical. Where this is not the case, non-parametric procedures should be used (Saunders et al., 2009; Habbash and Alghamdi, 2015). As the data yielded by the questionnaire survey in this study were ordinal and nominal, and normal distribution was not assumed (Newbold et al., 2013), non-parametric testing methods were applied.

5.4.5.1 Descriptive Statistics

The application of the descriptive statistics method involves establishing frequencies and percentages for responses, standard deviations, mean and median scores, rank, kurtosis and skewness (Bickel and Lehmann, 2012). Descriptive statistical measures used in this study include frequency distribution, percentages distribution, mean scores and standard deviation.

5.4.5.2 Analytical Statistics

Analytical statistical tests include:

- Kruskal-Wallis Test

  The Kruskal-Wallis test is a non-parametric statistical method used to test whether samples originate from the same distribution. It is used to compare more than two samples that are independent or not related (Czaplicki, 2014). In this case, it was employed to identify the existence of any statistically significant differences between the five groups within Libya's banking sector.

- Mann-Whitney Test

  The Mann-Whitney test is used to compare the mean values of two samples (Grzegorzewski and Śpiewak, 2017). In the current study, this test was used to compare the means of pairs

of the five key groups in the banking sector (For example with regard the role of AC's in monitoring financial statements).

5.4.6 Analysis of the Background of Participants

As Table 5.4 shows, 50.9% of the survey participants held a Bachelor's degree, 32.1% held a Master's degree, 8.7% had some other form of qualification (e.g. a Diploma in accounting or business administration) and 8.3% held a PhD. Breaking this down by group: the board members were evenly divided between PhD, Master's and BA holders (33.3% each); almost half (47.1%) of AC members held a Master's degree, while 35.3% held a BA and 17.6% held a PhD; almost half (48.6%) of executive managers held a BA, while 37.8% held a Master's degree, 6.8% held a PhD and the same percentage held some other qualification; more than half (57.7%) of internal auditors had a BA, while 22.5% had a Master's degree and 19.7% had a diploma in accounting or business administration; and 60% of external auditors had a BA, while 31.4% held a Master's degree and 8.6% held a PhD.

Turning to their majors, across the sample as a whole, almost two-thirds (65.1%) majored in accounting. Management, finance, economics and other majors were studied by 16.5%, 7.3%, 5.5% and 5.5% of the sample respectively. An overwhelming 94.3% of the external auditors, 67.6% of the internal auditors, 58.8% of the audit committee members, 55.4% of the executive managers and 47.6% of the board members had an accounting background.

With regard to work experience, the figures in the table show that the largest percentage in the sample (58.3%) had more than 15 years' work experience. 18.8% had 10-15 years' experience, 17.4% had 5-10 years' experience and just 5.5% had less than 5 years' experience. The high level of experience among the sample lends credibility to the findings of the survey. Executive managers and board members were the most experienced with 63.5% and 61.9% respectively of these groups having more than 15 years' experience. The most likely reason for this is that such positions are usually only given to highly experienced individuals. 85.7% of the board members, 79.5% of the executive managers, 74.9% of the internal auditors and 74.3% of the external auditors had work experience of more than 10 years. The figure for audit committee members was significantly lower (64.7%), probably because these committees are a relatively recent phenomenon in the Libyan banking sector.

In summary, 94.5% of the survey participants had at least 5 years' work experience, 72.4% had an accounting or finance background, and 91.3% had at least a first degree. These demographic details suggest that we may have a high a degree of confidence that their responses reflect a

thoughtful and well-informed understanding of AC practice and performance in the Libyan banking sector.

Table 5.4 Educational Qualification, Major and Experience of Participants

Panel A: Qualification												
Education Level	Board Members		AC Members		Executive Managers		Internal Auditors		External Auditors		All Five Groups	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
PhD	7	33.3%	3	17.6%	5	6.8%	0	0.0%	3	8.6%	**18**	**8.3%**
Master	7	33.3%	8	47.1%	28	37.8%	16	22.5%	11	31.4%	**70**	**32.1%**
First degree (BA)	7	33.3%	6	35.3%	36	48.6%	41	57.7%	21	60.0%	**111**	**50.9%**
Other	0	0.0%	0	0.0%	5	6.8%	14	19.7%	0	0.0%	**19**	**8.7%**
Total	**21**	**100%**	**17**	**100%**	**74**	**100%**	**71**	**100%**	**35**	**100%**	**218**	**100%**
Panel B: Major												
Major	Board Members		AC Members		Executive Managers		Internal Auditors		External Auditors		All Five Groups	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Accounting	10	47.6%	10	58.8%	41	55.4%	48	67.6%	33	94.3%	**142**	**65.1%**
Finance	3	14.3%	3	17.6%	4	5.4%	4	5.6%	2	5.7%	**16**	**7.3%**
Economics	2	9.5%	1	5.9%	4	5.3%	5	7.1%	0	0.0%	**12**	**5.5%**
Management	4	19%	2	11.8%	19	25.7%	11	15.5%	0	0.0%	**36**	**16.5%**
Other	2	9.5%	1	5.9%	6	8.1%	3	4.2%	0	0.0%	**12**	**5.5%**
Total	**21**	**100%**	**17**	**100%**	**74**	**100%**	**71**	**100%**	**35**	**100%**	**218**	**100%**
Panel C: Experience												
Length of Experience	Board Members		AC Members		Executive Managers		Internal Auditors		External Auditors		All Five Groups	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Less than 5 years	0	0.0%	0	0.0%	3	4.1%	7	9.9%	2	5.8%	**12**	**5.5%**
From 5 years to 10 years	3	14.3%	6	35.3%	12	16.2%	11	15.5%	6	17.1%	**38**	**17.4%**
From 10 years to 15 years	5	23.8%	4	23.5%	12	16.0%	14	20.0%	6	17.1%	**40**	**18.8%**
More than 15 years	13	61.9%	7	41.2%	47	63.5%	39	54.9%	21	60.0%	**127**	**58.3%**
Total	**21**	**100%**	**17**	**100%**	**74**	**100%**	**71**	**100%**	**35**	**100%**	**218**	**100%**

5.5 Interview Method

Interviews allow the researcher to collect data to answer the research objectives and questions (Saunders et al., 2009). More than this, the fact that the interviewee is able to explain their experience in their own words, in as much detail as they like, means that this data may be

complex and rich; the researcher is in effect able to enter the participant's world (Gratton and Jones, 2010). Consequently, this is a popular data-gathering technique among social scientists (Bhattacherjee, 2012). As Corbin and Strauss (2008) show, qualitative research methods such as the semi-structured interview yield results which cannot be reached through statistical or other quantitative approaches, as well as bringing a subjective dimension into the study (Kauppi, 2012).

5.5.1 Types of Interview

Saunders et al. (2009) classify interviews according to the level of formality involved, describing them as structured, semi-structured or unstructured. Structured interviews may be used to supplement or confirm the results of a questionnaire survey and to develop a broader picture (Picciano, 2015), but they lack the flexibility to allow the researcher to gain real insight into the subject (Bryman and Bell, 2007). At the other extreme, unstructured (in-depth) interviews, which have no predetermined questions (though the researcher should have a clear idea of what is to be covered), allow the participant to speak freely and at length on the issues that concern them (Saunders et al., 2009). Between these two lies the semi-structured interview, one of the most widely used data collection methods in qualitative research (Ritchie et al., 2013). This was the option chosen here.

Polit and Beck (2003) suggest that semi-structured interviews allow the researcher to cover a list of topics in a standardised way, enabling the responses to be compared by item and quantified (McIntosh and Morse, 2015). At the same time, they allow a degree of flexibility; they are particularly useful for addressing complex issues as the researcher is able to modify questions in response to the participant's answers (Easterby-Smith et al., 2008). As a result, the questions and themes explored may differ from one interview to another (Ramlan et al., 2015). Semi-structured interviews allow the researcher to gain insight into how the respondents perceive events and behaviours and thus to gain a more accurate understanding of their views (Bryman and Bell, 2015). They are often used in the area of accounting research, including for the investigation of ACs, because they allow the collection of more detailed information than could be gathered via quantitative methods (Turley and Zaman, 2007; Beasley et al., 2009). As a result, they were considered the most effective instrument for conducting an in-depth exploration of AC practice, as it is perceived by those involved.

5.5.2 Conduct of Interviews

The main objective of the interviews was to enable the researcher to fine tune the quantitative data collected via the surveys (Kauppi, 2012); they were an opportunity both to confirm the findings of the questionnaire and to seek further clarification in key areas from senior employees in the banking sector. Twenty face-to-face semi-structured interviews were conducted with representatives from the sixteen banks in the sample, and these interviewees were encouraged to talk as freely and honestly as possible about their views and experiences.

Each interview was approximately 60 minutes long and began with a few questions to obtain general information about the participant. The main body of the interview followed an interview protocol, though deviations were allowed when necessary to probe further into an interesting or ambiguous answer (Bhattacherjee, 2012). These questions, which were composed following a comprehensive review of the relevant literature (e.g. DeZoort et al., 2002; Cohen et al., 2004; Turley and Zaman, 2007; Lin et al., 2008; Beasley et al., 2009), sought to obtain the participants' perceptions about the current role of audit committee in Libya's banking sector, the effect of obstacles on this practice and actions that might be taken to enhance their effectiveness. A neutral tone was maintained throughout by the researcher so as not to influence the interviewee's responses (Bhattacherjee, 2012). All interviews were recorded, with additional comments and critical observations being noted throughout. The interviews were subsequently transcribed verbatim for the purpose of analysis.

5.5.3 Profile of Interview Participants

The twenty interviewees were drawn from the same five groups (four per group) as the survey sample; that is, board members, audit committee members, executive managers, internal auditors and external auditors. All of these groups have a working relationship with the audit committee. The interview sample was felt to be large and diverse enough to yield adequate information for the study (see Guest et al., 2006; Baker and Edwards, 2012; Fontaine and Letaifa, 2012), and to gather any data that could not be obtained by means of the questionnaire.

The interviewees were selected using the snowball method (García-Andreu et al., 2015), with interviewees being asked to propose the names of other suitable candidates. As large a sample was selected as possible within four key constraints: first, interviewees had to have participated in the questionnaire survey, and to understand and approve the purpose of the study; second, they had to come from one of the five groups being targeted in the study; third, they had to have adequate experience of working in corporate governance, particularly of working in or with audit committees; and fourth, they had to have at least a first degree (and preferably a

postgraduate degree). In practice, it was extremely hard to find individuals from all sixteen banks who met these requirements, with board members and audit committee members being especially difficult to track down (these individuals are not regularly on site). Care was taken to choose individuals from a range of banks in order to enhance the credibility of the findings.

The interviews, which took place after the questionnaire survey, were all conducted face-to-face. Interviewees were assured that the interview transcripts would remain anonymous and that their identity would be disguised by means of code names (e.g. A0001). They were also assured that data would be stored safely in the university and would remain confidential. Table 5.5 presents the profile of the interview participants, including their role, what kind of organisation they work for, their highest qualification, major and years of experience.

Table 5.5 Profile of Interview Participants

No	Code	Position	Organisation	Qualification	Major	Years of Experience
1.	1-1	Board member	State bank	PhD	Accounting	22
2.	1-2	Board chairman	Mixed ownership	PhD	Accounting	38
3.	1-3	Board chairman	State bank	Bachelor	Accounting	20
4.	1-4	Board member	Mixed ownership	Master	Finance	30
5.	2-1	Chair of AC	Mixed ownership	PhD	Accounting	32
6.	2-2	AC member	Mixed ownership	PhD	Accounting	35
7.	2-3	Chair of AC	State bank	Bachelor	Accounting	29
8.	2-4	AC member	State bank	Bachelor	Accounting	35
9.	3-1	Executive manager	Mixed ownership	Master	Accounting	16
10.	3-2	Executive manager	State bank	Master	Management	18
11.	3-3	Executive manager	Mixed ownership	Master	Economics	19
12.	3-4	Executive manager	Private bank	Master	Finance	20
13.	4-1	Internal auditor	Mixed ownership	Bachelor	Accounting	35
14.	4-2	Internal auditor	State bank	Master	Finance	08
15.	4-3	Internal auditor	State bank	Bachelor	Accounting	23
16.	4-4	Internal auditor	Mixed ownership	Master	Accounting	07
17.	5-1	External auditor	Private bank	PhD	Management	33
18.	5-2	External auditor	Private bank	Master	Accounting	31
19.	5-3	External auditor	State bank	Master	Accounting	15
20.	5-4	External auditor	State bank	Master	Accounting	20

The table indicates that 50% of the interviewees held a Master's degree, 25% held a PhD and 25% held a Bachelor's degree. A massive 70% majored in accounting, with just 15% majoring in finance, 10% in management and 5% in economics. In terms of work experience, 85% had worked in the banking sector for more than 15 years, 10% had done so for between 5 and 10 years, and 5% for between 10 and 15 years. No one in the sample had worked in the sector for less than 5 years.

In summary, almost all of the interviewees (90%) had at least 10 years' work experience, while the majority (70%) had an accounting background and all had at least a Bachelor's degree. They may therefore be assumed to be in a position to provide objective perceptions regarding current audit committee practice, the impact of obstacles on audit committees and actions which could enhance their effectiveness. In other words, the demographic profile of the participants should enhance confidence in the results.

5.5.4 Analysis of Interview Data

Selecting the right data analysis technique(s) was vital if the study was to achieve the research objectives and answer the research questions (Saunders et al., 2009). The most widely used approaches for analysing qualitative data in interpretive and exploratory research are thematic and content analysis (Vaismoradi et al., 2013). Thematic analysis was adopted in this study because of its usefulness in identifying and describing explicit and implicit concepts and identifying themes and patterns (Braun and Clark, 2006). The thematic analysis was performed using NVivo 11 because this software can manage large volumes of qualitative textual data (Silver and Lewins, 2014). This makes organising and accessing the data easier, thereby facilitating high-quality coding and the identification of inter-variable relationships (Patton, 2015).

The first step in the process was to transcribe each interview, in Arabic, from the audio recording to Microsoft Word document format. A microanalysis was then conducted of each interview to ensure the meaning of every word, phrase, sentence and paragraph was clearly understood. The anonymous transcripts were then translated into English and revised by a professional translator (see section 5.3.6), with every effort being made to maintain the original meaning. Finally, all the translated interview transcripts were transferred into the NVivo 11 software for data management and coding.

The software was employed to conduct line-by-line coding to identify emerging themes and patterns within the data. Nodes (codes) were set up to represent the concepts identified in the data (see Figure 5.2), and material from the transcripts was gathered into these nodes (see Paulus et al., 2017). Recurring themes were transferred into new nodes consisting of a number of codes. As the coding progressed, nodes were amended, added or reclassified.

Figure 5.2 NVivo Showing a List of Defined Nodes

The coding process was based on the key research themes in the literature review and any emerging related themes, with each code representing one of these themes. The codes were classified into categories in order to answer the research questions. The transcripts were reviewed and meaningful words and phrases highlighted. Several themes emerged for codification; for example, the interviewees perceived the role of the AC in monitoring financial statements as effective, limited etc. These perceptions were given codes based on their meanings. These themes were categorised into sub-dimensions and checked for any potential linkage or relationship with the main research themes. This was useful as it enabled the researcher to categorise themes as relating to many or few participants.

The NVivo program enabled the creation of a robust database for analysis and was much easier and more time-efficient than manual coding would have been. It allowed the researcher to manage and query data and ideas, and to arrive at basic themes which were instrumental in answering the research questions.

5.6 Summary

This chapter starts with a discussion of the three philosophical standpoints most often employed in business research – positivism, anti-positivism and realism – and discusses the choice of realism as the most appropriate paradigm for developing a general understanding of ACs in Libya. Bisman (2010) argues that realist accounting studies employing both qualitative and quantitative methodologies may generate reliable and high-quality results. Accordingly, this study uses a combination of quantitative questionnaire surveys and qualitative semi-structured interviews to address the research questions, with the questionnaire being used to elicit the views of five key groups within Libya's banking sector, and the semi-structured interviews with senior employees being used to gain in-depth insights and to collect data that are beyond the scope of the questionnaire.

The chapter discusses at length how the questionnaire and semi-structured interviews were designed so as to ensure that they would gather adequate data for the study. It describes the target population and sample for both the questionnaire survey and the interviews; the questionnaire design, pilot study and reliability measure; and the procedures for the interviews. Finally, it discusses the non-parametric statistical methods that were selected for the quantitative analysis (descriptive statistics such as frequency and percentage distribution, mean and standard deviation, and analytical statistical tests such as the Wilcoxon Signed Rank, Kruskal-Wallis and Mann-Whitney) and the use of NVivo software for the qualitative analysis. The next chapters present in greater detail the analyses and discussion of the results obtained from these two data-gathering instruments.

Chapter 6. Analysing the Present Role of the Audit Committee

6.1 Introduction

The study's conceptual framework identifies three key tasks: exploring the current practice of ACs in Libya's banking sector; investigating the impact of specified factors on this practice; and identifying actions to enhance the committees' effectiveness. This chapter presents and discusses the results gathered from the questionnaire and semi-structured interviews that pertain to the first of these tasks, as expressed in the first and second research questions; that is, what role do ACs currently play and how do they perform this role? Chapters 7 and 8 address the second and third tasks respectively. The questionnaire and interviews were conducted with individuals from five groups, which are widely regarded as the foundation stones upon which a bank's monitoring mechanisms are built. These groups include members of the board of directors (BD), audit committee members (AC), executive managers (EM), internal auditors (IA) and external auditors (EM).

As discussed in the literature review (Chapters 2 and 3), most developing countries lack an institutional framework for CG (Boubakri et al., 2005), meaning that ACs in these countries operate in an environment that is different from that seen in their more developed counterparts. This is likely to have an impact both on practice in these committees and on their effectiveness as mechanisms of CG. In the case of Libya, however, a lack of research means that little is even known about the current status of ACs. In order to assess their effectiveness, more must be understood about their composition, systems and structure and whether they are being given sufficient resources to perform their function (Morgan, 2010). As the first step towards this understanding, this chapter seeks to explore the current role of ACs in the Libyan banking sector. The interviewees and questionnaire respondents expressed a range of views about the role currently being played by ACs in this sector. Over the last two decades in particular, researchers and practitioners around the world have paid special attention to the role of the AC in ensuring responsible CG and protecting the interests of shareholders and other stakeholders (see section 1.1). It does this primarily by reviewing and monitoring the organisation's financial reporting, internal audit function and the external audit process. These are therefore the focus of the following sections.

6.2 The Role of the Audit Committee in Monitoring Financial Statements

Since 2001, regulators and governments have paid close attention to the AC and its role as the most prominent CG mechanism (Fichtner, 2010). Numerous studies have identified the monitoring of financial statements as a key aspect of this role; for example, Anderson et al., (2004) and Xie et al., (2003) both argue that the AC has a major impact on the reliability of financial reporting. This aspect of the AC's role was therefore the focus of the first question in the survey.

Table 6.1 presents the mean scores and standard deviations for the participants' responses to this question. Respondents were asked to indicate on a five-point Likert scale the extent to which they agreed that the given statements described tasks undertaken by the AC as part of its role as the monitor of financial reporting. Statement 4 ("The AC reviews corrections made by management to financial statements") generated the highest aggregated mean score (3.75), followed in descending order by statement 3 ("The AC reviews external audit reports concerning financial statements" – 3.74), statement 2 ("The AC monitors the extent to which the financial statement process complies with accounting standards" – 3.73) and statement 1 ("The AC reviews significant accounting policies" – 3.50). The Cronbach's Alpha test generated a value of 0.78 for this question, which is higher than 0.70, indicating that all the data are reliable.

The mean scores for the four statements were also aggregated by group in order to arrive at an overall mean for each group. The highest of these overall group means (3.85) came from the board members (BD) group, indicating that it agreed most strongly that ACs play an active role in monitoring financial statements. The second strongest agreement came from the external auditors (EA) group (3.75), followed by the internal auditors (IA) group (3.70) and finally the audit committee members (AC) group and the executive managers (EM) group (both 3.60). This lower mean score suggests that many AC members and executive managers might not be completely satisfied with how their AC is performing this aspect of its role.

Table 6.1 Descriptive Statistics on AC's Role in Financial Statements

No	Statements	Group Means					Total Mean Score	Median	Standard Deviation	Rank	Cronbach's Alpha
		BD	AC	EM	IA	EA					
1.	The AC reviews significant accounting policies.	3.71	3.35	3.35	3.49	3.74	3.50	4.00	1.08	4	0.78
2.	The AC monitors the compliance of the financial statement process with accounting standards.	3.76	3.65	3.64	3.85	3.74	3.73	4.00	1.01	3	
3.	The AC reviews and monitors EA reports concerning financial statements.	3.86	3.82	3.80	3.69	3.63	3.74	4.00	1.14	2	
4.	The AC reviews corrections made by management regarding deficiencies in the financial statements reported by auditors.	4.05	3.59	3.61	3.79	3.89	3.75	4.00	1.00	1	
Overall Group Means		3.85	3.60	3.60	3.70	3.75	3-68	-	-	-	

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

Table 6.2 shows how the responses to this question were distributed both within individual groups and across the sample as a whole. In order to facilitate the process of analysis, the *strongly disagree* and *disagree* responses were combined, as were the *strongly agree* and *agree* responses. The answers from the mid-point of the Likert scale were placed in the *uncertain* category. Across the sample as a whole, statement 4 attracted the highest percentage of *agree* answers (71.6%), followed by statement 3 (71.1%), statement 2 (68.8%) and statement 1 (61.9%). There was thus a high level of agreement with all four statements. It should be noted, however, that between 15.6% and 20.6% of the sample as a whole were uncertain whether these tasks are undertaken by ACs (or were reluctant to give an opinion).

It should also be noted that for every statement, the percentage of respondents expressing agreement was higher in the BD group than in any other group (76.2%, 76.2%, 71.5% and 85.7%). This indicates that these board members were generally satisfied with how their AC monitors financial statements. There was much less satisfaction among members of the AC group, however, with this group recording the lowest percentage of respondents expressing agreement for three out of the four statements (53.0%, 70.6%, 58.8% and 58.8%). The result

is indicative of a clear gap between board members and AC members concerning the committee's role in monitoring financial statements. It suggests that many AC members themselves are not satisfied with this aspect of their role. This was confirmed in the interviews (see below) when several AC members explained that their committee has only limited involvement in the financial reporting process.

Table 6.2 Frequency Distribution of Responses on AC's Role in Financial Statements

No	Statements	Board Members N = 21			AC Members N = 17			Executive Managers N = 74			Internal Auditors N = 71			External Auditors N = 35			Total N = 218		
		D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %
1.	The AC reviews significant accounting policies.	19.0	4.8	76.2	17.7	29.4	53.0	24.4	14.9	60.7	12.7	31.0	56.3	11.5	17.1	71.4	17.5	20.6	61.9
2.	The AC monitors the compliance of the financial statement process with accounting standards.	9.5	14.3	76.2	11.8	29.4	58.8	14.8	12.2	73.0	11.2	15.5	73.3	14.3	17.1	68.6	12.8	15.6	71.6
3.	The AC reviews and monitors EA reports concerning financial statements.	9.5	19.0	71.5	11.8	17.6	70.6	14.9	14.9	70.2	15.5	19.7	64.8	20.0	8.6	71.4	15.1	16.1	68.8
4.	The AC reviews corrections made by management regarding deficiencies in the financial statements reported by auditors	14.3	0.0	85.7	17.6	23.6	58.8	14.9	14.9	70.2	8.5	23.9	67.6	14.2	8.6	77.2	12.8	16.1	71.1

D: Strongly disagree and disagree **U:** Uncertain **A:** Strongly agree and agree

Table 6.3 shows that the Kruskal-Wallis test found no significant differences between the groups for any of the four statements, producing values of 0.21, 0.94, 0.81 and 0.40 respectively. The Mann-Whitney test confirmed that there were no statistically significant differences between pairs of groups on this question apart from between the BD group and the EM group on statement 4. The result here (0.04) may be another indicator that many executive managers are dissatisfied with the role their AC plays in monitoring financial statements.

Table 6.3 Comparisons Between Groups on AC's Role in Financial Statements

NO	Statements	Kruskal-Wallis	Mann-Whitney Test - P-values									
			BD-AC	BD-EM	BD-IA	BD-EA	AC-EM	AC-IA	AC-EA	EM-IA	EM-EA	IA-EA
1.	The AC reviews significant accounting policies.	0.40	0.19	0.21	0.32	0.99	0.74	0.56	0.14	0.73	0.13	0.22
2.	The AC monitors the compliance of the financial statement process with accounting standards.	0.81	0.80	0.90	0.50	0.86	0.89	0.46	0.74	0.24	0.67	0.62
3.	The AC reviews and monitors EA reports concerning financial statements.	0.94	0.90	0.87	0.69	0.75	0.99	0.63	0.68	0.45	0.53	0.99
4.	The AC reviews corrections made by management regarding deficiencies in the financial statements reported by auditors.	0.21	0.12	0.04*	0.18	0.54	0.77	0.42	0.24	0.40	0.11	0.43

*P -values < 0.05

The interviews provided further confirmation of the perceived importance of this role, with 70% of the interviewees asserting that one of the main responsibilities of the audit committee is to review and monitor financial statements. The AC member explained that the committee has the important job of reviewing these statements before they are submitted to the board:

> "The audit committee reviews the financial statements and makes sure all the key items are on these statements before submission to the board of directors" AC (2-1).

This was echoed by another AC member, also from a mixed ownership bank:

> "The audit committee reviews the financial statements and reports before submission to the board of directors, and also when the external auditor submits his report, it prepares a report and recommendations for the board" AC (2-2).

The director of internal auditing from another mixed ownership bank also explained that it is the committee's responsibility to offer the board comments and notes on the financial statement:

> "The audit committee examines and reviews the financial statements and then comments on them; for example, the committee might recommend the creation of some allowances in the balance sheet of the bank" IA (4-1).

The comments suggest that these interviewees see the audit committee as being actively involved in most of the details surrounding the financial reporting process. This level of involvement is advocated both by academics, who argue that audit committees should actively participate in the supervising and monitoring functions alongside managers and external auditors (Campbell et al., 2013; Cohen et al., 2004; Turley and Zaman, 2007; Beasley et al., 2009), and by regulators, who see proactive audit committees as enhancing the reliability and credibility of the financial reporting process for end-users (Abernathy et al. 2013).

This level of participation by the AC is not universal, however; about 30% of the interviewees described their AC as having only limited involvement in the financial reporting process, usually because it is seen as primarily the responsibility of the board. One board member from a mixed ownership bank explained that the AC in his bank does not have time to review the financial statements in this level of detail, only stepping in if there are problems:

> "The audit committee does not have enough time to review the financial statements in detail, but it may talk to the executive management if there are any issues regarding the financial statements, such as questions about accounting policy, or if any changes are needed. It may also require the internal auditor to talk to the management, so the internal auditor is also expected to provide a report for the audit committee" BD (1-4).

Similarly, an audit committee member from a state bank explained that although the AC in his bank does play some role, the ultimate responsibility for reviewing financial statements rests with the board. He explained that:

> "The audit committee reviews and looks at the financial situation of the bank, and it reports to the board and makes recommendations, and then the board reviews the financial statements in the board meetings" AC (2-4).

The aim of this section was to explore the range of tasks ACs in Libyan banks are expected to perform in regard to financial statements. The findings indicate that the majority of participants saw the AC's role in this regard as consisting of four main responsibilities: to review corrections made by management concerning financial statements; to review and monitor external audit reports concerning financial statements; to monitor the compliance of the financial statement process with accounting standards; and to review significant accounting policies. However, the findings from the survey and the interviews also suggest that while there

appears to be a clear theoretical understanding of and support for this aspect of the AC's monitoring role, this is not always being translated into good practice. Audit committees are in many cases playing a part in the financial reporting process (Lin et al., 2006), but it does not necessarily mean that they do so effectively; Abbott et al. (2004) and Soliman and Ragab (2014) observe that many audit committee meetings do little in practice to enhance the quality of financial reporting. While the findings are consistent with agency theory in the sense that ACs are perceived as playing an important role in monitoring and enhancing financial statements and improving information flow between managers and shareholders (Beasley et al., 2009; Samaha et al., 2012), they suggest that their ability to make any real practical contribution is limited either because they are given too narrow a scope or not enough time to do the job properly. This limitation of the AC's role is more compatible with institutional theory's assumption that the mechanism is designed mainly to signal the bank's legitimacy within the sector and beyond.

6.3 The Role of the Audit Committee in the Internal Audit Function

The relationship between the members of the AC and the internal audit department is central to achieving good CG, effective monitoring and effective risk management (Marx and Voogt, 2010; Alzebana and Sawan, 2015). This relationship has the potential to improve the governance capabilities of both parties (Cohen et al., 2004). Moreover, the AC can play the main role in verifying the effectiveness of internal control procedures (Rich and Zhang, 2014; Bardhan et al., 2015). This survey question therefore sought to explore respondents' perceptions regarding the AC's role within the internal audit function. To this end, the respondents were given eight statements describing tasks ACs might be expected to perform as part of this role and asked to indicate the extent to which they agreed that ACs in Libya carry out these tasks.

Table 6.4 presents the total mean scores and standard deviations for their responses to these eight statements. It shows that overall, the five groups expressed the strongest agreement with the second statement (total mean 3.95): "The AC reviews the internal audit reports and any actions taken as a result". The second most strongly supported statement was number 6 ("The AC promotes the independence of the internal auditors" – 3.86), followed by statement 1 ("The AC reviews the objectives, plan, functions and terms of reference of the internal audit" – 3.81), statement 4 ("The AC receives reports on the results of internal auditors' work" – 3.77), statement 8 ("The AC reviews the effectiveness of internal controls" – 3.73), statement 7 ("The AC can recommend the appointment or replacement of an internal auditing director" – 3.66),

statement 3 ("The AC ensures that the internal audit has the necessary resources" – 3.66) and finally, statement 5 ("The AC meets with the head of internal auditing at least once a year" – 3.54). The rank order notwithstanding, these mean values show that the sample as a whole agreed that ACs in Libya perform all of these tasks as part of their internal audit role.

Breaking the responses down by group, it was the AC group that was the most convinced of the AC's role in the internal audit function. This group produced an overall group mean of 3.89 for the eight statements. This was followed by the BD group (3.85), the IA group (3.84), the EA group (3.72) and finally the EM group (3.61). Once again, the lower mean score from the EM group may mean that the executive managers in the sample were less than satisfied with how ACs in the Libyan banking sector perform this role. However, this may be partly attributable to sensitivity on the part of executive managers – they may not like the fact that internal auditors are supervised by the AC rather than by the management, and that the internal audit department reports on the work of other departments directly to the committee. The Cronbach's Alpha result for this question was 0.85, which was higher than 0.70.

Table 6.4 Descriptive Statistics on AC's Role in the Internal Audit Function

No	Statements	Group Means					Total Mean Score	Median	Standard Deviation	Rank	Cronbach's Alpha
		BD	AC	EM	IA	EA					
1.	The AC reviews the objectives, plan and functions of the internal audit	4.10	3.82	3.55	3.93	3.91	3.81	4.00	0.98	3	0.85
2.	The AC reviews the internal audit reports	4.05	3.94	3.88	3.93	4.09	3.95	4.00	0.93	1	
3.	The AC ensures that the internal audit has the necessary resources	3.52	3.94	3.55	3.73	3.66	3.66	4.00	1.05	7	
4.	The AC receives reports on the results of internal auditors' work	3.91	3.53	3.68	3.90	3.71	3.77	4.00	1.05	4	
5.	The AC meets with the head of internal auditing without the presence of management	3.71	3.65	3.45	3.59	3.46	3.54	4.00	1.10	8	
6.	The AC promotes the independence of the internal auditors	3.86	4.41	3.68	4.00	3.69	3.86	4.00	0.98	2	
7.	The AC recommends the appointment or replacement of internal auditing director	4.00	3.82	3.55	3.70	3.51	3.66	4.00	1.04	6	
8.	The AC reviews the effectiveness of internal controls	3.67	4.00	3.54	3.88	3.71	3.73	4.00	0.88	5	
Overall Group Means		3.85	3.89	3.61	3.84	3.72	3.75		-	-	

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

Table 6.5 presents the distribution of responses to this question. Across the sample as a whole, 78.5% of respondents agreed with statement 2 that: “The AC reviews the internal audit reports and any actions taken as a result”. This was the highest level of agreement for any statement. The second highest level of agreement was recorded for statement 6 (74.8%), followed by statement 1 (73.8%), statement 4 (72.5%), statement 8 (71.1%) and statement 3 (64.2%). Statements 5 and 7 recorded the lowest levels of agreement, with 55.9% and 55.5% respectively. As mentioned above, it seems that a fair number of the participants, particularly executive managers, were not completely convinced of these two statements. This result agrees with the results in the last table.

Table 6.5 Frequency Distribution of Responses on AC's Role in Internal Audit Function

NO	Statements	Board Members N = 21			AC Members N = 17			Executive Managers N = 74			Internal Auditors N = 71			External Auditors N = 35			Total N = 218		
		D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %
1.	The AC reviews the objectives, plan and functions of the internal audit	4.8	9.5	85.7	5.9	17.6	76.5	17.6	16.2	66.2	9.8	12.7	77.5	11.5	14.3	74.3	11.9	14.2	73.8
2.	The AC reviews the internal audit reports	0.0	14.3	85.7	0.0	23.5	76.4	9.5	14.9	75.7	9.8	8.5	81.6	8.6	17.1	74.3	7.8	13.8	78.5
3.	The AC ensures that the internal audit has the necessary resources	14.3	28.6	57.2	0.0	23.5	76.4	16.2	21.6	62.2	15.5	18.3	67.2	11.4	25.7	62.9	13.7	22.0	64.2
4.	The AC receives reports on the results of internal auditors' work	9.5	9.5	80.9	17.7	23.5	58.8	13.5	16.2	70.3	12.6	7.0	80.3	8.6	28.6	62.9	12.4	15.1	72.5
5.	The AC meets with the head of internal auditing without the presence of management	19.1	19.0	61.9	11.8	29.4	58.8	20.3	27.0	52.7	12.6	25.4	62.0	14.3	40.0	45.7	16.1	28.0	55.9
6.	The AC promotes the independence of the internal auditors	9.5	14.3	76.1	0.0	17.6	82.3	10.9	20.3	68.9	7.0	9.9	83.1	17.2	17.1	65.8	9.7	15.6	74.8
7.	The AC recommends the appointment or replacement of internal auditing director	9.5	14.3	76.2	11.8	23.5	64.7	10.9	39.2	50.0	9.8	36.6	53.5	17.1	28.6	54.3	11.5	33.0	55.5
8.	The AC reviews the effectiveness of internal controls	14.3	9.5	76.2	5.9	11.8	82.3	13.6	24.3	62.2	5.6	18.3	76.0	14.3	14.3	71.4	10.5	18.3	71.1

D: Strongly disagree and disagree **U:** Uncertain **A:** Strongly agree and agree

The Kruskal-Wallis test (see Table 6.6) highlighted that there were significant differences among the groups in regard to the AC’s responsibility for reviewing the objectives, plan, functions and terms of reference of the internal audit (statement 1) and its promotion of internal

auditors' independence (statement 6). The p-values for these two statements were 0.04 and 0.02 respectively. The test highlighted no significant differences in relation to the other statements, however. When the results for these two statements were explored further using the Mann-Whitney test, the results revealed significant differences between the BD and EM groups (0.02) and between the EM and IA groups (0.01) on statement 1. On statement 6, the differences were between the BD and AC groups (0.04), between the AC and EM groups (0.00), between the AC and EA groups (0.02) and between the EM and IA groups (0.03). The Mann-Whitney test also revealed a significant difference between the EM and IA groups (0.03) on statement 8. The test results indicate that in most cases, it was the EM group that differed from the other groups. This was reflected in the overall group means for each group. The results echo those in Tables 6.4 and 6.5 in indicating that the executive managers were not completely satisfied with how ACs perform their role within the internal audit function.

Table 6.6 Comparisons Between Groups on AC's Role in Internal Audit Function

NO	Statements	Kruskal-Wallis	Mann-Whitney Test - P-values									
			BD-AC	BD-EM	BD-IA	BD-EA	AC-EM	AC-IA	AC-EA	EM-IA	EM-EA	IA-EA
1.	The AC reviews the objectives, plan and functions of the internal audit	0.04*	0.22	0.02*	0.68	0.67	0.39	0.36	0.46	0.01*	0.05	0.95
2.	The AC reviews the internal audit reports	0.68	0.60	0.77	0.97	0.41	0.82	0.63	0.28	0.76	0.19	0.24
3.	The AC ensures that the internal audit has the necessary resources	0.71	0.22	0.75	0.36	0.59	0.28	0.68	0.45	0.35	0.74	0.68
4.	The AC receives reports on the results of internal auditors' work	0.39	0.40	0.39	0.66	0.50	0.74	0.22	0.73	0.08	0.96	0.21
5.	The AC meets with the head of internal auditing without the presence of management	0.75	0.77	0.31	0.51	0.35	0.52	0.84	0.49	0.44	0.93	0.41
6.	The AC promotes the independence of the internal auditors	0.02*	0.04*	0.53	0.39	0.66	0.00*	0.06	0.02*	0.03*	0.92	0.14
7.	The AC recommends the appointment or replacement of the internal auditing director	0.38	0.58	0.06	0.24	0.10	0.32	0.68	0.37	0.41	0.98	0.48
8.	The AC reviews the effectiveness of internal controls	0.14	0.19	0.53	0.33	0.71	0.05	0.53	0.35	0.03*	0.28	0.54
*P -values < 0.05												

The interviewees expressed a high level of support for the AC's role within the internal audit function, with 90% of respondents asserting that overseeing this function is one of the committee's main responsibilities (the remaining 10% said that their AC does not currently

perform this role because its relationship with the internal audit department is weak or dysfunctional). The same high percentage (90%) said that the AC regularly meets with the director of internal auditing, while 75% said that the committee can make recommendations to the board for his appointment or replacement. Finally, 85% of the interviewees said their AC is responsible for reviewing internal controls.

The head of internal auditing in one mixed ownership bank summed up the committee's role as being not just to oversee the internal audit function but also to support the work of the internal audit department:

> "The audit committee oversees the internal audit function, and therefore, the role of the audit committee is to identify problems and difficulties faced by the internal audit department. The committee should then resolve these problems and difficulties" IA (4-1).

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Another director of internal auditing described how the oversight process works; that is, by the internal audit department submitting reports and information to the committee about the activities of the bank's management. Typically,

> "……...the internal audit department sends reports and observations to the audit committee about the work of the various departments in the bank, usually on a quarterly basis" IA (4-3).

This was confirmed by an AC chairman from one state bank in the sample, who explained that:

> "The audit committee supervises all the activities of the internal audit department and receives its reports on its work and the problems that it faces" AC (2-3).

The comments highlight the importance of the relationship between the audit committee and the internal audit department, apparently supporting Oxner and Oxner's (2006) finding that the former often rely on the latter to give them greater access to information within the organisation. Indeed, the internal audit department frequently acts as the eyes and ears of the audit committee when it comes to matters such as choosing external auditors and evaluating their work (Saint, 2013; Eller, 2014). Equally important, however, is the fact that the relationship promotes objectivity and transparency within the organisation – because the internal audit department submits its reports to the audit committee rather than to the administration (Eller, 2014).

When the relationship between the audit committee and the internal audit department is dysfunctional, this can cause problems for the bank, as was highlighted by an external auditor of a bank:

> "The audit committee's relationship with the internal audit is very weak, and the weaknesses of the work of the internal auditors are not addressed by this committee" EA (5-3).

The weakness of the relationship means that the committee is unable or unwilling to address deficiencies in the work of the internal audit department, but as a board member from another mixed ownership bank explained, such deficiencies can have an adverse impact on the audit committee's ability to do its own job:

> "Although the audit committee plays a role in the internal audit by following the work of internal auditors and their reports and observations, the poor quality of the internal audit department and its reports affects the work of the audit committee, which, in turn, tries to overcome this weakness by intensifying its efforts" BD (1-4).

All of the interviewees agreed that their AC has regular meetings with the internal auditors. The director of the internal audit department in one mixed ownership bank asserted that:

> "The audit committee meets the director of the internal audit department without the presence of management. The meeting may also be attended by the assistant director of the internal audit department and the heads of internal auditing from the branches" IA (4-1).

The AC's role in recommending the appointment and replacement of internal audit directors was confirmed during the interviews by the board chairman from one state bank:

> "The audit committee makes recommendations to the board of directors regarding the appointment and replacement of the director of the internal audit department. For example, in the past year, he was replaced on the recommendation of the audit committee" BD (1-3).

The interviewees also described the role played by the audit committee in monitoring the effectiveness of internal controls. For instance, the board chairman of one mixed ownership bank stated that:

> "The audit committee reviews the reports of the internal and external auditors with respect to internal controls, including any noted deficiencies and

> observations, and follows up the corrective actions taken by management in response to these deficiencies and observations" BD (1-2).

Similarly, the general manager of a private bank stated that:

> "The audit committee reviews the observations of the internal and external auditors in relation to deficiencies in internal control and submits a report about these deficiencies to the board of directors" EM (3-4).

The above comments confirm the finding from the literature that audit committees are seen as playing a significant role in monitoring internal control systems within organisations. This stream of research has focused on the audit committee's duty to verify the effectiveness of internal control procedures (Klein, 2003; Abbott et al., 2004; Rich and Zhang, 2014; Bardhan et al., 2015), to identify any weaknesses within these procedures and to discuss with internal and external auditors what actions can be taken to fix these weaknesses (Goh, 2009).

In summary, the survey respondents thought ACs currently perform all the activities described in the given statements as part of their internal auditing role. This finding, which was confirmed in the interviews, is consistent with those identified by previous authors including Cohen et al. (2004), Marx and Voogt (2010) and Alzebana and Sawan (2015). These authors all highlight the relationship and interaction between the AC and the internal audit department as a key factor in achieving effective CG. The majority of respondents pointed to the significant role the AC plays in overseeing the internal audit function, in resolving any problems and difficulties faced by the internal audit department and in recommending new appointments to the director's job. This is consistent with the findings of Turley and Zaman (2007), who state that internal auditors see the AC as giving greater significance to their activities within the organisation, and therefore as enhancing their effectiveness and promoting their independence (Ahmad et al., 2009). Finally, the majority of respondents highlighted the committee's role in overseeing internal control systems. This echoes Rich and Zhang (2014) and Bardhan et al. (2015), who argue that ACs should play the main role in evaluating the effectiveness of these systems.

The findings thus seem to support agency theory's view that an effective AC can play a major monitoring role. However, they also illustrate that this effectiveness depends to some extent on the committee's relationship with the internal audit department, and as a number of interviewees pointed out, this relationship may not always be strong. Institutional theory may offer one explanation for this; ACs that have been established primarily for the purpose of

creating legitimacy outside the organisation may be less inclined (or less able) to forge strong links with this department.

6.4 The Role of the Audit Committee in the Work of the External Audit

The audit committee can potentially play a major role in strengthening the external audit process. For example, it may be responsible for supervising the firm's relationship with the external auditor, acting as a liaison between this person and the board of directors and helping to ensure the quality of the external audit (Smith, 2003; Bédard and Compernolle, 2014). Its duties may include reviewing the scope of the audit, meeting with the external auditor to discuss all issues relating to the audit and finally, reviewing the results at the end of the audit process. The purpose of this survey question was to elicit the respondents' views regarding the role ACs in Libya's banking sector currently play in this process. To this end, they were given five statements describing tasks the AC might be expected to perform as part of this role and asked to indicate whether these tasks are in fact performed by ACs in the sector.

As may be observed in Table 6.7, respondents generally expressed weaker agreement with these statements than they did with the statements in the internal audit question. This is reflected in the total mean scores in the table, which show that statement 2 ("The AC reviews and investigates the findings of the annual audit provided by the external auditors") scored highest with just 3.62. Statement 3 ("The AC ensures that audit fees are sufficient to perform the audit process effectively") scored next highest with 3.46, followed by statement 5 ("External auditors are appointed and replaced at the recommendation of the AC" – 3.33), statement 1 ("The AC reviews and monitors the activities, resources, expertise and independence of the external auditors – 3.18) and finally, statement 4 ("The AC meets with the external auditors without the presence of the management to discuss issues related to the audit process – 3.10). The bottom means are significantly lower than they were in the question relating to the AC's role within the internal audit function.

When the means were aggregated across the five statements, this yielded overall group means of 3.69 (BD group), 3.55 (AC group), 3.36 (EA group), 3.32 (IA group) and 3.20 (EM group). As in the previous questions, the lowest mean score was again produced by the executive managers, suggesting that they do not see ACs as playing a major role within the external audit function. Table 6.7 shows that the Cronbach's Alpha test yielded a result of 0.77 for this question.

Table 6.7 Descriptive Statistics on AC's Role in the External Audit's Work

No	Statements	Group Means					Total Mean Score	Median	Standard Deviation	Rank	Cronbach's Alpha
		BD	AC	EM	IA	EA					
1.	The AC monitors the activities, resources, expertise and independence of the EA	3.62	3.18	3.03	3.13	3.37	3.18	3.00	1.09	4	0.77
2.	The AC reviews the findings of the annual audit	4.05	3.65	3.57	3.58	3.54	3.62	4.00	0.98	1	
3.	The AC reviews and investigates the audit fees	3.52	3.59	3.28	3.65	3.37	3.46	4.00	0.99	2	
4.	The AC meets the EA without the presence of management	3.43	3.77	2.92	3.00	3.17	3.10	3.00	1.08	5	
5.	The AC recommends the appointment and replacement of the EA	3.81	3.59	3.20	3.25	3.34	3.33	3.00	1.10	3	
Overall Group Means		3.69	3.55	3.20	3.32	3.36	3.32	3.69	-	-	

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

Table 6.8, which shows how responses to the statements in this question were distributed, reveals that across the sample as a whole, only two statements produced agreement from the respondents. These were statement 2, which 58.3% of participants agreed with, and statement 3, which drew agreement from 57.8% of participants. On the other hand, only 43.2% of the total sample agreed with statement 5, 39.9% agreed with statement 1 and just 37.6% agreed with statement 4.

These differences are made clearer when the responses to each statement are broken down by group. On the one hand, both the BD and AC groups expressed agreement with all five statements (the BD group generated group means of 61.9%, 80.9%, 61.9%, 57.2% and 71.4% for statements 1 to 5 respectively, while the AC group generated means of 53.0%, 58.9%, 64.7%, 70.5% and 64.7% respectively). On the other hand, the EA group only agreed with three statements (statement 2: 77.2%, statement 3: 51.4% and statement 5: 51.4%), while the EM and IA groups only agreed with statement 2 (56.8% and 53.5% respectively) and statement 3 (75.7% and 63.4% respectively). These findings suggest that audit committees in the Libyan banking sector are, for whatever reason, not yet performing the full range of tasks necessary to

carry out their role within the external audit function. This is in line with several previous studies that have found that external auditors generally see audit committees as having only limited power or effect and therefore as doing little to promote their work (Cohen et al., 2002; Turley and Zaman, 2004).

Table 6.8 Frequency Distribution of Responses on AC's Role in External Audit Work

No	Statements	Board Members N = 21			AC Members N = 17			Executive Managers N = 74			Internal Auditors N = 71			External Auditors N = 35			Total N = 218		
		D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %
1.	The AC monitors the activities, resources, expertise and independence of the EA	9.5	28.6	61.9	35.2	11.8	53.0	35.2	32.4	32.5	25.3	40.8	33.8	22.8	28.6	48.6	27.6	32.6	39.9
2.	The AC reviews the findings of the annual audit	0.0	19.0	80.9	5.9	35.3	58.9	12.2	31.1	56.8	8.4	38.0	53.5	20.0	22.9	77.2	10.6	31.2	58.3
3.	The AC reviews and investigates the audit fees	14.3	23.8	61.9	17.7	17.6	64.7	23.0	24.3	75.7	5.6	31.0	63.4	25.7	22.9	51.4	16.5	25.7	57.8
4.	The AC meets the EA without the presence of management	19.0	23.8	57.2	11.8	17.6	70.5	36.5	35.1	28.4	33.8	35.2	31.0	37.2	20.0	42.9	32.1	30.3	37.6
5.	The AC recommends the appointment and replacement of the EA	4.8	23.8	71.4	23.5	11.8	64.7	20.3	44.6	35.2	18.3	47.9	33.8	28.6	20.0	51.4	19.7	37.2	43.2

D: Strongly disagree and disagree **U:** Uncertain **A:** Strongly agree and agree

Table 6.9 shows no significant differences among the groups apart from on statement 4, which generated a p-value of 0.02 when the Kruskal-Wallis test was conducted. This statement concerned ACs meeting with external auditors without the presence of the management. However, when the Mann-Whitney test was conducted, significant differences emerged between pairs of groups on all but one of the statements. On statement 1, these differences were between the BD and EM groups (0.01) and between the BD and IA groups (0.04). The same pairings exhibited differences on statement 2 (0.04 and 0.03 respectively) and statement 5 (0.01 and 0.01 respectively). On statement 4 there were significant differences between the BD and EM groups (0.03), and between the AC and EI (0.00) and AC and IA groups (0.01). The higher level of support expressed for these statements by the BD group and AC group may be due to the fact that these groups are the most familiar with this aspect of the AC's role.

Table 6.9 Comparisons Between Groups on AC's Role in External Audit Work

NO	Statements	Kruskal-Wallis	Mann-Whitney Test - P-values									
			BD-AC	BD-EM	BD-IA	BD-EA	AC-EM	AC-IA	AC-EA	EM-IA	EM-EA	IA-EA
1.	The AC monitors the activities, resources, expertise and independence of the EA	0.12	0.26	0.01*	0.04*	0.57	0.53	0.75	0.57	0.48	0.11	0.24
2.	The AC reviews the findings of the annual audit	0.32	0.11	0.04*	0.03*	0.24	0.86	0.82	0.90	0.96	0.74	0.73
3.	The AC reviews and investigates the audit fees	0.37	0.74	0.34	0.77	0.70	0.23	0.86	0.55	0.05	0.64	0.35
4.	The AC meets the EA without the presence of management	0.02*	0.24	0.03*	0.08	0.46	0.00*	0.01*	0.11	0.67	0.34	0.53
5.	The AC recommends the appointment and replacement of the EA	0.09	0.56	0.01*	0.01*	0.19	0.15	0.22	0.54	0.84	0.45	0.60

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

Interestingly, the interviewees expressed stronger agreement with the five statements than the survey respondents, with 50% of the interviewees (compared to 39.9% in the survey) noting that ACs in Libya's banking sector oversee and monitor the work of external auditors; 65% (compared to 58.3% in the survey) agreeing that these committees examine the results of the audit process and report to the board of directors; 80% (compared to 37.6% in the survey) agreeing that ACs meet with the external auditors as required; and 75% (compared to 43.2% in the survey) asserting that they recommend appointees or replacements to the board.

Asked about the AC's roles and responsibilities in terms of the external audit function, one board member serving from a state bank offered the following brief summary:

> "The audit committee monitors and supervises the work of the external auditor in the bank and examines the results of the external audit, providing a report for the board of directors so that it can make the necessary decisions" BD (1-1).

Asked about this role, the AC chairman from one mixed ownership bank echoed DeZoort and Salterio (2001) and Keune and Johnstone (2012) in seeing it as the committee's role to intercede in any disputes between management and external auditors (though Cohen et al.

(2010) found that half of the auditors in their study saw such interventions as at best ineffectual and at worst counter-productive (Grenier et al., 2012)). This interviewee offered the following brief summary:

> "The audit committee acts as a liaison between the board of directors and the external auditor, resolving any disagreements between them. It also discusses the audit report with the external auditor and follows up on the observations made in the report" AC (2-1).

Another AC chairman, from a state bank, explained that it is the AC's job to review the audit plan with the external auditor. This is consistent with the Smith Report (2003), which recommends that the AC should review the scope of the external audit and the adequacy of the work that is planned. He also acknowledged that the AC "tries" to obtain information from the auditor about the deficiencies and weaknesses within the bank:

> "The audit committee reviews the audit plan with the external auditor and afterwards, discusses with him what he has achieved and what problems he faced. The committee tries to facilitate his work and resolve any problems with the management, and it tries to get information from the auditor about any weaknesses in the bank's internal control systems. Finally, it discusses with him the report of the audit process" AC (2-3).

Both of these AC chairmen echo the point made in the literature that at the conclusion of the external audit, the audit committee should discuss the results with the auditor (Stewart and Munro, 2007).

Other interviewees offered a more sceptical assessment of the AC's influence, however. For example, one of the external auditors observed that ACs rarely follow up on the observations made in the external audit report:

> "There is no follow-up and supervision by the audit committee of the work of the external auditor, particularly in the branches of banks. However, it often reviews the external auditor reports" EA (5-2).

However, the interviewees did confirm that audit committees meet regularly – or at least, as required – with external auditors:

> "The audit committee meets with the external auditor when required and without the presence of management" AC (2-1).

And an audit committee member from a state bank explained that:

> "The audit committee meets with the external auditor on average twice a year. The audit committee members first discuss the audit process with the external auditor, and at the end, they discuss the report of the audit process" AC (2-4).

This is in line with Stewart and Munro's (2007) suggestion that the committee should meet at least annually with the external auditors, without management, in order to discuss all matters relating to the work of the external audit.

When asked whether the AC is responsible for recommending the appointment or replacement of external auditors, an AC member from a state bank explained that:

> "The audit committee chooses an external auditor based on certain criteria. It recommends its choice to the board of directors, to be appointed for a period of two years, which can be extended for a further two years. Then the board recommends the general assembly of shareholders to approve the appointment" AC (2-4).

This seems to be in line with the Sarbanes-Oxley Act (2002), which stipulates that the audit committee is responsible for the appointment of external auditors. However, the evidence suggests that in practice, appointment decisions are greatly affected by management affiliations, making it doubtful whether audit committees can work independently of management in this matter (Stewart and Munro, 2007).

The aim of these questions was to focus on the role played by the AC in the external audit process. The findings show that most of the survey participants agreed that: "The AC reviews and investigates the findings of the annual audit provided by the external auditors" and "The AC ensures that audit fees are sufficient to perform the audit process effectively". However, there was less support for the other three statements: "External auditors are appointed and replaced at the recommendation of the AC", "The AC reviews and monitors the activities, resources, expertise and independence of the external auditors" and "The AC meets with the external auditors without the presence of the management to discuss issues related to the audit process". This finding is consistent with previous studies, such as those by Cohen et al. (2002) and Bédard and Compernolle (2014), which have concluded that the audit committee plays a less significant role in the external audit process than it does in the internal audit function.

Despite this, the interviews showed that many ACs play a positive role in the external audit process, and that this contribution is valued. For example, several interviewees pointed to the

committee's work liaising and resolving disagreements between external auditors, the board of directors and managers. This is not surprising, as a number of prior studies have argued that this is well within the power of a high-quality audit committee (DeZoort and Salterio, 2001; Turley and Zaman, 2004; Keune and Johnstone, 2012). Others, however, have shown that external auditors are occasionally sceptical about the ability of these committees to address disagreements with management (Cohen et al., 2002). The mention by one interviewee of the AC's attempts to extract information from the external auditors about the deficiencies and weaknesses in the bank's control systems illustrates one of the problems faced by audit committees. Cohen et al. (2008) argue that external auditors should talk to the audit committee about any concerns and weaknesses within the organisation, but it seems that at present, this communication is often inadequate (Goff, 2013). As a result, the committee's ability to enhance the independence, effectiveness and objectivity of the external audit process is limited. Institutional theory may offer a plausible explanation for this; it may be that ACs in the Libyan banking sector are essentially formed to create legitimacy outside the organisation rather than to provide effective support for the external audit process.

6.5 Discussion of the Results

The results of the study indicate that ACs in the Libyan banking sector are seen as performing a three-fold monitoring role. The first aspect of this role – monitoring the financial statements – involves reviewing managers' corrections to the statements, external auditors' reports on the statements, the financial statement process's compliance with accounting standards, and significant accounting policies. This is consistent with regulators such as SOX (2002) and FRC (2012), who stipulate that the AC should play a major role in the monitoring and review of financial statements, and with researchers such as Xie et al. (2003), Anderson et al. (2004), Lin et al. (2006) and Abernathy et al. (2013), all of whom argue that the AC can promote the reliability and credibility of the financial reporting monitoring process. The findings thus appear consistent with agency theory's assumption that ACs have an important role to play in improving the flow of information between managers and shareholders (Beasley et al., 2009; Samaha et al., 2012). However, they also indicate that in practice, many committees in the Libyan banking sector are not given the chance to perform this role properly. Denied the time they need to thoroughly review the financial statements, they are instead limited to submitting reports and recommendations to the board and have little impact on practice. This finding, which seems more in line with Soliman and Ragab's (2014) conclusion that many ACs do little to enhance the quality of financial reporting, may be explained by reference to institutional

theory's assumption that these ACs have been created for the purpose of enhancing legitimacy outside the bank rather than protecting the interests of shareholders within it.

As far as the second aspect of the AC's monitoring role – monitoring the internal audit function – is concerned, the survey participants agreed that their ACs currently perform all the responsibilities described in the given statements. In other words, these committees review the internal audit reports and any actions taken as a result, promote the independence of the internal auditors, review the objectives, plan, functions and terms of reference of the internal audit, receive reports on the results of internal auditors' work, review the effectiveness of internal controls, recommend the appointment or replacement of the internal auditing director, ensure that the internal audit has the necessary resources, and meet with the head of internal auditing at least once a year. These results, which were confirmed by the interviewees, are consistent with those identified by Cohen et al. (2004), Marx and Voogt (2010) and Alzebana and Sawan (2015), all of whom highlight the AC-internal audit department relationship as a key factor in achieving effective CG. The interviewees agreed with Turley and Zaman (2007) that the AC enhances the internal audit's effectiveness and independence by giving its activities greater weight within the organisation (Ahmad et al., 2009), and with the numerous researchers (e.g. Klein, 2003; Abbott et al., 2004; Rich and Zhang, 2014; Bardhan et al., 2015) who argue that it plays a significant role in identifying the weaknesses within internal control systems and works with internal (and external) auditors to determine the appropriate remedial action. However, while the results again seem to support agency theory's view that an effective AC can play a major monitoring role, the facts that some ACs are unable or unwilling to forge a productive relationship with the internal audit department, and that they rarely challenge weaknesses in the work of internal auditors, suggest that these ACs have been established primarily for the purpose of creating legitimacy outside the organisation (as posited by institutional theory).

In terms of the third aspect of the AC's monitoring role – supervising the external audit – most of the survey respondents agreed strongly that ACs review and investigate the findings of the annual audit by external auditors, and ensure that audit fees are sufficient to perform the audit process effectively. This is consistent with the recommendations of SOX (2002) and the Smith Report (2003). However, they were less convinced that ACs recommend the appointment and replacement of external auditors, review and monitor the activities, resources, expertise and independence of these auditors or meet them without managers being present. This is roughly in line with the findings of Beasley et al. (2009), Rezaee (2009) and Bédard and Compernolle

(2014). The interviewees pointed out that many ACs in the Libyan banking sector play a positive role in the external audit process (e.g. by resolving any disagreements between the external auditors and managers), as has been posited by previous studies (DeZoort and Salterio, 2001; Turley and Zaman, 2004; Keune and Johnstone, 2012), but it seems that they have only limited ability to promote the independence and effectiveness of these auditors. Institutional theory offers a plausible explanation for this; the finding again seems to suggest that many ACs in the banking sector are essentially formed to create legitimacy outside the organisation rather than to provide effective support for the external audit process.

6.6 Summary

The purpose of this chapter is to contribute to the literature by exploring the current role of ACs in the Libyan banking sector and how they perform this role, as perceived by the survey respondents and interviewees in this study. These views were obtained by means of a questionnaire distributed to five groups of actors in this sector including board members, AC members, executive managers, internal auditors and external auditors, and through semi-structured interviews with selected representatives from these groups. The interviews allowed the collection of data that were beyond the range of the questionnaire. In total, 218 survey responses were gathered and 20 semi-structured interviews were conducted.

The results of the study show that the AC's role has three main aspects: monitoring the financial statements, the internal audit function and the external audit process. The survey findings indicate that the first aspect consists of four main responsibilities: reviewing managers' corrections concerning financial statements, reviewing external audit reports concerning financial statements, monitoring the compliance of the financial statement process with accounting standards, and reviewing significant accounting policies. However, while most of the interviewees saw monitoring financial statements as one of the main roles of the committee, some argued that in practice, ACs do not have adequate time to review these statements. Instead, they are limited to submitting reports and recommendations to the board.

The survey findings show that the second aspect of the AC's role was seen as covering eight main responsibilities: reviewing the internal audit reports and any actions taken as a result, promoting the independence of the internal auditors, reviewing the objectives, plan, functions and terms of reference of the internal audit, receiving reports on the results of internal auditors' work, reviewing the effectiveness of internal controls, recommending the appointment or replacement of internal auditing directors, ensuring that the internal audit has the necessary

resources, and meeting with the head of internal auditing at least once a year. These results were confirmed by the interviewees, though several pointed out that the AC's effectiveness depends to some extent on its relationship with the internal audit department, and this relationship might not always be strong.

Most of the survey respondents agreed strongly that ACs review and investigate the findings of the annual audit provided by the external auditors, and ensure that audit fees are sufficient to perform the audit process effectively. On the other hand, they agreed less strongly that ACs recommend the appointment and replacement of external auditors, review and monitor the activities, resources, expertise and independence of the external auditor, or meet the external auditor without managers being present. The interviews showed that many ACs play an important role in the work of the external audit, but that their ability to enhance the independence and effectiveness of external auditors in Libya's banking sector is still limited.

The following chapter discusses the findings of the survey and interviews regarding the main enabling and inhibiting factors affecting AC practice.

Chapter 7. Analysing the Factors Affecting Audit Committee Practice

7.1 Introduction

As highlighted in the study's conceptual framework, the audit committee's ability to carry out its duties effectively is impacted by a number of factors. These factors, which are discussed at length in the literature (e.g. Beasley and Salterio, 2001; DeZoort et al., 2002; Carcello and Neal, 2003; Braswell et al., 2012), may be either enabling or inhibiting in their effect. This chapter discusses the findings that emerged from the survey and interviews regarding the second concern of the conceptual framework; that is, identifying what the respondents perceived to be the main enabling and inhibiting factors affecting AC practice in Libya's banking sector and investigating how these factors affect AC practice.

7.2 Enabling Factors

Despite the growing interest being shown by governments and regulators in the AC as a mechanism of corporate governance, its effectiveness in practice is hotly debated (Lin et al., 2008). This scepticism has helped foster a body of literature that seeks to identify those factors that positively impact audit committee practice. The factors that have been identified by researchers include authority, access to information, diligence, financial expertise, independence, size and meeting frequency (e.g. Beasley and Salterio, 2001; DeZoort et al., 2002; Carcello and Neal, 2003). These were therefore the focus of the seven statements given to the survey respondents in this question, the aim being to gain insight into the extent to which they were perceived as affecting ACs in Libya's banking sector.

The respondents were asked to indicate the extent to which they agreed that the factors described in the statements may positively affect an AC's ability to perform its responsibilities and duties effectively. Table 7.1 presents the group means, total mean values and standard deviations for the resulting responses and shows that the majority of the participants agreed that most of these factors have an enabling effect. Statement 4 ("Having some expertise of AC members in the accounting field") scored highest, with a total mean score of 4.09. This was followed in descending order by statement 7 ("The committee has enough members to perform its duties and responsibilities properly" – 3.64), statement 6 ("The AC meets regularly enough to perform its responsibilities and discuss of all the relevant issues" – 3.62), statement 1 ("The AC has adequate authority and influence to carry out its duties and responsibilities" – 3.57), statement 2 ("The AC can easily access information and get appropriate responses from all management levels" – 3.49), statement 5 ("AC members are independent directors in the board"

– 3.48) and statement 3 ("AC members devote adequate time and effort to the work of the committee" – 3.45). The Cronbach's Alpha test yielded a result of 0.79 for this question.

Looking at the scores by group, it is apparent that the AC group generated the highest total mean score for the seven statements (3.91). This may be because, as audit committee members themselves, they are the best placed of the groups to appreciate the practical effect these factors can have. This was followed by the EA group, the BD group and the IA group, which scored 3.80, 3.71 and 3.57 respectively. The lowest total mean score – 3.49 – came from the EM group, which recorded the lowest score for five of the seven statements (statement 1: 3.38, statement 2: 3.32, statement 3: 3.32, statement 5: 3.31 and statement 6: 3.50). These responses suggest that executive managers do not see these factors as having a significant effect.

The board members in the sample agreed most strongly that relevant accounting expertise is a crucial enabling factor, awarding this a score of 4.57. This was followed by the independence of the committee and regular meetings, both of which scored 3.67. The size of the committee (specifically, that it should be large enough to carry out all its responsibilities) and the willingness of members to devote the necessary time and effort to its work were scored joint third (3.62), while the authority given to the committee and its access to information were considered the least important factors (3.48 and 3.33 respectively).

Like the board members, the audit committee members agreed most strongly with the relevant accounting expertise statement (4.47), followed by the regular meetings statement (4.00). Adequate authority, access to information and director independence all recorded scores of 3.88, while the lowest scores were recorded for the statements referring to committee size (3.77) and member diligence (3.47). This suggests that the respondents in this group saw these as the least important enabling factors.

The executive managers also saw relevant accounting expertise as the most significant enabling factor (3.97), but this group scored committee size as second most important (3.65), followed by regular meetings (3.50). Interestingly, it ranked the independence of AC members as the least influential factor (3.31).

The internal auditors followed the BD, AC and EM groups in scoring accounting expertise as the most influential factor (3.93), and the BD and AC groups in scoring regular meetings as the second most influential (3.58). Authority and committee size were scored joint third (3.56), while access to information was regarded as the least important factor (3.42).

Finally, the external auditors group followed all the other groups in scoring accounting expertise as the most influential factor (4.20). It differed from the others, however, in scoring authority and information access as the joint second most influential factors (3.89). The diligence of committee members recorded the lowest mean score (3.59); the external auditors followed the sample as a whole in seeing this as the least important enabling factor.

Table 7.1 Descriptive Statistics on Enabling Factors

No	Statements	Group Means					Total Mean Score	Median	Standard Deviation	Rank	Cronbach's Alpha
		BD	AC	EM	IA	EA					
1.	The AC has adequate authority and influence to carry out its duties and responsibilities.	3.48	3.88	3.38	3.56	3.89	3.57	4.00	1.03	4	0.78
2.	The AC can easily access information and get appropriate responses from all management levels.	3.33	3.88	3.32	3.42	3.89	3.49	4.00	1.07	5	
3.	AC members devote adequate time and effort to the work of the committee.	3.62	3.47	3.32	3.45	3.59	3.45	3.00	0.97	7	
4.	Some AC members have expertise in the accounting field.	4.57	4.47	3.97	3.93	4.20	4.09	4.00	0.94	1	
5.	AC members are independent and non-executive directors.	3.67	3.88	3.31	3.45	3.60	3.48	4.00	0.96	6	
6.	The AC meets regularly enough to perform its responsibilities and discuss all the relevant issues.	3.67	4.00	3.50	3.58	3.71	3.62	4.00	0.97	3	
7.	The committee has enough members to perform its duties and responsibilities properly.	3.62	3.77	3.65	3.56	3.73	3.64	4.00	0.95	2	
	Overall Group Means	3.71	3.91	3.49	3.57	3.80	3.62	-	-	-	

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

Table 7.2 shows how the responses to this question were distributed. Across the sample as a whole, the statement which drew the strongest agreement was statement 4, regarding expertise of accounting. 81.7% of the total sample agreed or strongly agreed with this statement. Statement 7 scored second highest, with 65.8%, followed by statement 6 (60.6%), statement 2 (56.7%), statement 1 (51.8%), statement 5 (51.4%) and statement 3 (45.6%). This statement referred to AC members devoting adequate time and effort to the work of the committee. One possible reason why this statement received such a low score may simply be that many of the respondents were unsure how much this factor affects audit committee practice; a huge 41.5% answered *uncertain* to this statement.

Breaking down the scores by group, it can be seen from Table 7.2 that support for statement 4 was strong across the board. Indeed, in the BD group, it was unanimous, with 100% of the group saying that they agreed or strongly agreed that expertise of accounting is an enabling factor in the work of the AC. In the AC group, this figure was 94.1%, in the EM group it was 81.1%, in the EA group it was 80.0% and in the IA group it was 74.4%. When the same is done for the lowest scoring statement (3: "AC members devote adequate time and effort to the work of the committee"), it can be seen that 57.1% of the BD group, 55.9% of the EA group, 43.7% of the IA group, 41.1% of the AC group and 40.5% of the EM group agreed or strongly agreed with this statement. It is noteworthy that just 41.1% of the audit committee members in the sample agreed that their diligence is an important enabling factor.

Table 7.2 Frequency Distribution of Responses on Enabling Factors

No	Statements	Members of the Board N = 21			Members of AC N = 17			Executive Managers N = 74			Internal Auditors N = 71			External Auditors N = 35			Total N = 218		
		D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %
1.	The AC has adequate authority and influence to carry out its duties and responsibilities.	14.3	38.1	47.6	11.8	17.6	70.6	14.9	41.9	43.3	11.3	38.0	50.7	8.6	25.7	65.7	12.4	35.8	51.8
2.	The AC can easily access the information and get appropriate responses from all management levels.	23.8	19.0	57.2	5.9	23.5	70.6	28.7	16.4	54.8	22.5	26.8	50.7	5.7	28.6	65.7	20.8	22.6	56.7
3.	AC members devote adequate time and effort to the work of the committee.	14.3	28.6	57.1	17.6	41.2	41.1	12.2	47.3	40.5	11.2	45.1	43.7	14.7	29.4	55.9	12.9	41.5	45.6
4.	Some AC members have expertise in the accounting field.	0.0	0.0	100.0	5.9	0.0	94.1	5.5	13.5	81.1	7.0	18.3	74.4	8.6	11.4	80.0	6.0	12.4	81.7
5.	AC members are independent and non-executive directors.	19.0	14.3	66.6	5.9	35.3	61.5	23.0	23.0	54.1	8.4	46.5	45.1	8.6	45.7	48.8	14.3	34.4	51.4
6.	The AC meets regularly enough to perform its responsibilities and discuss all the relevant issues.	14.3	19.0	66.6	0.0	23.5	76.4	14.9	29.7	55.4	9.8	33.8	56.3	8.6	22.9	68.6	11.0	28.4	60.6
7.	The committee has enough members to perform its duties and responsibilities properly.	14.3	14.3	71.4	5.9	35.3	58.8	13.5	16.2	70.3	14.1	23.9	62.0	15.1	21.2	63.7	13.4	20.8	65.8

D: Strongly disagree and disagree **U:** Uncertain **A:** Strongly agree and agree

Although all of the groups considered accounting expertise (statement 4) to be the most influential enabling factor, the Kruskal-Wallis test (see Table 7.3) indicated that there was a statistically significant difference between the groups on this statement (p-value 0.00). This test found no significant differences for the other statements, though the Mann-Whitney test revealed significant differences among groups in relation not only to statement 4 but also statements 1 and 2. The Mann-Whitney test highlighted that the level of agreement from the EM group was significantly different from that expressed by the other groups in four instances. This was reflected in its lower overall group mean (3.49). The result suggests that the EM group may not consider these enabling factors to be very influential.

Table 7.3 Comparisons Between Groups on Enabling Factors

NO	Statements	Kruskal-Wallis	Mann-Whitney Test - P-values									
			BD-AC	BD-EM	BD-IA	BD-EA	AC-EM	AC-IA	AC-EA	EM-IA	EM-EA	IA-EA
1.	The AC has adequate authority and influence to carry out its duties and responsibilities.	0.09	0.23	0.70	0.77	0.15	0.06	0.21	0.94	0.30	0.02*	0.10
2.	The AC can easily access information and get appropriate responses from all management levels.	0.08	0.11	0.96	0.84	0.07	0.09	0.10	0.99	0.76	0.03*	0.04*
3.	AC members devote adequate time and effort to the work of the committee.	0.62	0.60	0.21	0.49	0.97	0.77	0.91	0.60	0.47	0.16	0.45
4.	Some AC members have expertise in the accounting field.	0.00*	0.96	0.00*	0.00*	0.32	0.01*	0.02*	0.43	0.86	0.07	0.08
5.	AC members are independent and non-executive directors.	0.31	.0.57	0.17	0.23	0.65	0.07	0.10	0.33	0.80	0.38	0.56
6.	The AC meets regularly enough to perform its responsibilities and discuss all the relevant issues.	0.39	0.42	0.44	0.56	1.00	0.08	0.11	0.33	0.73	0.29	0.42
7.	The committee has enough members to perform its duties and responsibilities properly.	0.88	0.86	0.97	0.67	0..66	0.85	0.56	0.92	0.48	0.59	0.35
*P -values < 0.05												

In order to gain insight into the extent to which they were perceived as affecting ACs in Libya's banking sector, those factors that positively affect AC practice are discussed separately in the following sections.

7.2.1 Authority of the Audit Committee

The authority of the audit committee is derived from the board of directors and the law (DeZoort et al., 2002). A number of professional bodies have issued guidelines to help audit committee members better understand the authority granted to them in the hope of making them more effective (e.g. Sarbanes-Oxley Act, 2002; Combined Code FRC, 2003). The survey and interviews therefore sought to elicit the respondents' perceptions regarding the authority given to the AC and its impact on the committee's effectiveness.

As seen in Table 7.1, the sample as a whole agreed that having sufficient authority positively affects the audit committee's ability to carry out its duties and responsibilities. The overall group mean for this statement was 3.57, with the strongest support being shown by the external auditors (3.89), followed by the audit committee members (3.88), internal auditors (3.56), board members (3.48) and executive managers (3.38). The low mean scores from the last two groups suggest that these groups may be ambivalent (or uncertain) on the question of whether having this authority makes a major difference to the committee's performance. This is underlined in Table 7.2, which shows that 51.8% of the sample as a whole agreed or strongly agreed with this statement, but that the level of agreement varied strikingly between the groups, from 70.6% in the AC group and 65.7% in the EA group, to 50.7% in the IA group, 47.6% in the BD group and just 43.3% in the EM group.

Stronger support for this factor came from the interviewees, the majority of whom (85%) agreed that the authority of the AC is an enabling factor (compared to 51.8% in the survey). The difference could be due to the fact that as senior staff, the interviewees are more likely to have witnessed this effect at first hand. In contrast, a huge 35.8% of the survey respondents were uncertain how much this factor affects audit committee practice.

Saad et al. (2006) argue that ACs must be given adequate authority, established in the regulations, if they are to carry out their responsibilities effectively. Most of the interviewees were confident that their AC has this authority; according to one external auditor:

> "This is an influential factor, but as members of the board, the members of the audit committee certainly have the authority and influence to carry out their responsibilities in the bank" EA (5-1)

However, a board member from a mixed ownership bank pointed out that how this authority is exercised depends to some extent on who sits on the committee – for example, on whether

there are sufficient independent members and whether these are appropriately qualified and experienced:

> "The audit committee has authority and influence enough to carry out their responsibilities, but the execution of this authority will depend on the composition of the audit committee" BD (1-4).

This echoes concerns expressed in the Sarbanes-Oxley Act (2002), Smith Report (2003) and UK Corporate Governance Code (2012), all of which focus on composition as a major determinant of the AC's effectiveness.

At the opposite end of the spectrum, the audit committee chairman from one state bank expressed his concern that his AC does not have the authority it needs to carry out its responsibilities effectively:

> "The audit committee has authority, but not the level of authority it needs to carry out its responsibilities effectively in the current conditions, especially given the weakness of the internal audit department, which it relies upon for the reports and information it needs" AC (2-3)

As this interviewee suggests, any weaknesses in the internal audit function can undermine the committee's authority and reduce its effectiveness (Tušek and Pokrovac, 2012). Numerous regulators and corporate governance agencies have argued that there needs to be a symbiotic relationship between the audit committee and the internal auditors to ensure the integrity and quality of financial statements and enhance internal controls (e.g. Treadway Commission, 1987; Sarbanes-Oxley Act, 2002), but this relationship is also crucial if the AC is to liaise effectively between the board of directors and the internal auditors (Song and Windram, 2004) as it allows the committee to reduce the information asymmetry that exists between these two groups (Boubaker and Taher, 2013). The internal audit department is thus a significant resource for the AC in that it provides the information the committee needs (Bishop et al., 2000) to properly exercise its authority over the financial reporting and external audit processes (Turley and Zaman, 2007; Beasley et al., 2009). This was also the view of the interviewees, particularly the audit committee members. They saw the committee as an important corporate governance mechanism; the fact that most of the interviewees felt their AC currently has sufficient authority and influence to perform its responsibilities effectively is a positive indicator of current practice in Libya's banking sector. Overall, the survey participants and interviewees saw authority as an enabling factor affecting AC practice.

7.2.2 Resources of the Audit Committee (Access to Information)

If it is to perform the responsibilities and duties assigned to it, the audit committee needs resources (Zhang et al., 2007); specifically, it needs to be able to access the information it requires from all levels of the management (DeZoort et al., 2002). This access to information is as important as the committee's qualifications/experience and authority in helping it to protect stakeholders' interests (DeZoort et al., 2002). One of the statements was therefore designed to obtain the survey respondents' perceptions regarding the effect this factor has on the effectiveness of the audit committee.

Table 7.1 indicates that the statement "The AC can easily access information and get appropriate responses from all management levels" recorded a total mean score of 3.49. Breaking the results down by group, it is apparent that the highest group mean for this statement was recorded by the external auditors group (3.89). This was followed by the audit committee members group (3.88), the internal auditors group (3.42), the board members group (3.33) and the executive managers group (3.32). The last score suggests that the executive managers in the sample felt that access to information at all management levels is not crucial for the audit committee to be effective. Table 7.2 shows that 56.7% of the survey participants agreed with this statement. The AC group showed the highest level of support for the statement, with 70.6% agreeing or strongly agreeing. This was followed by the EA group (65.7%), the BD group (57.2%), the EM group (54.8%) and the IA group (50.7%).

Interestingly, the interviewees were more likely to see access to information as a significant enabling factor than the survey respondents (75% of interviewees compared to 56.7% of survey respondents). This may be due to the fact that the interviewees, as senior employees, are more likely to observe the impact of this factor at first hand. Many interviewees said their audit committee can easily access the information it needs. One audit committee member from a mixed ownership bank stated that:

> "In general, the audit committee can easily access information, particularly through its oversight of the internal audit function" AC (2-2)

However, other interviewees expressed some concerns about the level of access given to their AC. For example, one board chairman from a state bank acknowledged:

> "I think that access to information for the audit committee is not at the required level, but at every stage, we are trying to improve the procedures for accessing information; however, we have not yet reached the desired level" BD (1-3).

One board member from a mixed ownership bank described a slightly better – but far from perfect – situation at his bank:

> "The audit committee can easily access financial information, but there is difficulty in accessing other information in areas such as investment, financing and management" BD (1-4).

A more troubling picture was painted by one audit committee member from a state bank, who suggested that the AC in his bank can find it difficult to access even financial information:

> "I think the audit committee faces obstacles when trying to access financial information; for example, information is often not complete or accurate, nor is it given to the committee in a timely manner" AC (2-4).

Both interviewees and survey respondents saw access to information as an enabling factor. The result is consistent with a number of other studies in highlighting the importance of this factor in facilitating audit committee effectiveness (e.g. DeZoort et al., 2002; Beasley et al., 2009). Despite this, several of the interviewees indicated that audit committees in the Libyan banking sector can face obstacles when it comes to acquiring the resources they need to perform their responsibilities and duties properly.

7.2.3 Diligence of the Audit Committee

It has been argued that the diligence of AC members is one of the main factors affecting the committee's ability to perform its responsibilities and duties effectively (Sharma et al., 2009); put simply, the more conscientious it is, the more likely it is to enhance corporate governance practice and ensure the quality of financial reporting (Thiruvadi, 2012). Accordingly, this section seeks to present the perceptions of the survey and interview participants regarding the impact that committee diligence has on effectiveness.

Perhaps surprisingly, given the views expressed in the literature, the survey participants ranked statement 3 ("AC members devote adequate time and effort to the work of the committee") bottom out of the seven statements, giving it a total mean score of 3.45. Table 7.1 shows that the mean score recorded by each group was: 3.62 (board members), 3.588 (external auditors), 3.47 (AC members), 3.45 (internal auditors) and 3.32 (executive managers). The last score suggests that executive managers are the least concerned about audit committee members' diligence. Table 7.2 shows that overall, only 45.6% of the survey participants agreed that

diligent committee members are an enabling factor. Breaking this down by group, 57.1% of the BD group, 55.9% of the EA group, 43.7% of the IA group, 41.1% of the AC group and just 40.5% of the EM group expressed agreement with this statement. The relative lack of support for this factor might be due to the fact that ACs were only recently introduced into the Libyan banking sector.

The interviewees showed a much higher level of support for the statement, however, with 75% acknowledging the diligence of audit committee members as a factor enabling AC effectiveness. Some of the interviewees were happy with the level of time and effort their audit committee dedicates to its duties; for example, the director of the internal audit department in one mixed ownership bank commented that:

> "Audit committee members actually devote sufficient time and effort to the responsibilities of the committee; they are always in contact with the internal audit department" IA (4-1).

The board chairman of one state bank was similarly content with the effort expended by his AC:

> "I think that the time and effort spent by audit committee members are clear and obvious as they have ten meetings a year, which exceeds what is required under the code of corporate governance" BD (1-3).

Others, however, were less impressed with the level of engagement shown by their committee; for example, the AC chairman from the same state bank observed that his colleagues give enough time and effort to the work of the committee to keep it running, but not enough to make any real difference to its level of performance:

> "I think that the time and effort spent by the members of the audit committee are satisfactory, but they are not enough to make it any more effective in performing its responsibilities and tasks AC (2-3).

And at the opposite end of the spectrum, an external auditor noted that the audit committee members do not devote adequate time and effort to their duties:

> "I do not think the members of the audit committee devote enough time and effort; for example, they would not be able to address any deficiencies in the bank properly" EA (5-3).

The findings indicate that while most of the audit committees represented in the sample devote a reasonable amount of time and effort to carrying out their duties, this is not always enough

to raise the level of performance. The general view among interviewees was that the diligence of audit committee members has a substantial influence on the effectiveness of the committee though, interestingly, this view was less widespread among the survey respondents (45.6% of survey respondents compared to 75% of interviewees). The difference may be due to the fact that as senior staff, the interviewees are more likely to have seen this influence at first hand. The current findings seem to be supported by prior studies, which have identified a significant relationship between audit committee diligence and effectiveness (e.g. DeZoort et al., 2002; Sharma et al., 2009; Thiruvadi, 2012; Braswell et al., 2012).

7.2.4 Financial Expertise of the Audit Committee

The committee must possess some degree of financial expertise if it is to be able to understand financial communications (Ho et al., 2014), monitor the integrity of financial statements properly (McDaniel et al., 2002), avert mistakes in these statements and uncover fraud (Goodwin and Seow, 2002). This has led a number of professional bodies and researchers to recommend that audit committees should include at least one member who has financial expertise (Sarbanes-Oxley Act, 2002; FRC, 2014). With these facts in mind, the survey and interview questions sought to elicit participants' views regarding how the financial expertise of AC members impacts on the committee's effectiveness.

Table 7.1 shows that overall, the survey participants agreed with the statement: "Some AC members have expertise in the accounting field", giving it a total mean score of 4.09. Board members gave this statement the highest mean value (4.57), followed by AC members (4.47), external auditors (4.20), executive managers (3.97) and internal auditors (3.93). It can be observed in Table 7.2 that 81.7% of all the survey participants agreed that having financial expertise on the audit committee enhances its effectiveness. The strongest agreement was registered by the BD group (100%), followed by the AC group (94.1%), the EM group (81.1%), the EA group (80%) and the IA group (74.7%).

There was similarly strong support for this statement from the interviewees, as evidenced by the fact that 90% asserted that it is an influential factor, and they said that most of the members of their audit committee have at least some expertise in accounting practice. One audit committee member from a state bank explained that:

> "The members of the audit committee have sufficient accounting expertise; all four members come from an accounting background, and two of them have a PhD" AC (2-4).

The director of the internal audit department from another state bank described a similar level of accomplishment in his bank's AC:

> "Most audit committee members actually have accounting expertise; three of them have an accounting background, and the fourth has an economics background. Two members have a PhD" IA (4-3).

This expertise makes it easier for AC members to assimilate details about the day-to-day operations of the bank, and indeed, 65% of the interviewees felt that audit committee members in their bank have a sound knowledge of the firm's broader business operations. As the board chairman of one mixed ownership bank explained:

> "Audit committee members indeed have the experience and qualifications to find out all the bank's business" BD (1-2).

However, as an executive manager from another mixed ownership bank observed, their position within the board also allows them insight into the heart of the bank's operations:

> "The members of the audit committee actually have sufficient knowledge about the business of the bank because they are members of the board of directors, and therefore, they have the opportunity to learn all about the business" EM (3-4).

Not all of the interviewees agreed that their AC has a truly comprehensive knowledge, however, although these interviewees did not necessarily see this as limiting the committee's ability to perform its duties. One external auditor argued that:

> "I do not think that the members of the audit committee have sufficient knowledge of all the business of the bank, but they can monitor the actions of the management EA (5-1).

One AC member was less sanguine, observing what he perceived to be a lack of knowledge among some of his colleagues and associating this with a general lack of effectiveness on their part:

> "There are some deficiencies in the knowledge of audit committee members in relation to the bank's business, especially the less effective members" AC (2-2).

The majority of both survey and interview participants agreed that the AC's effectiveness is materially impacted by the level of financial expertise of its members. Most of the interviewees felt that they should have at least enough financial expertise to be able to understand the day-to-day business operations of the bank and monitor the integrity of financial statements

effectively. The finding is consistent with those of numerous other studies (e.g. McDaniel et al., 2002; Bedard et al., 2004; DeFond et al., 2005; Krishnan and Lee, 2009; Ho et al., 2014).

7.2.5 Audit Committee Independence

Numerous studies have identified a positive correlation between audit committee independence and the quality of an organisation's financial reporting (Lin et al., 2006; Beasley et al., 2009). AC independence enhances the connections between the various mechanisms of corporate governance within the organisation such as the relationship between external and internal auditors and that between the external auditors and management (Rainsbury et al., 2008; Rezaee, 2009). An independent committee is better able to deal with stakeholders in an efficient and unbiased manner, but most importantly, there is less potential for conflicts of interest and opportunistic earnings management (Klien, 2002). For these reasons, it is widely believed that audit committee members should be independent and free from any external influences (Ghabayen, 2012; Reddy et al., 2015; Sanjaya, 2016). Accordingly, the survey and interviews sought to uncover whether the participants saw the AC's effectiveness as being affected by its independence.

Overall, the survey participants broadly agreed with the statement: "The AC members are independent directors in the board" (see Table 7.1). The total mean score derived from their responses was 3.48, with individual groups scoring group means of 3.88 (AC members), 3.67 (board members), 3.60 (external auditors), 3.45 (internal auditors) and 3.31 (executive managers). However, Table 7.2 shows that only just over half (51.4%) of all the participants in the survey agreed that AC effectiveness is enhanced by having AC members who are independent directors. The BD group agreed most strongly with the statement (66.6% of the group indicated agreement), followed by the AC group (61.5%), the EM group (54.1%), the EA group (48.8%) and the IA group (45.1%). The results suggest that the participants value AC independence to a certain extent.

When the interviewees were asked about the independence of their audit committee, 60% said that it is a significant enabling factor (55% stated that the AC in their bank is made up of independent directors). Sixty per cent explained that the General Assembly chooses their board, and that the board then selects the members of the audit committee. The process was described by the board chairman from one mixed ownership bank:

> "Audit committee members are chosen by the General Assembly as members of the board, and then sanctioned by the Central Bank of Libya. Then the board selects the committee members based on their specialities. The committee members are independent and non-executive directors in the board" BD (1-2).

An AC chairman from a state bank described a similar selection process taking place in his bank:

> "The General Assembly appoints the members of the board and the Central Bank sanctions the appointment, then the board chooses the audit committee members based on their qualifications and experience. The job of chairman of the committee is rotated among the members. The audit committee is independent and the members are completely independent and non-executive" AC (2-3).

However, not everyone approved of this approach to selection. One of the external auditors was concerned that:

> "The selection process for the members of the audit committee is often inadequate, and I think that they are not completely independent" EA (5-1).

The results indicate general support for AC independence as an important enabling factor. Furthermore, the interviewees signalled that over half of the AC members in Libya's banking sector are independent. If this is true, it is a positive indicator for the sector; Hashim and Rahman (2011) argue that an independent AC is better able to help owners monitor managers' activities and resolve problems arising from information asymmetry, and numerous other authors point out that independence is vital if the committee is to be able to perform its responsibilities effectively (e.g. Collier and Zaman, 2005; Lin et al., 2006; Rainsbury et al., 2008; Rezaee, 2009; Beasley et al., 2009).

7.2.6 Audit Committee Meetings

Regulatory bodies and researchers alike have argued that if audit committees are to perform their responsibilities and duties adequately, they must meet regularly (BRC, 1999; Smith, 2003; Krishnan, 2005; Burke et al., 2008). They must also be able to hold extraordinary meetings as needed (Burke et al., 2008); for example, if the committee is dealing with an emergency such as the risk of financial reporting failure (Hogan et al., 2014). Whether they are routine or extraordinary, meetings allow the committee to carry out its monitoring role more effectively (Ebrahim, 2007; Ali, 2014).

As indicated in Table 7.1, the overall group mean for this statement ("The AC meets regularly enough to perform its responsibilities and discuss all the relevant issues") was 3.62, with the strongest support being shown by the audit committee members (4.00), followed by the external auditors (3.71), board members (3.67), internal auditors (3.5) and finally, executive

managers (3.50). Table 7.2 shows that overall, 60.6% of the survey participants agreed or strongly agreed that having sufficient meetings positively impacts on the audit committee's ability to perform its duties and responsibilities. However, the level of agreement varied strikingly between the groups, from 76.4% in the AC group and 68.8% in the EA group, to 66.6% in the BD group, 56.3% in the IA group and just 55.4% in the EM group.

Despite the general level of agreement expressed in the survey, however, only 55% of the interviewees felt that regular meetings are an enabling factor, and 70% explained that the committee in their bank has sufficient meetings to perform its duties and responsibilities properly, while 20% argued that their AC needs to increase the number of meetings it has. The board chairman from one state bank was in the former group, explaining that:

> "The number of meetings the audit committee has is really enough to perform its duties and responsibilities. It exceeds the number of meetings required by the Corporate Governance Code, which is just four, as it has ten meetings per year" BD (1-3).

In contrast, the audit committee chairman from another state bank voiced his concern that his audit committee does not hold all the meetings it needs to carry out its responsibilities and duties effectively. He stated that:

> "Although there are many meetings, I think there are still fewer than there should be to perform the duties and responsibilities of the audit committee. And the committee usually meets the day before the board meeting….." AC (2-1).

Both the survey participants and the interviewees agreed that holding regular meetings impacts positively on the audit committee's ability to carry out its duties and responsibilities. This is consistent with the findings of a number of studies, including, Smith (2003), Krishnan (2005), Ebrahim (2007), Hogan et al. (2014) and Ali (2014). However, the findings also suggest that in practice, this ideal is not always achieved by banks in Libya's banking sector.

7.2.7 Audit Committee Size

The size of an audit committee is commonly regarded as a measure of its effectiveness (Albring et al., 2014). Size is measured in terms of the number of committee members (Pucheta-Martínez et al., 2014), with the general expectation being that the committee should comprise at least three directors, one of whom should serve as chairman (FRC, 2014; Utama and Leonardo, 2014). This statement was designed to elicit the survey participants' perceptions

concerning the effect the number of audit committee members has on the effectiveness of the committee.

Table 7.1 indicates that the statement: “The committee has enough members to perform its duties and responsibilities properly” recorded a total mean score of 3.64. Breaking the results down by group, it is apparent that the highest group mean for this statement was recorded by the audit committee members (3.77). This was followed by the external auditors group (3.73), the executive managers group (3.65), the board members group (3.62) and the internal audit group (3.56). These results indicate that the sample felt that the size of the audit committee may impact on its effectiveness. Table 7.2 shows that overall, 65.8% of the survey respondents agreed with this statement. The highest level of support for the statement came from the BD group, with 71.4% agreeing or strongly agreeing, followed by the EM group (70.3%), the EA group (63.7%), the IA group (62.0%) and the AC group (58.8%) (a huge 35.3% of the AC group answered uncertain to this statement).

Asked about the impact of the AC’s size on its effectiveness in their organisation, most of the interviewees asserted that this is an important enabling factor. Only half of the interviewees (50%) felt that:

> “…the audit committee has adequate members to carry out its duties and responsibilities properly” AC (2-1).

Just over a third (35%) argued that one or more additional members should be added to the AC in their bank. Among them was this board member from a state bank:

> “I think the audit committee needs to add one or two members to the committee, especially given the huge size of the bank, which has 160 branches…..” BD (1-1).

The finding that there is a perceived link between AC size and effectiveness is consistent with previous studies, such as Pucheta-Martínez et al. (2014), Albring et al. (2014) and Utama and Leonardo (2014), and with frameworks such as the UK’s Combined Code (FRC, 2014), all of whom recommend that ACs should have at least three members. Awareness of the importance of this link led several of the interviewees to question the current size of their own AC.

7.3 Inhibiting Factors

The literature review highlighted the increasing attention being paid to those factors that may negatively impact on the practices of audit committees. The study therefore sought to explore the effects of a range of these inhibiting factors on AC practice and effectiveness in Libya's banking sector. The highlighted inhibiting factors were weak board governance, the lack of clear requirements governing the audit committee's responsibilities and obligations, AC members' lack of qualifications or experience, inadequate compensation of AC members the weak legal and regulatory environment, the weak accounting environment and political intervention (e.g. Lin et al., 2008; Sharma et al., 2009; Larbsh, 2010; Engel et al., 2010; Abdou, 2015; Wu and Patel, 2015).

The survey participants were asked to point out the extent to which they agreed that the potential inhibiting factors described in seven statements may adversely affect the ability of the audit committee to carry out its duties and responsibilities effectively. Table 7.4 indicates, based on the group means, total mean values and standard deviations for the participants' responses, that the majority agreed that most of these factors have an inhibiting impact. Statement 5 ("The weak legal and regulatory environment in Libya") scored highest, with a total mean score of 3.92. This was followed in descending order by statement 1 ("Weaknesses in board governance" – 3.77), statement 7 ("Political intervention in Libya" – 3.70), statement 3 ("The poor qualifications and experience of AC members" – 3.46), statement 2 ("The lack of clear legal requirements governing the AC's responsibilities or duties" – 3.44), statement 6 ("The weakness of the accounting and auditing profession in Libya" – 3.41) and statement 4 ("The inadequate compensation paid to AC members" – 3.17). The table shows that the Cronbach's Alpha value for this question was 0.79, which means that all the data are reliable.

Looking at the scores by group, it is apparent that the EA group generated the highest total mean score for the seven statements (3.83). Following the EA group were the AC group, the EM group and the IA group, with overall group means of 3.68, 3.50 and 3.46 respectively. The lowest total mean score (3.45) came from the BD group, which recorded the lowest score for three of the seven statements (statement 1: 3.38, statement 3: 3.00 and statement 7: 3.57). These responses indicate that the members of boards do not see these factors as having a significant impact.

Board members did, however, agree strongly that the weak legal and regulatory environment in Libya is an important inhibiting factor (mean score 4.00). The next highest mean score

recorded by this group was for the weakness of the accounting and auditing profession (3.67), followed by government intervention in the banking sector (3.57). Weak board governance and the lack of clear legal requirements governing the AC's responsibilities or duties both scored 3.38, while the lowest scores were recorded for the statements referring to inadequate AC compensation and the poor qualifications and experience of AC members (3.14 and 3.00 respectively).

Like the board members, audit committee members agreed strongly that the weak legal and regulatory environment (4.12) and weak board governance (4.00) are inhibiting factors. Auditing profession scored 3.65 respectively, while the lack of clear legal requirements and government intervention in the banking sector both scored 3.59. Inadequate AC compensation and poor qualifications and experience were seen as the least significant factors (3.53 and 3.41 respectively).

The executive managers also considered the weak legal and regulatory environment to be the most crucial inhibiting factor (3.95) and weak board governance to be the second most important (3.85). These were followed by government intervention in the banking sector and the poor qualifications and experience of AC members, which scored 3.77 and 3.50 respectively. Finally, the lack of clear legal requirements governing the AC's responsibilities or duties, the weakness of the accounting and auditing profession and the inadequate compensation paid to AC members scored as the least important inhibiting factors (3.26, 3.19 and 3.01 respectively).

In contrast, the internal auditors registered their strongest level of agreement with the statement that government intervention in the banking sector is a crucial inhibiting factor (3.70). They found the weak legal and regulatory environment to be the second most influential (3.66), while weak board governance scored third highest (3.62). Inadequate compensation was regarded as the least influential inhibiting factor (3.13).

Finally, the external auditors group followed the BD, AC and EM groups in scoring the weak legal and regulatory environment as the most influential factor (4.26). This was followed by weak board governance and the lack of clear requirements regarding the AC's responsibilities, both of which scored 4.03. Unlike the other groups, however, this group scored the poor qualifications and experience of AC members as the third most important inhibiting factor (3.91). Once again, the inadequate compensation paid to AC members was regarded as the least significant factor (3.46) in terms of its impact on AC effectiveness.

Table 7.4 Descriptive Statistics on Inhibiting Factors

No	Statements	Group Means					Total Mean Score	Median	Standard Deviation	Rank	Cronbach's Alpha
		BD	AC	EM	IA	EA					
1.	Weaknesses in board governance	3.38	4.00	3.85	3.62	4.03	3.77	4.00	1.04	2	0.79 -
2.	The lack of clear legal requirements governing the AC's responsibilities or duties	3.38	3.58	3.26	3.31	4.03	3.44	4.00	1.08	6	
3.	The poor qualifications and experience of AC members	3.00	3.41	3.50	3. 35	3.91	3.46	4.00	1.36	5	
4.	The inadequate compensation paid to AC members	3.14	3.53	3.01	3.13	3.46	3.17	3.00	0.94	8	
5.	The weak legal and regulatory environment in Libya	4.00	4.12	3.95	3.66	4.26	3.92	4.00	1.07	1	
6.	The weakness of the accounting and auditing profession in Libya	3.67	3.65	3.19	3.45	3.51	3.41	4.00	1.29	7	
7.	Government intervention in the banking sector, especially from the Central Bank	3.57	3.59	3.77	3.70	3.66	3.70	4.00	1.02	3	
	Overall Group Means	3.45	3.68	3.50	3.46	3.83	3.56	-	-	-	

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

Table 7.5 shows how the responses from the sample were distributed. Statement 5, which referred to the weakness of the legal and regulatory environment, attracted the strongest support, with 72.9% of the total sample saying they agreed or strongly agreed. The second highest percentage went to statement 1 (weaknesses in board governance: 71.1%), followed by statement 7 (government intervention in the banking sector: 64.2%), statement 3 (the poor qualifications and experience of AC members: 60.1%), statement 6 (the weakness of the accounting and auditing profession in Libya: 55.1%), statement 2 (lack of clear legal requirements: 51.9%) and statement 4 (inadequate compensation for AC members: 34.4%). This last statement may have received a low score because a large number of the respondents were unsure about the impact of this factor on audit committee practice (45% answered *uncertain* to this statement).

Looking at the scores from the individual groups, it is evident that the strongest support for the highest scoring statement (5) came from the external auditors, with 82.8% of this group agreeing or strongly agreeing that the weakness of the legal and regulatory environment is a crucial inhibiting factor. They were closely followed by the AC group, 82.4% of whom agreed or strongly agreed with the statement. In the BD group, the corresponding number was 76.2%,

in the EM group it was 74.3% and in the IA group it was 63.4%. At the other end of the scale, support for the lowest scoring statement (4: "The inadequate compensation paid to AC members") was strongest in the AC group (58.8%), followed by the EA group (45.7%), the BD group (42.8%), the EM group (29.7%) and the IA group (25.3%). One possible reason why the AC group supported this statement the most strongly may simply be that audit committee members themselves are the best placed of the groups to appreciate the practical impact this factor can have.

Table 7.5 Frequency Distribution of Responses on Inhibiting Factors

No	Statements	Board Members N = 21			AC Members N = 17			Executive Managers N = 74			Internal Auditors N = 71			External Auditors N = 35			Total N = 218		
		D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %
1.	Weaknesses in board governance	28.6	14.3	57.1	11.8	0.0	88.2	9.5	16.2	74.3	15.5	19.7	64.8	2.8	20.0	77.2	12.4	16.5	71.1
2.	The lack of clear legal requirements governing the AC's responsibilities or duties	23.8	28.6	47.6	17.7	23.5	58.8	24.4	27.0	48.6	19.7	35.2	45.1	2.9	25.7	71.4	18.7	29.4	51.9
3.	The poor qualifications and experience of AC members	42.9	4.8	52.3	29.4	0.0	70.6	28.4	10.8	60.8	28.2	21.1	50.7	11.4	11.4	77.2	27.1	12.8	60.1
4.	The inadequate compensation paid to AC members	33.4	23.8	42.8	23.6	17.6	58.8	25.7	44.6	29.7	14.1	60.6	25.3	14.3	40.0	45.7	20.6	45.0	34.4
5.	The weak legal and regulatory environment in Libya	4.8	19.0	76.2	5.8	11.8	82.4	13.5	12.2	74.3	12.7	23.9	63.4	11.5	5.7	82.8	11.5	15.6	72.9
6.	The weakness of the accounting and auditing profession in Libya	9.5	19.0	71.5	11.8	35.3	52.9	32.4	17.6	50.0	26.7	15.5	57.8	20.0	28.5	51.5	24.7	20.2	55.1
7.	Government intervention in the banking sector, especially from the Central Bank	14.3	38.1	47.6	17.7	17.6	64.7	16.2	10.8	73.0	11.3	29.6	59.1	14.3	20.0	65.7	14.2	21.6	64.2

D: Strongly disagree and disagree **U:** Uncertain **A:** Strongly agree and agree

The results of the Kruskal-Wallis test (see Table 7.6) show that there were significant differences among the groups in relation to statement 2: the lack of clear legal requirements governing the AC's responsibilities (p-value 0.01) and statement 5: the weak legal and regulatory environment in Libya (p-value 0.01). However, the test identified no significant differences in regard to the other statements. When the Mann-Whitney test was conducted to explore these differences further, it highlighted significant differences between the EM and EA groups (0.00) and between the IA and EA groups (0.00) on statement 2, and between the EM and IA groups (0.03) and IA and EA groups (0.00) on statement 5. It also highlighted

significant differences in relation to statement 3 (between the EA group and the BD and IA groups: both p-values 0.04) and statement 4 (between the EM and EA groups: p-value 0.04). The results indicate that the responses of the EA group varied significantly from those of the other groups in six instances, and give some insight into how this group produced the highest total mean score for the seven inhibiting factors.

Table 7.6 Comparisons Between Groups on Inhibiting Factors

NO	Statements	Kruskal-Wallis	Mann-Whitney Test - P-values									
			BD-AC	BD-EM	BD-IA	BD-EA	AC-EM	AC-IA	AC-EA	EM-IA	EM-EA	IA-EA
1.	Weaknesses in board governance	0.10	0.09	0.14	0.53	0.07	0.26	0.06	0.51	0.14	0.54	0.07
2.	The lack of clear legal requirements governing the AC's responsibilities	0.01*	0.62	0.67	0.70	0.06	0.27	0.25	0.22	0.99	0.00*	0.00*
3.	The poor qualifications and experience of AC members	0.21	0.48	0.17	0.39	0.04*	0.57	0.86	0.18	0.37	0.35	0.04*
4.	The inadequate compensation paid to AC members	0.13	0.28	0.63	0.91	0.32	0.06	0.09	0.64	0.53	0.04*	0.08
5.	The weak legal and regulatory environment in Libya	0.01*	0.46	0.74	0.18	0.10	0.65	0.05	0.41	0.03*	0.10	0.00*
6.	The weakness of the accounting and auditing profession in Libya	0.63	0.98	0.26	0.83	0.80	0.28	0.69	0.76	0.27	0.299	0.89
7.	Government intervention in the banking sector, especially from the Central Bank	0.83	0.78	0.31	0.54	0.62	0.50	0.83	0.91	0.49	0.46	0.92

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

In order to gain insight into the extent to which they were perceived as affecting ACs in Libya's banking sector, those inhibiting factors that negatively affect AC practice are discussed separately in the following sections.

7.3.1 Weaknesses in Board Governance

A number of studies have highlighted the potential impact of certain characteristics of board governance (e.g. board independence, board meetings and board size) on the quality of financial reporting and audit committee commitment to its monitoring responsibilities (Raghunandan and Rama, 2007; Sharma et al., 2009; Braswell et al., 2012). Beasley and Salterio (2001) point out that the board has a significant impact on the effectiveness of the AC

because the board itself chooses the committee's members. The survey and interviews thus sought to elicit the respondents' views on how weaknesses in board governance affect the audit committee's effectiveness.

Table 7.4 shows that the sample as a whole agreed that weaknesses in board governance adversely affect the audit committee's ability to perform its duties and responsibilities effectively. The overall group mean for this statement was 3.77, with the strongest support being offered by the external auditors (4.03), followed by the audit committee members (4.00), executive managers (3.85), internal auditors (3.62) and board members (3.38). The low score from the latter group suggests that these board members were not fully convinced that weaknesses in their board's governance, if any, are having a crucial influence on the effectiveness of the AC. Table 7.5 shows that 71.1% of the sample as a whole agreed or strongly agreed with this statement, but the level of agreement differed among the groups, from 88.2% in the AC group and 77.2% in the EA group, to 74.3% in the EM group, 64.8% in the IA group and only 57.1% in the BD group.

Approximately 60% of the interviewees felt that weaknesses in board governance may impact on the effectiveness of the audit committee, though half of the interviewees (50%) were confident that there are no such weaknesses in the corporate governance of their board. The general manager of one of the private banks asserted that:

> "There is no weakness in the governance of the board of directors in the bank, and all board committees are independent. I think that the board committees assist the executive management in the decision-making process and facilitate the work of the administration" EM (3-4).

This interviewee's confidence in the independence of his bank's committees is interesting in light of Larbsh's (2010) concern that many boards and committees in Libya lack such independence. Similar confidence was expressed by a board member from a state bank, who explained that:

> "The board applies the code of governance in the bank to the fullest. It has four committees, as stipulated by this code, so there are no weaknesses in the corporate governance practices of the board" BD (1-1).

Others were more willing to acknowledge weaknesses, however. The board chairman from a mixed ownership bank explained that:

> "There is just a shortage in the number of board members. When we have the right number, it will strengthen the corporate governance of the board" BD (1-2).

And the director of internal auditing from one of the state banks commented that:

> "......the code of corporate governance needs to be developed and updated as well from time to time" IA (4-3).

Strong board governance is more likely to promote effective practice within the audit committee, while weak board governance is more likely to have the opposite effect. The audit committee chairman from a mixed ownership bank attempted to explain how weaknesses in board governance can affect the committee:

> "Indeed, this factor impacts on the effectiveness of the audit committee. For example, reports provided by the audit committee to the board of directors will not be considered if there are weaknesses within the board" AC (2-1).

The findings echo many other studies in highlighting the significant impact weaknesses in board governance can have on audit committee effectiveness (e.g. Beasley and Salterio, 2001; Raghunandan and Rama, 2007; Sharma et al., 2009; Braswell et al., 2012). Even though half of the interviewees denied that there are any weaknesses in the corporate governance of their own board, most agreed that this is a crucial inhibiting factor.

7.3.2 Lack of Clear Legal Requirements Governing the AC's Responsibilities

The audit committee's effectiveness may be limited if there are no stringent legal requirements governing its responsibilities or duties (Lin et al., 2008). Saad et al. (2006) call for the AC to be given clear and practical terms of reference and responsibilities by the board. One of the statements was therefore designed to elicit the survey respondents' perceptions on this issue.

Table 7.4 indicates that the statement: "The lack of clear legal requirements governing the AC's responsibilities or duties" recorded a total mean score of 3.44. Breaking the results down by group, it is apparent that the highest group mean for this statement was recorded by the external auditors group (4.03). This was followed by the audit committee members group (3.59), the board members group (3.38), the internal auditors group (3.31) and the executive managers group (3.26). This last score suggests that the executive managers in the sample felt that legal requirements are not crucial for the committee to be effective. Table 7.5 indicates that overall, 51.9% of the survey participants agreed with this statement, but there was a significant

variation between the groups. The EA group showed the highest level of support for the statement (71.4% agreed or strongly agreed), but the remaining groups were much less supportive, with just 58.8% of the AC group, 48.6% of the EM group, 47.6% of the BD group and 45.1% of the IA group expressing agreement.

This overall level of agreement was echoed in the interviews; when asked about the effect the lack of clear legal requirements, 65% of the interviewees agreed that this factor does impact on the effectiveness of the audit committee. Around 35% of the interviewees pointed out that the Libyan CG Code already defines the responsibilities and duties of the audit committee in general terms, but opinions were divided on whether these guidelines are sufficient. More than 55% of the interviewees wanted individual banks to supplement the code with their own written document clearly specifying the responsibilities and duties of the committee.

> "I think that the code of corporate governance issued by the Central Bank of Libya is enough to carry out the responsibilities and duties of the audit committee, though it would be better for the bank to prepare its own written document concerning governance and defining the responsibilities and duties of the audit committee" BD (1-4).

Perhaps not surprisingly, it was an audit committee member who emphasised the urgency of such a clarification, explaining that:

> "This factor actually has an impact on the practice of the audit committee, so there must be regulation in the bank defining the responsibilities and duties of the audit committee because the Governance Code has only determined these responsibilities and duties in general" AC (2-4).

One of the external auditors gave the outsider's perspective, arguing that the main purpose of issuing a written document defining the responsibilities and duties of the audit committee is to ensure accountability:

> "There must be an official document clearly specifying these responsibilities and duties so that the members of the committee can be held accountable for any shortcomings in their work" EA (5-2).

Evidence that more banks are preparing to take this step was provided by the board chairman from one state bank, who commented that:

> "..... the bank will prepare a guide for corporate governance in the bank which determines the responsibilities and duties of the audit committee" BD (1-3).

The results of the survey are broadly consistent with the findings of Saad et al. (2006) and Lin et al. (2008), who found that if audit committees are to be effective, their responsibilities and duties must be clearly stipulated and regulated. The interviewees agreed with this up to a point, though some argued that Libya's Corporate Governance Code already sets out ACs' responsibilities in general terms, and that it is preferable for individual banks to determine for themselves what they want the committee's duties to be. Overall, the survey participants and interviewees highlighted the fact that the lack of legal requirements significantly inhibits ACs' effectiveness.

7.3.3 The Poor Qualifications and Experience of AC Members

One potential obstacle to audit committee effectiveness is the lack of relevant experience and poor qualifications of AC members. A number of researchers have found this to be an issue for the majority of audit committees (Zhang, 2002; Lin et al., 2008), prompting professional bodies to issue guidelines to assist members better to understand the importance of experience and professional qualifications (e.g. FRC, 2012). This factor was therefore the focus of another of the survey statements.

As observed in Table 7.4, the survey respondents as a whole agreed that a lack of qualifications and experience among AC members affects the audit committee's ability to perform its responsibilities and duties (mean score 3.46). The strongest support for this statement came from the external auditors (3.91), followed by the executive managers (3.50), the audit committee members (3.41), the internal auditors (3.35) and the board members (3.00). The last score suggests that a fair number of this group were unconvinced that this factor has an inhibiting effect. Table 7.5 indicates that 60.1% of the sample as a whole agreed or strongly agreed with this statement, but that once again, the level of agreement varied widely across the groups, from 77.2% in the EA group and 70.6% in the AC group to 60.8% in the EM group, 52.3% in the BD group and just 50.7% in the IA group.

In contrast, almost all of the interviewees agreed that this factor affects audit committee effectiveness, though more than half of the interviewees asserted that the members of their audit committee have adequate qualifications and experience. The AC chairman from a mixed ownership bank emphasised the importance of this experience in enabling the committee to perform efficiently:

> "The audit committee cannot carry out its tasks effectively unless its members are qualified and have sufficient experience in the banking industry" AC (2-1).

Others, however, revealed that members of their audit committee have qualifications in unrelated fields. The director of the internal audit department in one state bank explained that:

> “This factor actually affects the practice of the audit committee, so members must offer qualifications and experience, but some members of the board majored away from the banking sector; for instance, one member of the board of directors majored in social science” IA (4-3).

In addition to banking or accounting experience, one of the external auditors highlighted the value of having at least one committee member with a legal background:

> “……there should be a legal person in the committee in order to be familiar with the laws in the banking sector” EA (5-2).

The finding that a lack of relevant qualifications and experience among AC members is an inhibiting factor is consistent with previous studies and the recommendations of professional bodies (e.g. Zhang, 2002; Lin et al., 2008; FRC, 2012). However, the fact that more than half of the interviewees were confident that the members of their AC have adequate qualifications and experience is a positive indicator of the current situation in the Libyan banking sector.

7.3.4 Inadequate Audit Committee Compensation

Several studies have highlighted the fact that the inadequate compensation paid to AC members has an effect on the monitoring processes of these committees (Engel et al., 2010; Bierstaker et al., 2012; Kim and Suk, 2012). Engel et al. (2010) argue that there is a positive link between audit committee compensation and the quality of the audit committee. Accordingly, the participants were given one statement suggesting that inadequate compensation might be an inhibiting factor.

Table 7.4 indicates that this statement recorded a total mean value of 3.17. Breaking the results down by group, it is clear that the highest group mean value for this statement was from the AC group (3.53). This was followed by the EA group (3.46), the BD group (3.14), the IA group (3.13) and the EM group (3.01). Table 7.5 shows that only 34.4% of the survey respondents agreed with this statement. The highest level of support for the statement came from the AC group, with 58.8% agreeing or strongly agreeing, followed by the EA group (45.7%), the BD

group (42.8%), the EM group (29.7%) and the IA group (25.3%). The low scores suggest that a fair number of the participants may not see the inadequate compensation of AC members as a crucial inhibiting factor affecting the practice of the committee.

In contrast, the interviewees seemed much more convinced of the importance of this factor, with 65% agreeing (compared to 34.4% in the survey) that inadequate compensation has impacted on the work of their AC committee. Once again, the difference may come from the fact that the interviewees were senior employees with more experience and knowledge about this issue (45% of the survey participants were uncertain how much impact this factor has). Approximately 40% of these interviewees argued that the compensation paid to AC members is insufficient, about 30% felt that it is adequate, and the rest either did not know or did not respond to this part of the question. The AC chairman from a mixed ownership bank explained that committee members who are paid too little – or not paid at all, as is the case in his bank – may be less inclined to give their duties their full attention:

> "In our bank, there is no compensation for the members of the audit committee. It can affect the committee because the members do not pay enough attention to their responsibilities and duties, and this has an impact on the work of the committee" AC (2-1).

An external auditor made a similar argument for paying AC members properly:

> "Audit committee members should get adequate compensation for their work on the committee as well as their compensation as members of the board, because if they are denied appropriate compensation, they may only do the minimum and only cover obligations required by the board" EA (5-1).

Conversely, the board chairman from a mixed ownership bank disagreed with the view that a lack of compensation impacts on AC practice. He argued that:

> "Although there is currently no compensation for the members of the audit committee in the bank, the board will soon seek approval for compensating the members of the AC as support them, but I do not think this affects its work BD (1-2).

And the director of internal auditing from one of the state banks explained that compensation in his bank is performance-related:

> "…...there is a compensation for the audit committee and it is rewarding, but it depends on the effort of the committee members" IA (4-3).

The interviewees' view (though it was not shared by the majority of survey respondents) that poor compensation is an inhibiting factor is roughly consistent with the findings of many studies (Engel et al., 2010; Magrane and Malthus, 2010; Bierstaker et al., 2012; Kim and Suk, 2012). Campbell et al. (2013) suggest that the compensation paid to AC members can affect both the independence and the effectiveness of the committee. This view was supported by a number of the interviewees, who explained that audit committee members in Libyan banks can face obstacles when it comes to gaining the compensation they need to carry out their responsibilities and duties effectively and that, as a result, many perform only the minimum duties required by the board. This is not surprising; the FRC UK (2012) recommends that the members of audit committees should be awarded suitable payment for bearing a significant responsibility and for being expected to devote a significant amount of time to their work.

7.3.5 Legal and Regulatory Environment

Fernando (2009) argues that the legal environment may have an effect on corporate governance. In developing countries, for example, there may be a corporate governance framework in place, but a slow and ineffective legal system may make enforcing this framework problematic (Nganga et al., 2003). In Libya, it has been argued that the CG framework itself is inappropriate (Abdou, 2015) and flawed (Faraj and El-Firjani, 2014). The potential impact of the legal and regulatory environment on audit committees, as a key mechanism of corporate governance, was therefore the subject of another of the survey statements.

Table 7.4 shows that the overall mean score for the statement: "The weak legal and regulatory environment in Libya" was 3.92. The highest group mean (4.26) came from the EA group. The second strongest agreement came from the AC group (4.11), followed by the BD group (4.00), the EM group (3.95) and finally the IA group (3.66). Table 7.5 shows the distribution of responses to this statement. Across the sample as a whole, 72.9% of respondents agreed with this statement. This was the highest level of agreement for any of the inhibiting factors. Breaking this down by group, the EA group recorded the highest level of support for this statement (82.8%). The second highest level was recorded by the AC group (82.4%), followed by the BD group (76.2%), the EM group (74.3%) and the IA group (63.4%). Based on the results of the last two tables, it seems that the majority of the participants were completely convinced that this is the most influential inhibiting factor on corporate governance, particularly audit committee practice.

Similar support was expressed by the interviewees, with 70% of the participants agreeing that the legal and regulatory environment impacts on corporate governance, particularly audit committee practice. Opinions were divided on the robustness of Libya's legal and regulatory environment, with 65% of the interviewees describing it as weak, and just 35% arguing that it is adequate. There was general agreement, however, that the application of laws in the Libyan environment is not as effective as it should be. The board chairman of one state bank pointed out that:

> "This factor is actually an influential factor. The current legislative environment in Libya is weak; for example, laws are issued without examination of the impact of the legislation, and at the same time, certain aspects of the legislation of Libya's banks are either lacking or need improvement" BD (1-3).

The finding seems to support the view put forward by institutional theory that the AC's role is largely symbolic (Beasley et al., 2009). This is the case in Libya, where the formation of an AC is public evidence of the bank's compliance with the CG Code. The general manager from a mixed ownership bank pointed out that:

> "I think that the legal and regulatory environment affects the committee's practice. The formation of the audit committee may be based on the Code of CG, so the committee's role may only be symbolic, and I also think that the laws relating to the banking sector need to be continuously developed" EM (3-1).

One of the external auditors took a different view, arguing that current legislation is adequate, but that much more guidance needs to be given on how the rules should be applied in practice. He stated that:

> "There are enough rules governing the work of the audit committee and the board of directors in the Corporate Governance Code, but the problem is in the application of the rules – it is not clear how they should be applied, and there are no guidelines for the work of the audit committee" EA (5-1).

Finally, the AC chairman from a mixed ownership bank was critical of the legal environment to the point that:

> "I think that the legal environment…has become an obstacle to the banking business and the work of the audit committee" AC (2-1).

The results confirm the findings of previous studies in showing that the legal environment may have an effect on corporate governance (e.g. Fernando, 2009). The view expressed by a significant proportion of interviewees that weaknesses in the legal and regulatory environment affect corporate governance and consequently audit committee practice in Libya's banking sector is consistent with the findings of Abdou (2015) and Faraj and El-Firjani (2014). Their perception that the enforcement of the laws in the Libyan environment may not be effective is also consistent with the conclusions of Nganga et al. (2003). A number of the interviewees highlighted that the legal environment in Libya requires banks to establish an AC. If these committees are being set up merely to create legitimacy outside the organisation, their role may well end up being symbolic only, as posited by institutional theory.

7.3.6 Weak Accounting Environment

Wu and Patel (2015) identify the accounting environment as having an impact on corporate governance, but in Libya, this environment is still relatively under-developed. Maatoug (2014) and Ahmad and Gao (2004) argue that accounting education in the country is still based on a traditional curriculum, and that it lacks systematic development and does little to support research. El-Firjani et al. (2014), meanwhile, point out that the accounting profession in Libya has failed to reach its objectives regarding the development of accounting practices in the country. In light of these concerns, it was important to identify whether the participants saw this environment as impacting AC effectiveness.

Table 7.4 indicates a total mean value of 3.41 for the statement that: “The weakness of the accounting and auditing profession in Libya” is a factor inhibiting AC effectiveness. Breaking the results down by group, it is clear that the highest group mean for this statement was recorded by the board members (3.67). The second highest group mean was recorded by the audit committee members (3.65), followed by the external auditors (3.51), the internal auditors (3.45) and lastly the executive managers (3.19). Table 7.5 shows that 55.1% of the survey participants as a whole agreed or strongly agreed with this statement. The BD group showed the highest level of support for the statement, with 71.5% agreeing or strongly agreeing. This was followed by the IA group (57.8%), the AC group (52.9%), the EA group (51.5%) and the EM group (50.0%).

The interviewees showed a similar level of support for the statement, with approximately 60% agreeing that the weakness of Libya’s accounting and auditing profession affects corporate governance and audit committees in particular in Libya’s banking sector. Asked how this

weakness manifests itself, an audit committee chairman from a mixed ownership bank explained that:

> “The weakness of the accounting and auditing profession in Libya certainly affects the work of the audit committee. For example, sometimes the internal auditors produce very weak reports in terms of content because those auditors may lack the necessary qualifications” AC (2-1).

The general manager from a mixed bank gave another example of how poor quality accounting adversely affects audit committee practice. He argued that:

> "This factor actually affects governance and audit committee practice, because weaknesses in the accounting profession may lead to serious errors being made in the bank’s accounting practice, and possibly to the provision of false information to the audit committee. This may lead to bad decisions being made based on this misinformation" EM (3-1).

Conversely, the audit committee chairman from a state bank explained that having skilled accountants working for the bank facilitates the committee’s oversight role:

> ".......when the accountants and auditors in the bank are more highly qualified, the audit committee’s monitoring and oversight process is easier" AC (2-3).

Accounting education in Libya has been criticised by Alfatiemy (2013), who argues that there are too few qualified accounting academics in the country’s universities, poor vocational training for students, and a lack of research to support effective teaching and learning. His criticisms were echoed by one board member from a mixed ownership bank, who complained about the standard of accounting education in universities:

> "......the weaknesses in the accounting and auditing profession are the result of the weakness of accounting education in universities and the lack of adequate training programmes in the bank, and also the non-application of the International Accounting Standards and the International Standards on Auditing" BD (1-4).

Masli (2010) also criticises the accounting education system in Libya, explaining that it relies on indoctrination rather than critical reflection, and that faculty members don’t have access to the technology that would help them improve their teaching practice. One of the external auditors pointed out that:

> "Most of the accounting curriculum in Libyan universities has not kept pace with the evolution of accounting in the international context, which requires continuous development. For example, students in their final year should be trained in real-life institutions, such as banks, to gain the experience they need to be able to work" EA (5-2).

Not everyone was critical of the training offered by Libya's banks, however; one board member from a state bank spoke of the special care that has been taken in his bank to train employees in Islamic banking practices.

> "The majority of employees have been developed by the bank, with many employees being sent abroad for training, especially in the field of Islamic banking. The Nomination Committee oversees this aspect effectively. I think that the training has been effective and therefore, this factor has not had an effect at this bank" BD (1-1).

These findings are consistent with the view that corporate governance is impacted by the accounting environment, including the weakness of the accounting and auditing profession (Fernando, 2009). This is the first study to investigate the impact of this weakness on ACs in particular. Some interviewees highlighted how it reduces the AC's effectiveness by leaving it reliant on weak reports and inaccurate information. Their criticisms of the old fashioned university curriculum echo those expressed by Alfatiemy (2013), Masli (2010) and Ahmad and Gao (2004), while their observation that practitioners generally fail to apply international accounting and auditing standards is consistent with the finding of El-Firjani et al. (2014) that the profession has not achieved its stated objective of developing accounting practice.

7.3.7 Government Intervention

The political structure in Libya and the fact that the government is the controlling shareholder in many of the country's corporations mean that there is a high degree of government intervention in the banking sector (Wu and Patel, 2015). For example, managers may be under pressure to use up capital, to avoid taking certain profit-maximising risks, and to stabilise employment (Roe, 2003). The state remains the largest shareholder in most firms, thus controlling the economy, often at the expense of other shareholders (Larbsh, 2010; Abdou, 2015). The survey respondents were therefore given a statement which was designed to investigate the effect government intervention has on audit committees in the banking sector.

As may be observed in Table 7.4, the respondents generally expressed agreement with the statement that: "Government intervention in the banking sector, especially from the Central

Bank" is an inhibiting factor, giving it a total mean score of 3.70. The highest group mean for this statement was recorded by the executive managers group (3.77). This was followed by the internal auditors group (3.70), the external auditors group (3.66), the audit committee members group (3.59) and the board members group (3.57). It is interesting that the lowest scores came from the board members and the audit committee members, as these groups might be expected to be most aware of the effect of this factor on AC practice. Table 7.5 shows that 64.2% of all the participants agreed with this statement, with the EM group indicating the highest level of support (73.0%), followed by the EA group (65.7%), the AC group (64.7%), the IA group (59.1%) and the BD group (47.6%).

When asked generally whether there is government intervention in the sector, especially from the Central Bank of Libya (CBL), 75% of the interviewees agreed. Fifty per cent of the interviewees felt that this intervention may impact on corporate governance and audit committee practice, while only 20% asserted that this intervention does not impact on them. The board chairman from one of the state banks described his objections to the CBL intervention, which he saw as interference. He argued that the job of the CBL is to act as a general regulator of the sector rather than to involve itself in the day-to-day affairs of individual banks.

> "There has been a lot of intervention in the work of the bank by the CBL in recent times. The CBL owns 80% of the bank, but this does not justify its interference in the affairs of the bank. Its role should be to regulate and supervise the activities of banks, and this intervention has an impact on the bank and its corporate governance" BD (1-3).

The view that such intervention impacts on AC practice was echoed by the AC chairman from the same state bank:

> "The intervention of government and the Central Bank in the work of the bank certainly affects the practices of the audit committee; as an integral part of the bank, any impact on the bank will also affect the audit committee" AC (2-3).

The director of the internal audit department from a mixed ownership bank complained that many of the CBL's interventions take the form of measures and regulations that are not practicable.

> "In my opinion, there is too much intervention from the Central Bank in the work of banks; it issues decisions and rules which are not feasible, particularly in relation to corporate governance" IA (4-4).

Another typical example of government intervention is its interference in the appointment of senior positions such as board chairman. This can impact on the board of directors and its decision making (including the selection of AC members). An executive manager in a mixed ownership bank gave this example of government intervention in his organisation:

> "In my opinion, government intervention has an impact on the banking business and corporate governance and it needs to be limited. For example, the government has forced us to allow a foreign investor to become a partner of the bank. This partner has a 19% share of the bank's stock, with the chairman of the board of directors and the general manager" EM (3-3).

However, while the majority of interviewees believed that there is at least some degree of government intervention in the banking sector, one external auditor took a different view. He argued that:

> "From my experience, I do not think that there is intervention from the government, especially from the Central Bank, except as provided for by law. This intervention is justified, given that the role of the Central Bank is to monitor all the banks and supervise their activities, but it has no effect on the work of the audit committee" EA (5-1).

The findings echo other studies in suggesting that government intervention can have an adverse impact on firms' CG, including the performance of their AC (e.g. Roe, 2003; Hwang and Seo, 2004; Wu and Patel, 2015; Iswaissi and Falahati, 2017). Despite this, a number of the interviewees saw the intervention of the Central Bank of Libya (CBL) as justified, given that its role is to monitor and supervise the activities of all banks.

7.4 Discussion of the Results

There was a general consensus among the survey respondents that most of the identified enabling factors do indeed have a positive impact, though support was less strong (though not to a statistically significant degree) from the executive managers group in several instances. The lower overall group mean (3.49) recorded by this group suggests it did not see some of these factors as very influential. The findings from the survey were supported by those from the interviews, with both generally supporting agency theory's assumption that the AC's job is

to play a practical monitoring role. The view expressed by survey respondents that at least some AC members should have expertise in the accounting field is consistent with the findings of DeFond et al. (2005) and Ho et al. (2014), who argue that some level of financial expertise is necessary if the committee is to be able to read and understand the financial statements (Maraghni and Nekhili, 2014). Researchers and regulators have also drawn the link between committee size and effectiveness (Albring et al., 2014), with the view among many being that the AC must have at least three members if it is to perform effectively (FRC, 2014; Utama and Leonardo, 2014). The importance attributed to the third-ranked statement ("The AC meets regularly enough to perform its responsibilities") echoes the emphasis placed by many regulatory bodies and researchers on the committee meeting between two and four times per year (Smith, 2003; Burke et al., 2008; Hogan et al., 2014; Ebrahim, 2007; Ali, 2014), while the principle underlying the fourth-ranked statement ("The AC has adequate authority and influence to carry out its duties and responsibilities") is addressed in regulations such as SOX (2002) and the UK Combined Code (FRC, 2003).

Access to information at all levels of management was regarded as the fifth most influential factor, with the independent status of AC members being ranked sixth. The relatively low level of support given to this factor contrasts starkly with the insistence of many researchers that the AC must be made up of non-executive and independent directors if it is to carry out its responsibilities and duties properly (Collier and Zaman, 2005; Lin et al., 2006; Rezaee, 2009). The lowest ranked factor was the diligence of committee members; although the survey respondents agreed that this is an enabling factor in the work of the AC, they felt less strongly about this than they did about any of the other factors. Many of the respondents were not entirely convinced that ACs are effective. If they attribute this lack of effectiveness to the prevailing environment and the larger structural forces that surround ACs, it may explain why they saw the commitment of individual committee members as being less significant. The fact that the interviewees were more likely than the survey respondents to see the committee's authority and access to information as significant enabling factors may be due to their being senior employees and therefore more likely to observe the impact of these factors at first hand.

The survey respondents were slightly less agreed on the factors that adversely impact banks' CG and AC effectiveness, with the external auditors group differing significantly from the other groups. This group had the highest total mean score for the seven inhibiting factors, suggesting it considered these factors to be more significant than the other groups did. Most of the interviewees agreed that the identified factors adversely impact AC effectiveness, with the

majority echoing the survey respondents in seeing the weakness of the legal and regulatory environment as the strongest inhibiting factor. This is consistent with Abdou's (2015) finding that the legal, regulatory and institutional environment underpinning Libya's CG framework is inadequate. Fernando (2009) also points to the effect the legal environment can have on CG. In the current environment, ACs are legally required but allowed to remain mostly symbolic – they are established to demonstrate compliance with the Libyan CG Code (2010) and maintain legitimacy (as per institutional theory) rather than to perform a substantive function.

Numerous writers and regulators have pointed to weaknesses in board governance (e.g. in terms of the board's independence, meetings and size) as another crucial factor that can affect AC effectiveness (e.g. Raghunandan and Rama, 2007; Sharma et al., 2009; Braswell et al., 2012), and the responses of the survey participants suggest that this is also a concern in Libyan firms (Larbsh, 2010). The third-ranked factor – the suggestion that political intervention adversely affects CG in Libya – has previously been noted by Larbsh (2010) and Abdou (2015). Researchers have observed that such intervention poses a particular threat to CG in state-owned corporations where the government is one of the main stakeholders (Pučko, 2005; Wu and Patel, 2015), as is the case in many banks in the Libyan banking sector. Some of the interviewees expressed concern that government intervention in this sector extends to the appointment even of senior positions such as board chairman, with profound consequences for boards, ACs, and their decision making. Institutional theory may give some insight into these concerns; it may be that these interviewees were worried that they are being required to adopt practices and follow externally imposed regulations before they are properly prepared.

The concern underlying the fourth-ranked statement (the poor qualifications and experience of AC members) has been discussed by a range of regulatory bodies and researchers, such as the UK's FRC (2012) and Bedard and Gendron (2010). The lack of clear legal requirements governing the AC's responsibilities or duties was considered the fifth most influential inhibiting factor (consistent with the findings of Saad et al. (2006) and Lin et al. (2008)), with the weakness of the accounting and auditing profession being ranked sixth. This is consistent with Alfatiemy (2013) and Ahmad and Gao (2004), who argue that a national lack of expertise in accounting, financial reporting and auditing is affecting accounting and auditing practices in Libya (Wu and Patel, 2015). The inadequate compensation given to AC members was ranked lowest by the survey respondents overall, with many indicating a lack of certainty or concern about the potential impact of this factor. Researchers have shown more interest in this factor, with several investigating the effect of compensation on the monitoring work of ACs (e.g.

Engel et al., 2010; Magrane and Malthus, 2010; Malik, 2014). Survey comments in the study suggested that inadequate compensation can pose a problem for some AC members, depending on their motivation for doing the job, but no one admitted to being in this category themselves. The interviewees were more likely than the survey respondents to see inadequate compensation as a significant inhibiting factor, perhaps because, as senior employees, they were more likely to have experience and knowledge about this issue.

7.5 Summary

The purpose of this chapter is to contribute to the literature by investigating the main factors that enable and inhibit the effectiveness of ACs in the Libyan banking sector, as identified in the conceptual framework. There was a general consensus among the survey participants and interviewees that the identified enabling factors have a positive effect on AC practice in the banking sector. They agreed that the committee is more likely to perform this task effectively if: it has at least three members; these members are non-executive/independent directors, at least some of whom have expertise in the accounting field; it meets regularly; it has the authority it needs to carry out its duties; it has access to information at all levels of management; and AC members devote adequate time and effort to the work of the committee. The consensus was almost as strong that AC practice in the Libyan banking sector is inhibited by the weak legal and regulatory environment in Libya, weaknesses in board governance, the poor qualifications and experience of AC members, the lack of clear legal requirements governing the AC's responsibilities, the weakness of the accounting and auditing profession, and the inadequate compensation paid to AC members. The following chapter discusses the findings regarding actions that might be taken to improve the effectiveness of ACs.

Chapter 8. Analysing the Actions to Enhance AC Effectiveness

8.1 Introduction

As set out in the study's conceptual framework, the identification of actions that could be taken to improve AC practice follows on from the exploration of the factors impacting on this practice. Taking the inhibiting factors identified in Chapter 7 as a starting point, seven statements were devised describing actions that might be taken to address these seven challenges and improve the effectiveness of AC in Libya's banking sector so that they are better able to protect the interests of shareholders.

8.2 Enhancing the Effectiveness of the AC

The participants were asked to indicate the extent to which they agreed that the actions described in the statements might boost AC effectiveness. Table 8.1 indicates that the majority of the participants agreed that most of these actions would enhance the effectiveness of ACs. Statement 6 ("The accounting and auditing profession in Libya should be strengthened to help governance systems operate more effectively.") scored highest, with a total mean score of 4.35. This was followed in descending order by statement 3 ("AC members should be appointed based on their experience and qualifications" – 4.19), statement 2 ("Strict legal requirements should be put in place to compel ACs to perform their responsibilities and duties effectively" – 4.16), statement 1 ("Boards should do more to support ACs in performing their responsibilities and duties" – 4.12), statement 5 ("The legal and regulatory environment in Libya should pay more attention to corporate governance and ACs" – 3.98), statement 4 ("AC members should be sufficiently compensated for performing their responsibilities" – 3.95) and statement 7 ("Government intervention should not be allowed to impact negatively on corporate governance and AC practice" – 3.78). The Cronbach's Alpha for this scale was found to be 0.88.

The BD group produced the highest total mean score for the seven statements (4.22). This was followed by the EA group (4.20), the AC group (4.12), the EM group (4.05) and lastly the IA group (4.00). The fact that all of the total group means are high indicates a strong belief across the board that these actions would enhance the effectiveness of ACs in the Libyan banking sector.

The board members in the sample considered the appointment of AC members according to their experience and qualifications to be the action most likely to enhance the effectiveness of

AC practice, awarding this a score of 4.57. This was followed by increased board support, which scored 4.29. Strengthening the accounting and auditing profession was scored third (4.24). Improving the legal and regulatory environment was scored fourth (4.19), while preventing damaging government intervention was scored fifth (4.14). Sufficient compensation for AC members was scored joint sixth (4.05), while strict legal requirements were considered the action least likely to enhance the effectiveness of ACs (3.95). It is interesting to note that all these scores are high.

Like the BD group, the AC group thought that appointing AC members according to their experience and qualifications is the most important action to enhance AC effectiveness; however, unlike the BD group, AC members also felt that it is vital to institute strict legal requirements governing ACs. Both statements were given a score of 4.29. They were followed by strengthening the accounting and auditing profession, which scored 4.18. Board support was scored joint third (4.12), while sufficient compensation and preventing damaging government intervention were scored joint fourth (4.06). Improving the legal and regulatory environment was considered the least most important in enhancing the effectiveness of ACs (3.82). Like the board members, the respondents in the AC group gave all of these actions high values.

The executive managers saw strengthening the accounting and auditing profession as the most crucial action to enhance AC effectiveness (4.51). This group scored strict legal requirements as the second most important (4.22), followed by the appointment of AC members according to their experience and qualifications (4.11) and board support (4.08). Sufficient compensation for AC members, improving the legal and regulatory environment and preventing damaging government intervention were considered the least important actions (3.88, 3.86 and 3.66 respectively).

The internal auditors group followed the executive managers group in scoring strengthening the accounting and auditing profession highest (4.24). It scored strict legal requirements as the second most influential action (4.10) followed by board support (4.04) and appointing AC members according to their experience and qualifications (4.00). It also followed the EM group in scoring sufficient compensation for AC members, improving the legal and regulatory environment and preventing damaging government intervention as the least influential actions (3.96, 3.94 and 3.69 respectively).

Lastly, the external auditors group followed the BD and AC groups in scoring the appointment of AC members according to their experience and qualifications as the most influential factor

(4.49), and the AC group in scoring strengthening the accounting and auditing profession as the second most influential (4.37). This was followed by board support (4.29), improving the legal and regulatory environment (4.26) and strict legal requirements (4.23). Sufficient compensation for AC members and preventing damaging government intervention (3.94 and 3.83 respectively) were regarded as the least important factors for enhancing AC effectiveness.

Table 8.1 Descriptive Statistics on Actions to Enhance the Effectiveness of ACs

No	Statements	Group Means					Total Mean Score	Median	Standard Deviation	Rank	Cronbach's Alpha
		BD	AC	EM	IA	EA					
1.	Boards should do more to support ACs in performing their responsibilities and duties.	4.29	4.12	4.08	4.04	4.29	4.12	4.00	0.93	5	0.88
2.	Strict legal requirements should be put in place to compel ACs to perform their responsibilities and duties effectively.	3.95	4.29	4.22	4.10	4.23	4.16	4.00	0.88	4	
3.	AC members should be appointed based on their experience and qualifications.	4.57	4.29	4.11	4.00	4.49	4.19	5.00	1.08	2	
4.	AC members should be sufficiently compensated for performing their responsibilities.	4.05	4.06	3.88	3.96	3.94	3.95	4.00	0.89	7	
5.	The legal and regulatory environment in Libya should pay more attention to corporate governance and ACs.	4.19	3.82	3.86	3.94	4.26	3.98	4.00	1.05	6	
6.	The accounting and auditing profession in Libya should be strengthened to help governance systems operate more effectively.	4.24	4.18	4.51	4.24	4.37	4.35	4.00	0.73	1	
7.	Government intervention should not be allowed to impact negatively on corporate governance and AC practice.	4.14	4.06	3.66	3.69	3.83	3.78	4.00	1.05	8	
Overall Group Means		4.22	4.12	4.05	4.00	4.20	4.08	-	-	-	

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

Table 8.2 indicates how the participants' responses to this question were distributed. Across the sample as a whole, statement 6 (strengthening the accounting and auditing profession) scored highest, with 92.6% of the sample saying they agreed or strongly agreed with this statement. Statement 2 scored second highest, with 85.8%, followed by statement 3 (84.0%), statement 1 (79.4%), statement 5 (77.8%), statement 4 (74.8%) and statement 7 (68.3%). The latter

statement suggests that government intervention, particularly from the Central Bank of Libya, should not be allowed to impact negatively on corporate governance and AC practice. One possible reason why this statement obtained such a low score compared with the other statements may be that a number of the respondents felt that this intervention is justified because the government and the Central Bank are ultimately responsible for organising and supervising the banking sector.

Table 8.2 Frequency Distribution of Responses on Enhancing AC Effectiveness

No	Statements	Board Members N = 21			AC Members N = 17			Executive Managers N = 74			Internal Auditors N = 71			External Auditors N = 35			Total N = 218		
		D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %	D %	U %	A %
1.	Boards should do more to support ACs in performing their responsibilities and duties.	0.0	9.5	90.5	5.9	11.8	82.4	6.8	17.6	75.7	4.2	19.7	76.0	2.9	11.4	85.7	4.6	16.1	79.4
2.	Strict legal requirements should be put in place to compel ACs to perform their responsibilities and duties effectively.	9.5	9.5	80.9	0.0	17.6	82.4	6.8	4.1	89.1	4.2	11.3	84.5	5.7	8.6	85.8	5.5	8.7	85.8
3.	AC members should be appointed based on their experience and qualifications.	0.0	0.0	100.0	0.0	17.6	82.4	17.6	0.0	82.4	14.1	7.0	78.8	5.7	5.7	88.5	11.5	4.6	84.0
4.	AC members should be sufficiently compensated for performing their responsibilities.	4.8	14.3	81.0	0.0	17.6	82.3	4.1	25.7	70.3	7.0	18.3	74.7	5.7	17.1	77.2	5.1	20.2	74.8
5.	The legal and regulatory environment in Libya should pay more attention to corporate governance and ACs.	0.0	14.3	85.7	5.9	23.5	70.6	20.5	4.1	75.3	12.7	11.3	76.1	8.6	5.7	85.7	12.9	9.2	77.8
6.	The accounting and auditing profession in Libya should be strengthened to help governance systems operate more effectively.	0.0	9.5	90.4	0.0	5.9	94.1	1.4	4.1	94.6	2.8	5.6	91.5	2.9	5.7	91.4	1.9	5.5	92.6
7.	Government intervention should not be allowed to impact negatively on corporate governance and AC practice.	4.8	4.8	90.5	0.0	23.5	76.5	23.0	12.2	64.8	12.7	22.5	64.8	11.4	22.9	65.7	14.3	17.4	68.3

D: Strongly disagree and disagree **U:** Uncertain **A:** Strongly agree and agree

Although the majority of the survey participants as a whole considered strengthening the accounting and auditing profession to be the action most likely to boost the effectiveness of ACs in Libyan banks, the Kruskal-Wallis test indicated a statistically significant difference between the groups on this statement (p-value 0.02) (see Table 8.3). The Mann-Whitney test showed that the differences were between the EM group and the BD (0.04), AC (0.01) and IA groups (0.01). The Kruskal-Wallis test found no significant differences across the sample as a whole for the other statements, though the Mann-Whitney test showed that there were in fact significant differences among groups with respect to statement 3 (between the EA group and the EM (0.04) and IA groups (0.01)) and statement 5 (between the EA group and the AC (0.05) and IA groups (0.05)). The significantly higher level of support shown for these statements by the EA group may be because this group is arguably the best placed to see the positive impact the actions might have.

Table 8.3 Comparisons Between Groups on Enhancing AC Effectiveness

NO	Statements	Kruskal-Wallis	Mann-Whitney Test - P-values									
			BD-AC	BD-EM	BD-IA	BD-EA	AC-EM	AC-IA	AC-EA	EM-IA	EM-EA	IA-EA
1.	Boards should do more to support ACs in performing their responsibilities and duties.	0.72	0.64	0.64	0.43	0.67	0.94	0.86	0.40	0.71	0.32	0.176
2.	Strict legal requirements should be put in place to compel ACs to perform their responsibilities and duties effectively.	0.41	0.22	0.10	0.44	0.19	0.96	0.42	0.87	0.18	0.87	0.38
3.	AC members should be appointed based on their experience and qualifications.	0.05	0.30	0.22	0.06	0.48	0.90	0.52	0.13	0.39	0.04*	0.01*
4.	AC members should be sufficiently compensated for performing their responsibilities.	0.85	0.90	0.38	0.83	0.84	0.47	0.95	0.96	0.38	0.45	0.99
5.	The legal and regulatory environment in Libya should pay more attention to corporate governance and ACs.	0.20	0.27	0.50	0.50	0.26	0.60	0.55	0.05*	0.92	0.05	0.05*
6.	The accounting and auditing profession in Libya should be strengthened to help governance systems operate more effectively.	0.02*	0.69	0.04*	0.79	0.25	0.01*	0.46	0.12	0.01*	0.39	0.21
7.	Government intervention should not be allowed to impact negatively on corporate governance and AC practice.	0.34	0.64	0.13	0.05	0.42	0.30	0.21	0.69	0.87	0.47	0.38

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

In order to gain insight into the extent to which they were perceived as enhancing the effectiveness of ACs in Libya's banking sector, these actions that might be taken to improve their effectiveness are discussed separately in the following sections.

8.2.1 Developing and Strengthening the Accounting and Auditing Profession

As observed in Table 8.1, the sample as a whole saw strengthening the accounting and auditing profession as the best way of improving the effectiveness of ACs. The overall group mean for this action was 4.35, with the strongest support being shown by the executive managers (4.51), followed by the external auditors (4.37), the internal auditors (4.24), the board members (4.24) and the audit committee members (4.18). Table 8.2 indicates that 92.6% of the sample as a whole agreed or strongly agreed with this step. The level of agreement varied little among the groups, from 94.6% in the EM group and 94.1% in the AC group, to 91.5% in the IA group, 91.4% in the EA group and 90.4% in the BD group.

The overwhelming majority of interviewees (85%) felt that developing the accounting and auditing profession in Libya is crucial. In this respect, they echo Hamuda and Sawan (2014) and Faraj and El-Firjani (2014), who argue that Libya's ability to implement the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRS) is being hampered by a lack of relevant training programmes, lack of awareness and skills among accounting professionals and weak governance mechanisms. The interviewees offered several suggestions for raising standards in the profession, including creating a professional association or union, implementing international standards, training bank staff (particularly internal auditors) and developing accounting curricula in Libyan universities. The board chairman from a mixed ownership bank saw several ways in which a professional association might raise the level of expertise in the banking sector:

> "There is a need to form an association or union that is able to develop and improve the accounting and auditing profession itself, to train bank staff and to develop the banking business" BD (1-2).

A board member from the same mixed ownership bank had two suggestions for how the profession might be developed:

> "The Central Bank should compel all banks to apply international standards for accountants properly, and to develop and train internal auditors in order to increase the effectiveness of the bank's corporate governance" BD (1-4).

The training of internal auditors would do much to strengthen the profession; Abu-Azza (2012) found that internal auditors in Libyan companies generally have low levels of experience in auditing, and that little emphasis is given to those aspects of the internal audit role that are associated with promoting efficiency and effectiveness of the organisation. The director of internal auditing from a state bank highlighted the particular importance of employing staff with internationally recognised qualifications:

> "Human resources in the banks must be developed properly, particularly in the internal audit department, for example by employing people who have an internationally recognised professional certificate in internal auditing" IA (4-3).

Maatoug (2014), Faraj and El-Firjani (2014) and Ahmad and Gao (2004) all argue that accounting education in Libya is still based on traditional curricula and that it lacks systematic development and does little to support research. An external auditor also acknowledged the importance of high-quality training, explaining that as this begins with the universities, it is incumbent on these institutions to ensure they stay up to date with developments in the field.

> "Science curricula in the Libyan universities should keep pace with the evolution of accounting, and then employees in the banks can be trained to apply corporate governance mechanisms effectively" EA (5-2).

Although a number of studies have observed that the accounting profession in Libya has not succeeded in achieving its objective of developing corporate accounting practice (e.g. El-Firjani et al., 2014; Ahmad and Gao, 2004; Larbsh, 2010), this is the first study to draw a link between the weakness of the profession and AC effectiveness. It suggests that raising standards among accounting and auditing professionals would enhance the quality and reliability of the information supplied to the AC and allow it to perform more efficiently.

8.2.2 Appointment of AC Members According to their Experience and Qualifications

As seen in Table 8.1, the survey sample as a whole agreed with the statement: "AC members should be appointed based on their experience and qualifications," recording a total mean score of 4.19. Breaking the results down by group, it is apparent that the highest group mean for this step was recorded by the board members group (4.57). This was followed by the external auditors group (4.49), the audit committee members group (4.29), the executive managers group (4.11) and the internal auditors group (4.00). Table 8.2 shows that 84.0% of the survey participants agreed with this step. The BD group showed the highest level of support, with 100% agreeing or strongly agreeing. This was followed by the EA group (88.5%), the AC group and

the EM group (both 82.4%) and the IA group (78.8%). It is worth noting that the two tables show no significant differences between the groups in terms of rank order.

When the interviewees were asked what criteria should be adopted when appointing audit committee members, Three-quarters (75%) said that the choice should be based on whether the appointee has the qualifications and experience necessary to serve the committee effectively and enhance its performance. An executive manager from a state bank argued that these should in fact be the criteria for appointing all board members, not just members of the AC:

> "The selection of board members as well as members of the audit committee should be in accordance with specific criteria to serve and enhance the work of the audit committee" EM (3-2).

However, one Libya-based study has found that in practice, board members in the country are generally chosen not for their abilities or expertise but because of personal contacts and favouritism (Shalba, 2016). This is an issue that needs to be addressed if ACs are to perform their responsibilities and duties effectively. This view was echoed by an audit committee member from a mixed ownership bank:

> "The selection of board members, including the members of the audit committee, should be based on their skills and qualifications to ensure the success of the work of the audit committee" AC (2-2).

Shalba (2016) recommends that favouritism and the intrusion of personal relationships into the selection process must be eliminated by the Central Bank of Libya issuing the appropriate legislation. In the same vein, an external auditor suggested that banks develop a formal set of criteria for AC appointees:

> "The appropriate way to choose the members of the audit committee is by defining specifications for them, including for example qualifications, experience, age and other factors" EA (5-1).

The finding that AC members should be appointed based on their experience and qualifications is consistent with the recommendation of the Sarbanes-Oxley Act (2002) and the UK Guidance on ACs (FRC, 2012). The interviewees asserted that the appointment of AC members should be based on specific criteria, such as qualifications, experience and skills, to ensure the success of audit committee practice.

8.2.3 Legal Requirements Governing the Responsibilities of ACs

As observed in Table 8.1, the sample as a whole agreed with the statement: “Strict legal requirements should be put in place to compel ACs to perform their responsibilities and duties effectively.” The statement recorded a total mean score of 4.16. Breaking the results down by group, the highest group mean for this step was recorded by the audit committee members group (4.29). This was followed by the external auditors group (4.23), the executive managers group (4.22), the internal auditors group (4.10) and the board members group (3.95). Table 8.2 indicates that 85.8% of the survey participants agreed with this step. The EM group showed the highest level of support, with 89.1% agreeing or strongly agreeing, but this was followed closely by the EA group (85.8%), the IA group (84.5%), the AC group (82.4%) and the BD group (80.9%). Thus, the results from the questionnaire suggest a high level of agreement right across the sample that implementing this measure would improve the effectiveness of ACs.

The interviewees also expressed strong agreement with this measure, with 75% calling for legal requirements to be put in place. The board chairman from one mixed ownership bank was unequivocal, commenting:

> "In my opinion, the state or the Central Bank must establish strict controls, regulations and legislation to support corporate governance and audit committees in Libyan banks" BD (1-2).

The importance of establishing clear terms of reference for the AC is emphasised by Saad et al. (2006). These authors add that the charter setting out the committee’s responsibilities should preferably be disclosed in the financial statements in order to assist shareholders in evaluating its performance. A general manager from another mixed ownership bank argued that:

> “In my view, there should be a written document produced by the bank itself determining the duties and responsibilities of the audit committee, and this needs to be updated and developed from time to time” EM (3-1).

The results confirm the findings of previous studies in indicating that the institution of legal requirements governing the responsibilities of audit committees would enhance the effectiveness of these committees (e.g. Saad et al., 2006; Lin et al., 2008). The interviewees showed a high level of support for the idea that there should be a written document determining the responsibilities and duties of the audit committee.

8.2.4 Board Support

As shown in Table 8.1, the sample as a whole agreed with the statement: "Boards should do more to support ACs in performing their responsibilities and duties," giving it a total mean score of 4.12. Breaking the results down by group, the highest group mean for this step was recorded by the board members group and the external auditors group (both 4.29). This was followed by the audit committee members group (4.12), the executive managers group (4.08) and the internal auditors group (4.04). Table 8.2 shows that 79.4% of the survey participants agreed with this step. The BD group showed the highest level of support, with 90.5% agreeing or strongly agreeing. This was followed by the EA group (85.7%), the AC group (82.4%), the IA group (76.0%) and the EM group (75.7%). Notwithstanding this variation, there was strong support for the measure across the five groups in the sample.

Similar support for this step was expressed by the interviewees, a number of whom suggested that audit committee practice would be enhanced by the board supporting the independence of the committee. An internal auditor from a mixed ownership bank explained that:

> "…the board of directors should help the audit committee overcome the problems and difficulties it faces so that it can carry out its tasks and responsibilities independently" EM (4-1).

An executive manager from another mixed ownership bank went further, arguing that the obligation to support the work of the AC rests not just with the board but with the general assembly:

> "In my opinion, the general assemblies and boards of directors in Libyan banks should consider how to strengthen the practice of audit committees and consider the obstacles facing these committees" EM (3-3).

The finding that boards should do more to support ACs in performing their responsibilities and duties is consistent with the recommendations of several professional bodies (e.g. FRC, 2012). Most of the interviewees felt that the board should help the audit committee overcome any problems and that it should remove any obstacles to its independence.

8.2.5 Improving the Legal and Regulatory Environment

As noted in Table 8.1, the sample as a whole agreed with the statement: "The legal and regulatory environment in Libya should pay more attention to corporate governance and ACs," recording a total mean score of 3.98. Breaking the results down by group, the highest group mean for this step was recorded by the external auditors group (4.26), followed by the board

members group (4.19), the internal auditors group (3.94), the executive managers group (3.86) and the audit committee members group (3.82). Table 8.2 indicates that 77.8% of the survey respondents agreed with this step. The BD and EA groups showed the highest level of support, with 85.7% of each group agreeing or strongly agreeing. This was followed by the IA group (76.1%), the EM group (75.3%) and lastly the AC group (70.6%). It should be noted that the lowest level of support for this step came from the AC group, suggesting that audit committee members themselves, while acknowledging its importance, do not see this as one of the most crucial measures for supporting effective AC practice.

When the interviewees were asked what actions can be taken to enhance the effectiveness of ACs, most suggested that the legal and regulatory environment in Libya should pay more attention to corporate governance and audit committees, and that current rules and guidelines regarding these committees should be reviewed. However, while acknowledging the need for change, some interviewees were concerned about the Central Bank of Libya implementing new legislation without considering its potential impact on the sector. A board member from one mixed ownership bank therefore suggested that the Central Bank should seek advice from others to ensure that any legislative or regulatory changes support rather than hinder the work of banks:

> "The Central Bank should create the right environment for the banking business and not issue any legislation or regulations that adversely affect the work of banks. It should use advisers and experts to assist it in making decisions and issuing appropriate regulations and legislation" BD (1-4).

The director of the internal audit department from another mixed ownership bank explained that the legal environment in general needs to improve:

> "The legal environment for banks is very weak especially with regard to governance, which affects the bank's overall performance, with consequent effects on governance and the audit committee, and therefore the laws and governance code, in particular, need to be updated" IA (4-4).

The findings echo many other studies in highlighting that the legal and regulatory environment in Libya needs to pay greater attention to corporate governance and ACs (e.g. Larbsh, 2010; Faraj and El-Firjani, 2014). Although some interviewees were concerned about the Central Bank of Libya implementing legislation without considering its potential impact on the sector, most saw it as essential to enhance the effectiveness of audit committees and corporate governance in general.

8.2.6 Sufficient Compensation for AC Members

Table 8.1 shows that the sample as a whole agreed with the statement: "ACs should be sufficiently compensated for performing their responsibilities," giving it a total mean score of 3.95. Breaking the results down by group, the highest group mean for this step was recorded by the audit committee members (4.06). This was followed by the board members (4.05), the internal auditors (3.96), the external auditors (3.94) and the executive managers (3.88). Table 8.2 shows that 74.8% of the survey participants agreed with this step. The AC group showed the highest level of support, with 82.3% agreeing or strongly agreeing. This was followed by the BD group (81.0%), the EA group (77.2%), the IA group (74.7%) and the EM group (70.3%). It is worth noting that the executive managers group recorded the lowest level of support, suggesting that this group does not see compensation as the key to improving AC effectiveness.

Most of the interviewees (70%) agreed that ACs are more likely to perform their responsibilities effectively if their members are compensated adequately. The AC chairman from a state bank expressed his concern that his committee members are not paid enough for the amount of time and energy they expend on their duties:

> "In my opinion, the compensation of audit committee members in the bank is inadequate, and this may be affecting the committee's work. The work of the audit committee is different from the rest of the other committees of the board; the work of these committees is probably seasonal, while the work of the audit committee brings its members into sometimes daily contact with the internal auditors and executive managers. Therefore, the committee's members should be compensated for the effort and time they put in" AC (2-3).

A board member from another state bank echoed this interviewee in suggesting that paying AC members too little may have damaging consequences for the performance of the committee as it may lead them to spend less time on their duties. He commented that:

> "From my experience, I think that the compensation is inadequate for what audit committee members do. This compensation is lower than it should be, which could lead to an impact on their work. Thus, the compensation should be reconsidered, so that it is fair and reasonable" BD (1-1).

This seems to support agency theory's assumption that AC members are more likely to be motivated to focus on their monitoring role if they are compensated fairly (Hayek, 2015). It also echoes the findings of a number of previous studies (e.g. Engel et al., 2010; Campbell et al., 2013). Most of the interviewees were worried that committee members in their bank are not paid enough for the amount of time and energy they give to their AC role.

8.2.7 Preventing Damaging Government Intervention

As can be observed in Table 8.1, the sample as a whole agreed with the statement: "Government intervention should not be allowed to impact negatively on corporate governance and AC practice." The statement recorded a total mean score of 3.78. Breaking the results down by group, the highest group mean for this step was recorded by board members (4.14), followed by audit committee members (4.06), external auditors (3.83), internal auditors (3.69) and executive managers (3.66). Table 8.2 shows that 68.3% of the survey participants agreed with this step. The BD group gave the highest level of support for the step, with 90.5% agreeing or strongly agreeing. This was followed by the AC group (76.5%), the EA group (65.7%) and the IA and EM groups (both 64.8%). As with the compensation step, the executive managers group was the least supportive.

The interviews provided further assurance of the importance of this measure for increasing AC effectiveness; approximately 60% of the interviewees felt that government intervention should be kept to a minimum, but that where it is necessary, it should be to the benefit of the banking sector. For example, the board chairman from a mixed ownership bank, while acknowledging that a certain amount of intervention is necessary to improve the sector as a whole, was critical of the inappropriate government's intervention:

> "In my experience, government intervention and Central Bank intervention are required to improve the work of banks, but sometimes there are inappropriate interventions, and thus intervention by the government and the Central Bank should be organised and limited so that there is no impact on the work of banks" BD (1-2).

The director of internal auditing from one of the state banks suggested that the best way to avoid damaging government interference would be to limit the Central Bank of Libya's remit to monitoring the banks:

> "In my view, government intervention, particularly from the Central Bank of Libya, is impacting on the banking business and corporate governance. This intervention has impacted on the public banks more than private banks. Consequently, Central Bank intervention should be limited to supervising and controlling the work of banks" IA (4-2).

The survey results reveal a general view that government intervention should not be allowed to impact negatively on CG, including AC practice. This is consistent with previous studies, such as Roe (2003), Wu and Patel (2015) and Iswaissi and Falahati (2017). Most of the

interviewees argued that government intervention should be judicious and limited to measures that will promote CG and AC effectiveness, with some arguing that Central Bank of Libya intervention should be confined to supervision and monitoring.

8.3 Discussion of the Results

The majority of survey participants and interviewees agreed that the suggested actions would enhance the effectiveness of ACs in Libya's banking sector. The view that strengthening the accounting and auditing profession is the best way of enhancing AC effectiveness is consistent with Larbsh's (2010) conclusion that developing a robust Libyan CG framework also involves supporting the accounting and auditing profession and updating accounting education in the country. The result offers additional confirmation that the accounting environment has an influence on CG (see section 7.3.6). The second-ranked measure – that AC members should be appointed according to their experience and qualifications – is consistent with the FRC UK's (2012) recommendation that committee members should have financial experience and professional qualifications, while the third-ranked measure – the institution of legal requirements governing AC responsibilities – echoes Saad et al. (2006) and Lin et al. (2008), who argue that this enhances the committees' effectiveness. The fourth was that boards should do more to support ACs. The fifth-ranked action – improving the legal and regulatory environment – has also been recommended by Larbsh (2010), who suggests that Libya's legal system should be reviewed to bring it into line with CG best practice. The view that AC members must be sufficiently compensated was only ranked sixth by the participants, but numerous researchers and regulators have argued that this is important if the committee is to perform effectively (e.g. Magrane and Malthus, 2010; FRC, 2012; Campbell et al., 2013). The lowest-ranked action was preventing damaging government intervention; although the survey group agreed that this could improve AC effectiveness, they felt less strongly about this than they did about the other suggestions. Many saw Central Bank of Libya intervention as justified, given its overall supervisory responsibility for the sector, while others saw government intervention as having only a limited impact on banks, their CG and ACs.

By taking these actions, banks and the Libyan banking sector as a whole can raise the effectiveness of ACs and enhance their ability to address agency problems. This is the first study to find that strengthening the accounting and auditing profession is perceived as the best way of enhancing AC effectiveness in Libya. The study participants argued that this will lead to an improvement in the quality of the information being given to the AC by internal auditors. They felt that this will be best achieved through the formation of a professional association or

union, the application of international accounting standards, the development of accounting curricula at universities and the development of human resources, especially internal auditors.

8.4 Summary

The purpose of this chapter is to contribute to the literature by identifying actions that might be taken to address the inhibiting factors identified in the conceptual framework and investigated in Chapter 7.

There was a general consensus among the survey respondents that the suggested actions would enhance the effectiveness of ACs in Libya's banking sector, though the level of support was strongest (to a statistically significant degree) among the external auditors. This may be because this group is the best placed to see the positive effects the actions might have. Most of the interviewees also expressed agreement that the proposed actions would raise AC effectiveness. These findings are consistent with agency theory’s view that an effective AC can play a major role in addressing agency problems within the organisation.

This study is the first to find that strengthening the accounting and auditing profession is perceived as the best way of enhancing AC effectiveness in Libya. The study participants argued that this will lead to an improvement in the quality of the information being given to the AC by internal auditors. They felt that this will be best achieved through the formation of a professional association or union, the application of international accounting standards, the development of accounting curricula at universities and the development of human resources, especially internal auditors.

The following chapter summarises the findings obtained from the questionnaire survey and semi-structured interviews and discusses their implications.

Chapter 9. Conclusion

9.1 Introduction

As specified in the conceptual framework, this study has three main aims: to explore the present role of ACs in the Libyan banking sector, to investigate the factors that impact the effectiveness of these committees, and to identify ways of enhancing this effectiveness. This chapter summarises the findings that were obtained from the questionnaire survey and semi-structured interviews. It starts by reviewing the results before going on to discuss the contributions made by the study and the theoretical and practical implications of the findings. It ends by considering the limitations of the study and identifying areas for future research.

9.2 Review of Results

This section summarises the overall findings obtained from the questionnaire surveys and semi-structured interviews.

9.2.1 The Present Role of the Audit Committee

The first objective of the research was to explore the present role of audit committee in the Libyan banking sector. This objective was expressed in the first and second research questions:

Q1. What role do ACs currently play in Libya's banking sector?
Q2. How do these committees perform their role?

The results of the study show that the current role of audit committees in Libya's banking sector includes reviewing and monitoring the organisation's financial reporting, internal audit function and the external audit process. These are therefore the focus of the following sections.

9.2.1.1 The AC's Role in Monitoring Financial Statements

The majority of survey participants saw this role as comprising four main responsibilities: reviewing managers' corrections to financial statements, reviewing external audit reports on financial statements, monitoring the compliance of the financial statement process with accounting standards, and reviewing major accounting policy. The interviewees generally agreed, though some argued that in practice, these responsibilities ultimately rest with the board as a whole rather than the AC. The findings thus suggest that ACs are generally seen as having an important role to play in monitoring the financial reporting process and improving information flow, as posited by agency theorists. However, the finding that many ACs are not performing this role effectively in practice – that they are doing little more than superficially reviewing the financial statements presented to them – suggests that institutional theory's view

of ACs as primarily an attempt to create legitimacy within the sector also holds true. By creating an AC, a bank signals its willingness to comply with the Libyan CG Code (2010). The committee may spend too little time reviewing the financial statements to have any real impact on the bank's CG, but the mere fact of its existence is likely to improve the firm's public reputation.

9.2.1.2 The AC's Role in the Internal Audit Function

The survey and questionnaire findings suggest that ACs are widely seen as performing a range of tasks in regard to the internal audit function. These include reviewing the internal audit reports, promoting the independence of internal auditors, reviewing the objectives, plan and functions of the internal audit, receiving reports on internal auditors' work, recommending new appointments, ensuring that the internal audit has the necessary resources, and meeting with the head of internal auditing. The respondents also highlighted the committee's role in overseeing internal control systems, identifying any weaknesses and discussing corrective measures with internal auditors. The findings confirm the importance of the interaction between the AC and the internal audit department as a key factor in achieving effective CG, and the AC's role in enhancing the effectiveness and independence of the internal audit function. The findings thus support agency theory's view that the AC has a major role to play in monitoring the internal audit. However, they also show that its effectiveness in this regard depends to some extent on its relationship with the internal audit department, upon whom it relies for information. As a number of respondents pointed out, if this relationship is weak or dysfunctional, this can impact on the effectiveness of governance in the bank. This is more likely in banks where the AC has been established primarily for the purpose of creating legitimacy, as these ACs may be less inclined (or less able) to forge strong links with the internal audit department. Despite these concerns, the findings suggest that, overall, ACs are performing this aspect of their oversight role more effectively than they are performing the other aspects.

9.2.1.3 The AC's Role in the Work of the External Audit

The questionnaire respondents agreed that ACs review and investigate the findings of the annual external audit and that they ensure that audit fees are sufficient to perform the audit process effectively. However, there was less support for the suggestions that ACs recommend the appointment and replacement of external auditors, that they monitor the activities, resources, expertise and independence of external auditors, or that they meet external auditors, without managers, to discuss the audit process. Several of the interviewees argued that many

ACs play a positive and valuable part in the external audit process by liaising and resolving disagreements between external auditors, the board of directors and managers. However, others implied that ACs can find it difficult to extract information from external auditors, particularly about deficiencies and weaknesses in the control systems, and the communication between AC and external auditors is often inadequate (as also indicated by the survey respondents above). This significantly undermines their ability to enhance the independence, effectiveness and objectivity of the external audit process. Overall, the findings are consistent with some previous studies (e.g. Bédard and Compernolle, 2014) in suggesting that ACs play a less significant role in the external audit process than they do in the internal audit function (upon which they rely for information on financial and operating matters). They support institutional theory's view that ACs in the banking sector are established primarily for the purpose of creating legitimacy outside the firm.

9.2.2 The Impact of Factors on Audit Committee Practice

The second objective of the research was to investigate the factors impacting audit committee effectiveness in Libya's banking sector. This objective was expressed in the third and fourth research questions:

Q3. What factors impact on the effectiveness of ACs in this sector?
Q4. How do these factors affect the role of ACs?

9.2.2.1 Enabling Factors

As described in the conceptual framework, the literature suggests a number of enabling factors which can have an impact on AC practice. Seven of these factors were investigated in this study: member independence, diligence and financial expertise, committee size, meeting frequency, authority, and access to information. The aim was to gain insight into the extent to which ACs in the Libyan banking sector are perceived as being positively influenced by these enabling factors.

There was a broad consensus among the participants that the AC's job is to monitor the organisation's accounting and auditing, as posited by agency theory, and that all of the identified factors have a positive impact on its ability to perform this role. The survey respondents saw relevant expertise as the most important enabling factor, followed in descending order by committee size (i.e. having sufficient members to perform effectively), meeting frequency, authority, access to information, member independence and finally member diligence. The relatively low importance attached to member independence is perhaps

surprising, given the emphasis this is accorded by researchers. As far as member diligence is concerned, many survey respondents may have felt less strongly about this factor because they saw it as relatively insignificant compared to the larger structural forces that surround ACs. The only difference between the survey respondents and the interviewees was that the latter placed greater emphasis on authority and access to information as enabling factors, perhaps because they are more likely to observe the impact of these factors at first hand.

9.2.2.2 Inhibiting Factors

The conceptual framework also contains a range of inhibiting factors that are highlighted in the literature, including weak board governance, the lack of clear legal requirements governing the AC's responsibilities and duties, the lack of requirement for AC members to be qualified or experienced, inadequate compensation, the weak legal and regulatory environment, the weak accounting environment and government intervention. These seven factors were tested in an attempt to understand the extent to which they are perceived as adversely impacting ACs in Libya's banking sector.

Once again, there was a general consensus among the survey respondents and interviewees on the potential of these factors to limit AC effectiveness. The survey respondents ranked the weak legal and regulatory environment as the strongest inhibiting factor, followed by weak board governance, government intervention, the lack of requirement for AC members to be qualified or experienced, the lack of clear legal requirements governing the AC's responsibilities and duties, the weak accounting environment (specifically the national lack of expertise in accounting, financial reporting and auditing) and finally the inadequate compensation given to AC members. The main difference between the survey and interview findings was that the latter were more likely to acknowledge inadequate compensation as an inhibiting factor; many AC members in the survey were either reluctant to commit themselves to an answer, or suggested that poor compensation was a deterrent for others but had no effect on their own practice. Several interviewees also expressed concern at the level of government intervention in the Libyan banking sector, explaining that government interference in the appointment of board members can significantly undermine the ability of the board, and consequently the AC, to perform effectively. Institutional theory may give some insight into these interviewees' concerns, in that they may feel they are being obliged to adopt practices and follow externally imposed regulations before they are properly prepared. This study is the first to demonstrate empirically the impact of a weak accounting and auditing profession on AC effectiveness. The perceived weakness of the Libyan Accountants and Auditors Association means that the

profession does not enjoy high status, but more importantly, poor standards within the profession impact on the banking sector by raising the risk of accounting errors and of false information being provided to ACs.

9.2.3 Actions for Enhancing the Effectiveness of Audit Committees

The third research objective was to determine actions to enhance the effectiveness of ACs in Libya's banking sector. This was expressed in the fifth research question:

Q5. What can be done to enhance the effectiveness of ACs in Libya's banking sector?

The starting point for this step was the seven inhibiting factors identified in the conceptual framework. Seven corresponding corrective actions were suggested to participants, the majority of whom (survey respondents and interviewees alike) agreed that they would raise AC effectiveness. The most popular suggestion was strengthening the accounting and auditing profession. This was followed by the suggestion that AC members should be appointed according to their financial experience and professional qualifications. The third-ranked measure was the institution of legal requirements governing AC responsibilities, while the fourth was that boards should do more to support ACs, including helping them overcome any problems and removing any obstacles to their independence. The fifth-ranked action was the improvement of Libya's legal and regulatory environment to bring it into line with good CG practice. The view that AC members must be sufficiently compensated was ranked sixth by the participants, while preventing damaging government intervention was ranked last. Although the survey group agreed that this could improve AC effectiveness, they felt less strongly about this than they did about the other suggestions; most saw intervention by the Central Bank of Libya as either justified or having only limited impact.

The participants' support for these measures is consistent with their support for the agency-oriented view of the AC as a key mechanism for addressing agency problems. The measure that drew the strongest support from the survey respondents was the proposal to strengthen the accounting and auditing profession in Libya, which they felt would raise the quality of the information the AC receives from internal auditors. They wanted to see the formation of a professional association or union, the application of international accounting standards, updated accounting curricula at universities and better professional training, especially for internal auditors. This study is the first to demonstrate empirically that strengthening the accounting profession is perceived as the best way of enhancing AC effectiveness in the Libyan banking sector.

9.3 Contribution of the Research

This research contributes in several ways to the ongoing discussion about the AC's role in CG. First, by investigating AC effectiveness in a developing country, it addresses an information gap as identified in the conceptual framework – this context is still poorly understood. By providing new evidence (and a different perspective) from a context that is culturally, socially, legally and politically different from other countries, it can enhance our understanding of the concept of CG and ACs. The vast majority of studies have focused on AC effectiveness in developed countries, but since CG practices may vary between countries (Iswaissi and Falahati, 2017), the findings may not be transferable to the Libyan environment, which is shaped by its own set of legal and political factors. Little is known about CG practice in Libya or how it is impacted by these factors. This study contributes to the literature by shedding light on how these and other factors affect CG and particularly AC practice in the Libyan banking sector, highlighting, for example, the inhibiting impact it has on AC effectiveness and CG when board members are government-appointed.

The second contribution relates more specifically to Libya's economic development. Little is known about the current status of ACs in the country; the two studies conducted so far (Abdulsaleh, 2014a; 2014b) examine the potential (not current) role of the committee before the Libyan CG Code (2010) made them compulsory in the banking sector. Furthermore, Abdulsaleh's research was conducted in just three banks in Libya and based on questionnaires distributed to a very small sample. As the economy moves towards privatisation and the broadening of ownership, and the Government looks to attract more foreign investment, it has become even more important to review and improve CG mechanisms in Libyan firms. Central to this is understanding how AC operate and whether they are given sufficient resources to perform their function. This research responds to this need by providing the means to explore the current role of ACs in all banks in the Libyan banking sector. The findings may help shareholders in their decision making and encourage them to pay greater attention to CG mechanisms, including ACs, and they may be especially useful to board members, AC members and regulators trying to enhance the effectiveness of these committees.

This study contributes to the literature by attempting to investigate and evaluate the factors that influence the effectiveness of ACs. Previous studies, which have for the most part been limited to the developed countries, have produced contradictory results regarding the effect of these factors on the effectiveness of ACs. This study is the first to categorise the fourteen selected

factors in its conceptual framework as either enabling or inhibiting AC effectiveness. Enabling factors include independence, financial expertise, meetings, size, authority, access to information and diligence, while inhibiting factors include lack of regulations clearly governing the committee's responsibilities and duties, the poor qualifications and experience of AC members, inadequate compensation, the weak legal environment, the weak accounting environment, government intervention and weak board governance. This last area in particular may be impacting on AC practice in Libya's banking sector, where boards and sub-committees are widely seen as lacking independence.

This study makes a unique contribution to the accounting literature with its discussion of a number of actions which might be implemented to improve the performance of ACs in the Libyan banking sector. These actions include appointing AC members based on their experience and qualifications, putting strict legal requirements in place to compel ACs to perform their responsibilities and duties effectively, and updating the legal and regulatory environment to pay greater attention to ACs. However, the most important of these, according to the participants in this study, is strengthening the accounting and auditing profession so that ACs can be sure the information they receive is accurate and reliable. Specific suggestions for how strengthening this profession might be achieved include the formation of a professional association or union, the application of international accounting standards, the development of accounting curricula at universities and better training for staff, especially internal auditors.

Finally, to the best of the researcher's knowledge, the study is the first to consider the impact that a weak accounting and auditing profession has on AC effectiveness. The perceived weakness of the Libyan Accountants and Auditors Association means that the accounting and auditing profession itself does not enjoy high status. More importantly, poor standards within the profession impact on the banking sector as a whole and its CG, especially ACs. They may lead to serious errors being made in banks' accounting and auditing practice, while under-qualified or inexperienced internal auditors risk producing weak or even inaccurate reports for the AC. The study is unique in exploring the suggestion that AC effectiveness in Libya could be enhanced by developing the country's accounting and auditing profession. It suggests that raising efficiency among accounting and auditing professionals would enhance the quality and reliability of the information supplied to the AC, and thus its ability to perform its role effectively.

9.4 Theoretical Implications

The results of this study have a number of distinctive theoretical implications can be discussed as follows: In regard to the first objective of the research, the results support agency theory's assumption that the theoretical role of ACs in Libya's banking sector is to monitor financial reporting, the internal audit function and the external audit process. However, while some ACs do play an important role in the financial reporting process (Lin et al., 2006) and reduce agency costs by improving information flows between principals and agents (Beasley et al., 2009; Samaha et al., 2012), others do little in practice to enhance the quality of financial reporting (Abbott et al., 2004; Soliman and Ragab, 2014). Interviewees expressed concerns that in many banks, the AC has too limited a role to have a material impact on the quality of the financial statements, it rarely challenges weaknesses in the work of internal auditors, and it seldom follows-up or supervises the work of external auditors. This would seem to support institutional theory's assumption that ACs in the sector are primarily designed to create legitimacy outside the organisation rather than to actively engage in monitoring within the bank.

In terms of the study's second objective, the survey respondents and interviewees generally supported agency theory in seeing the job of the AC as being to monitor the organisation's accounting and auditing. They agreed that the committee is more likely to perform this task effectively if it has at least three members, these members are non-executive/independent directors (at least some of whom have expertise in the accounting field), and it meets regularly. The interviewees revealed that in practice, over half of AC committees in the Libyan banking sector are made up of independent board members. If this is true, it is a positive indicator for the current situation of the Libyan banking sector, because it signals the sector's general acceptance (in principle at least) of agency theory's assumption that including independent directors on the audit committee strengthens the monitoring process and reduces information asymmetry (Hashim and Rahman, 2011).

There was general consensus among the respondents that the identified inhibiting factors do indeed have an adverse impact on banks' CG and AC effectiveness. A number of interviewees highlighted the Central Bank of Libya's imposition of the AC mechanism as a potential problem, explaining that it drives some banks to treat the committee merely as a box-ticking exercise (as posited by institutional theory). Others were concerned about government intervention in board appointments, given that the sector already struggles with unprofessional boards and underperforming directors (Abdou, 2015). Again, institutional theory may give some insight into interviewees' concerns about this particular example of government

intervention; some banks feel they are being forced to adopt practices and follow externally imposed regulations before they are properly prepared.

The findings reveal that actions need to be taken to raise AC effectiveness in Libya's banking sector. Suggested measures included appointing AC members according to their experience and qualifications, establishing legal requirements governing ACs, and ensuring board support for ACs. However, the action that drew the strongest support from survey respondents was the proposal to strengthen the accounting and auditing profession in Libya. The interviewees suggested this could be achieved by providing better training and professional development for staff, especially internal auditors, updating and improving university accounting curricula, implementing international accounting standards and establishing a professional association or union for accountants. These actions are necessary if ACs in the Libyan banking sector are to become effective mechanisms of CG; that is, if they are to reduce agency costs by monitoring the activities of management and resolving the problems caused by information asymmetry (Abed and Al-Najjar, 2016), as posited by agency theory. They are also necessary if these committees are to meet the high expectations of shareholders, especially given that the implementation of CG is still in its early stages and largely ineffective.

The use of both agency and institutional theories in the study allows a deeper understanding of the role being played by audit committees in Libya's banking sector, though overall, institutional theory might provide a better frame for explaining this role as it operates currently. Although the Libyan CG Code recognises the crucial role played by the AC in resolving agency conflicts and protecting the interests of shareholders, this recognition has not yet spread across the banking sector as a whole. For many banks, the motivation to form an AC comes from a desire to maintain legitimacy outside the organisation rather than a drive to improve organisational effectiveness.

9.5 Practical Implications

The findings of the current study have some distinctive practical implications for the Libyan banking sector, board and audit committee members and regulators, particularly the Central Bank of Libya, in their attempts to mitigate the obstacles facing audit committees and to enhance their effectiveness.

The findings are of interest to individuals seeking to understand the link between ACs and the quality of financial reporting, as these findings indicate that in many firms, the committee plays too limited a role to have a material impact on the quality of the financial statements. In terms

of the AC's role within the internal audit function, the findings confirm the importance of the relationship between the committee and the internal audit department, and the need for this department to produce high-quality reports. In terms of its role within the external audit function, they show that ACs seldom follow-up or supervise the work of external auditors. These findings have implications for the Libyan CG Code in that they suggest areas where further improvements are required.

The findings suggest that there are a number of underlying causes for this state of affairs, which have implications at the meso (organisational) and the macro (sector) level. At the meso level, the lack of qualifications and experience among AC members was identified as a crucial inhibiting factor (though most participants were content with the qualifications and experience of their own committee), suggesting the need for further skills training to be made available to these individuals. Most importantly, banks should adopt a policy of appointing new AC members solely on the basis of their qualifications, experience and skills. The same may hold true at board level; most respondents agreed that weaknesses in board governance adversely impact AC performance (though again, most were satisfied with the performance of their own board). Such weaknesses are more likely where board members are under-qualified or inexperienced, but whatever their cause, they limit the board's ability to support the AC in overcoming problems and to remove any factors adversely affecting its independence. There was also concern that the low level of compensation given to AC members may impact on both the independence and the effectiveness of the committee; most of the interviewees felt that committee members in their bank are not compensated adequately for the amount of time and energy they spend on their duties. This prompted most survey participants and interviewees to suggest that if banks paid AC members more, the committees would be more effective.

The fact that there are no clear legal requirements governing the AC's responsibilities or duties (the Libyan CG Code only sets these duties out in general terms) may also have policy implications at bank level. The survey participants and interviewees felt that this lack of legal requirements significantly inhibits ACs' effectiveness and that it is up to individual banks to clearly identify the duties and responsibilities they expect their audit committee to perform and to review and update these duties as necessary.

At the macro level, the respondents were unanimous on the adverse effect the weakness of the accounting and auditing profession in Libya has on AC effectiveness. Inadequate professional standards can have severe consequences, with mistakes in accounting practice resulting in ACs receiving inaccurate information and making poor decisions. A professional association or

union is therefore vital to raise standards within the accounting and auditing profession, to train and develop bank staff, to apply international standards and to keep pace with the evolution of accounting in Libyan universities.

Also at the macro level, the findings may be useful for exploring the effect government intervention, particularly from the Central Bank of Libya (CBL), has on banks and their CG. A number of interviewees saw the CBL's intervention as justified because of its role as the overall monitor of bank activity, but many argued that this intervention should not be allowed to adversely affect CG and AC practice. Particular concern was expressed about the CBL's interference in the appointment of board members and even senior positions such as board chairman, which the majority of participants saw as an inhibiting factor because of its potential to impact on the decisions and performance of the board, including the selection of AC members. This is even more problematic in a banking environment that is already weakened by inadequate CG regulation (Abdou, 2015; Iswaissi and Falahati, 2017).

Finally, the study reveals that CG, and consequently AC practice, are being adversely affected by the weakness of the legal/regulatory environment. A large proportion of interviewees complained that laws are not being enforced as they should be, and most wanted the legal and regulatory environment to pay greater attention to CG and ACs, and for current rules and guidelines regarding these committees to be reviewed.

9.6 Limitations of the Study

Although the study has achieved the research aims and objectives and answered the research questions, it is nevertheless necessary to acknowledge its limitations. The first of these is the relatively small size of the sample: just 218 completed questionnaires were received and analysed and only 20 interviews were conducted. Given that these individuals were offering only their own perceptions and personal experiences, the gathered data may not reflect the views of the population as a whole. Furthermore, the representativeness of the sample may have been affected by the fact that most board and audit committee members tend not to have permanent offices in the bank or even attend regularly, making it more difficult to find respondents from these two groups.

Many of those who were approached were reluctant to be interviewed or even to complete the questionnaire survey, arguing that they were too busy or did not understand the research topic. Among those who did volunteer, some were careful or hesitant about answering certain questions, preferring to answer *uncertain* to these questions, despite assurances that their

answers would remain confidential. Some may have even misrepresented their views or not told the truth because they did not want to present a negative impression of their firms. Alternatively, some respondents may have been hesitant about answering questions because they lacked knowledge about CG or ACs. This is not implausible, given that CG is still a relatively new concept in Libya and that its implementation is still at an early stage. If so, the results may not accurately reflect the current role being played by these committees or the factors affecting them.

9.7 Directions for Future Research

As noted above, ACs are at an early stage of development in the Libyan banking sector, and further investigation is required of their role as a mechanism of corporate governance. Longitudinal research should also be conducted to examine whether the practice of these committees becomes more closely aligned with corporate governance recommendations over time.

An in-depth assessment of the audit committee's role as the main mechanism of good governance and how to increase its effectiveness would exceed the scope of this thesis. However, such an investigation is certainly justified, given the severe shortage of research in developing countries, particularly Libya, and the audit committee's importance in creating a good governance environment and protecting the interests of shareholders. This study has only looked at Libya's banking sector, but further research is required that covers other companies listed on the Libyan Stock Market and other sectors in the Libyan economy.

The results of the current study indicate that audit committee members' lack of qualifications and experience may be adversely impacting audit committee practice. Consequently, research is needed to examine in more detail the role that members' skills and training, along with other personal characteristics and background, play in determining committee effectiveness. Given that the results also highlight the damaging impact of poor performance across the accounting profession as a whole, research is also needed to investigate whether better staff training within banks, especially in the internal audit department, would make audit committees more effective.

As discussed in section 5.3.7, the study' findings, while generalisable to the banking sector, cannot be generalised to other sectors of the Libyan economy. Future research might compare AC effectiveness and the factors influencing this effectiveness in the banking sector with those in other Libyan listed companies, or with those in other developing (particularly MENA)

countries. In the latter case, different countries assign different levels of importance to CG, it is impacted by different cultural, social, legal and political factors, and the nature of the AC's legal obligations varies.

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NTU

Appendix A

The Role of Audit Committees in Corporate Governance: The Case of the Banking Sector in Libya

(Questionnaire Survey - Banking Sector in Libya)

Abdulhakim Masli
PhD Student
Nottingham Business School
Nottingham Trent University

Supervised by:

Dr Donald Harradine
Principal Lecturer of Accounting
Nottingham Business School
Division of Accounting and Finance
Email: donald.harradine@ntu.ac.uk

Professor Malcolm Prowle
Professor of Accounting
Nottingham Business School
Division of Accounting and Finance
Email: malcolm.prowle@ntu.ac.uk

Professor Musa Mangena
Professor of Accounting
Nottingham Business School
Division of Accounting and Finance
Email: musa.mangena@ntu.ac.uk

2016

Dear Participant,

I am a PhD student in the Division of Accounting and Finance at Nottingham Business School at Nottingham Trent University. I am interested in knowing your perceptions of the current role of audit committees in the banking sector in Libya.

I would be grateful for your participation in a research survey by responding to the attached questionnaire. Your experience could contribute valuable insight which would be of benefit to the development of the current study, namely, to examine the current role of audit committee in the banking sector in Libya, and then to investigate the impact of any factors on these practices, so that action can be taken to improve the practices and effectiveness of audit committees.

Finally, I would like to assure you that the information and personal opinion which you provide will be kept strictly confidential. I would be extremely grateful if you would complete this questionnaire, and I will come personally to collect it in the next few days at your bank. Please accept in advance my best wishes and appreciation for your cooperation and attention.

Yours faithfully,

Mr Abdulhakim Masli
Principal Investigator
PhD Student
Nottingham Trent University
Email: hakm2005@yahoo.co.uk

Section (1) - *General Information*

A) Please indicate your job by ticking (✓) in the appropriate place (please choose one):

• Member of the board of directors	1	• Member of AC	2
• Executive manager	3	• Internal auditor	4
• External auditor	5	• (Other) Please specify……………....	

B) Please tick (✓) in the appropriate place according to your level of academic qualification:

• PhD	1	• Master	2
• First degree	3	• (Other) Please specify….................	4

C) Please tick (✓) to indicate the major of your last educational degree:

• Accounting	1	• Finance	2
• Economic	3	• Management	4
• (Other) Please specify……………	5		

D) Please tick (✓) to indicate how many years of experience you have:

• Less than 5 years	1	• From 5 years to less than 10 years	2
• From 10 years to less than 15 years	3	• More than 15 years	4

Section (2) - *Present Status of Audit Committee Practice*

1. The AC's Role in Monitoring Financial Statements

Please indicate whether the following statements reflect current practice at your bank (not hypothetical best practice). Can you choose one score from the following options:

(1): Strongly disagree, (2): Disagree, (3): Uncertain, (4) Agree or (5): Strongly agree

Q1:	**The AC's Role in Monitoring Financial Statements**					
1.	The AC reviews significant accounting policies, any changes to them and any significant estimates.	1	2	3	4	5
2.	The AC monitors the extent to which the financial statements process complies with accounting standards.	1	2	3	4	5
3.	The AC reviews and monitors external audit reports concerning financial statements.	1	2	3	4	5
4.	The AC reviews and monitors corrections made by management concerning financial statements reported by internal auditors.	1	2	3	4	5

Please add any comments: ……………………………………………………………………………………………………

………

2. The AC's Role in Internal Auditing

Please indicate whether the following statements reflect current practice at your bank (not hypothetical best practice). Can you choose one score from the following options:
(1): Strongly disagree, (2): Disagree, (3): Uncertain, (4) Agree or (5): Strongly agree

Q2:	**The AC's Role in Internal Auditing**					
5.	The AC reviews the objectives, plan, functions and terms of reference of the internal audit.	1	2	3	4	5
6.	The AC reviews the internal audit reports and any actions taken as a result.	1	2	3	4	5
7.	The AC ensures that the internal audit has the necessary resources and access to information.	1	2	3	4	5
8.	The AC receive reports on the results of the work of internal auditors.	1	2	3	4	5
9.	The AC meets with the chief of internal audit at least once a year without the presence of management.	1	2	3	4	5
10.	The AC promotes the independence of the internal auditors	1	2	3	4	5
11.	The AC can recommend the appointment or replacement of an internal auditing director.	1	2	3	4	5
12.	The AC reviews and examines the effectiveness of internal controls and its evaluation by auditors.	1	2	3	4	5

3. The AC's Role in External Auditing

Please indicate whether the following statements reflect current practice at your bank (not hypothetical best practice). Can you choose one score from the following options:
(1): Strongly disagree, (2): Disagree, (3): Uncertain, (4) Agree or (5): Strongly agree

Q3:	**The AC's Role in External Auditing**					
13.	The AC reviews and monitors the activities, resources, expertise and independence of the external auditors.	1	2	3	4	5
14.	The AC reviews and investigates the findings of the annual audit provided by the external auditors.	1	2	3	4	5
15.	The AC reviews that the audit fees are adequate to perform the audit process effectively	1	2	3	4	5
16.	The AC meets with the external auditors without the presence of the management to discuss issues related to the audit process.	1	2	3	4	5
17.	External auditors are appointed and replaced at the recommendation of the AC.	1	2	3	4	5

Please add any comments: ………………………………………………………………………………………………………
………

Section (3) - *Factors Affecting Audit Committee Practice*

1. Enabling Factors:

The following statements describe enabling factors that may impact on audit committee practice. Please indicate the extent to which you agree that these obstacles affect AC practice at the bank. Can you choose one score from the following options:
(1): Strongly disagree, (2): Disagree, (3): Uncertain, (4) Agree or (5): Strongly agree

Q4:	Enabling Factors					
18.	The AC has adequate authority and influence to carry out its duties and responsibilities.	1	2	3	4	5
19.	The AC can easily access information and get appropriate responses from all management levels.	1	2	3	4	5
20.	AC members devote adequate time and effort to the work of the committee.	1	2	3	4	5
21.	Some AC members have adequate expertise in the accounting field.	1	2	3	4	
22.	AC members are independent and non-executive directors.	1	2	3	4	5
23.	The AC meets regularly enough to perform its responsibilities and discuss all the relevant issues.	1	2	3	4	5
24.	The committee has enough members to perform its duties and responsibilities properly.	1	2	3	4	5

Please add any comments: ....
....

2. Inhibiting Factors

The following statements describe inhibiting factors that may impact on audit committee practice. Please indicate the extent to which you agree that these obstacles affect AC practice at the bank. Can you choose one score from the following options:
(1): Strongly disagree, (2): Disagree, (3): Uncertain, (4) Agree or (5): Strongly agree

Q5:	Inhibiting Factors					
25.	Weaknesses in board governance	1	2	3	4	5
26.	The lack of clear legal requirements governing the AC's responsibilities or duties	1	2	3	4	5
27.	The poor qualifications and experience of AC members	1	2	3	4	5
28.	The inadequate compensation paid to AC members	1	2	3	4	5
29.	The weak legal and regulatory environment in Libya	1	2	3	4	5
30.	The weakness of the accounting and auditing profession in Libya	1	2	3	4	5
31.	Government intervention in the banking sector, especially from the Central Bank	1	2	3	4	5

Please add any comments: ....
....

Section (4) - *Actions to Enhance the Effectiveness of the ACs*

The following statements describe actions that could be taken to promote the effectiveness of ACs. Please indicate the extent to which you agree that these actions would enhance AC effectiveness. Can you choose one score from the following options:

(1): Strongly disagree. (2): Disagree. (3): Uncertain, (4) Agree or (5): Strongly agree

Q6:	**Actions to Enhance the Effectiveness of the ACs**					
32.	Board should do more to support AC in performing their responsibilities and duties.	1	2	3	4	5
33.	Strict legal requirements should be put in place to compel AC to perform its responsibilities and duties effectively.	1	2	3	4	5
34.	AC members should be appointed based on their experience and qualifications.	1	2	3	4	5
35.	ACs should be given sufficient compensation to carry out all their responsibilities.	1	2	3	4	5
36.	The legal and regulatory environment in Libya should pay more attention to corporate governance and ACs; current rules and guidelines regarding ACs should be reviewed.	1	2	3	4	5
37.	The accounting and auditing profession in Libya needs to operate to a higher standard to help governance function more effectively.	1	2	3	4	5
38.	Political intervention should not be permitted in order to not impact negatively on corporate governance and AC practice.	1	2	3	4	5

Please add any comments: ....

....

Q7: Finally, please add any other comments that you think are relevant to AC practice in Libya's banking sector:

Would you like to receive a copy of the summary and findings from this survey?
If so, please write your email address below:

....

THANK YOU VERY MUCH FOR YOUR INTEREST

Appendix B

The Role of Audit Committees in Corporate Governance: the Case of the Banking Sector in Libya

(Semi-Structured Interview - Banking Sector in Libya)

Abdulhakim Masli
PhD Student
Nottingham Business School
Nottingham Trent University

Supervised by:

Dr Donald Harradine
Principal Lecturer in Accounting
Nottingham Business School
Division of Accounting and Finance
Email: donald.harradine@ntu.ac.uk

Professor Malcolm Prowle
Professor of Accounting
Nottingham Business School
Division of Accounting and Finance
Email: malcolm.prowle@ntu.ac.uk

Professor Musa Mangena
Professor of Accounting
Nottingham Business School
Division of Accounting and Finance
Email: musa.mangena@ntu.ac.uk

2016

Section (1) General Information

• Name of Participant	…………………………..………….…………
• Name of Organisation	…………………………………..…….……………
• Educational Qualification	……………………………………...……………
• Current Position	………………………………………………………
• Number of Years of Experience	……………………………………..………………

Section (2) - Present Status of AC Practice

Q1: The Roles of the AC	
1.	Can you tell me what you believe the roles of the AC are?
2.	What roles and responsibilities does the AC undertake regarding internal audit?
3.	Does the AC have contacts and meetings with internal auditors? If so, are these meetings without the presence of management?
4.	Does the AC have any role in recommending the appointment and replacement of the director of internal audit?
5.	What roles and responsibilities does the AC undertake regarding external audit?
6.	Does the AC have contacts and meetings with external auditors? If so, are these meetings without the presence of any members of the board?
7.	Does the AC have any role in recommending the appointment and replacement of the external auditor?
8.	What roles and responsibilities does the AC undertake regarding financial statements?
9.	What roles and responsibilities does the AC undertake regarding internal control?

Section (3) Enabling Factors

	Q2: Enabling factors which may affect the practices of the AC
10.	Do you think that the AC has sufficient authority and influence to carry out its responsibilities? Please explain your view.
11.	Can the AC easily access the required information in the bank?
12.	Do AC members devote adequate time and effort to perform its duties and responsibilities? Please explain how.
13.	In your view, do the AC members have adequate experience in accounting practices? Do AC members have adequate knowledge about the firm's business?
14.	How are AC members chosen and appointed? How do you evaluate the independence of the AC in your bank?
15.	Do you think that the AC in the bank has enough members to perform its duties and responsibilities adequately?
16.	In your view, does the AC meet often enough to perform its duties and responsibilities properly, and to discuss all relevant issues?? Please explain.

Section (4) – The Obstacles

Q3: Inhibiting factors which may affect the practices of the AC
17. In your opinion, what are the inhibiting factors impacting the AC practices in Libyan banks? Please explain **A.** Weaknesses in board governance. **B.** The lack of clear legal requirements governing the AC's responsibilities or duties. **C.** The poor qualifications and experience of AC members. **D.** The inadequate compensation paid to AC members. **E.** The weak legal and regulatory environment in Libya. **F.** The weakness of the accounting and auditing profession in Libya. **G.** Government intervention in the banking sector, especially from the Central Bank.

Section (5) – Steps to Enhance the Effectiveness of ACs

Q4: How to Enhance the Effectiveness of ACs	
18.	Can you explain how you would address the issues above mentioned to enhance AC effectiveness?
19.	Are there any other actions which can be taken to eliminate obstacles and enhance the effectiveness of ACs?
20.	Who is responsible for performing these actions and how? How to perform them properly?

Q5: Finally, please feel free to highlight any other issues that you think relate to AC practice in Libya, which have not been addressed in this interview.

Would you like to receive a copy of the summary and findings from this study?

If so, please provide me your email address:

....

THANK YOU VERY MUCH FOR YOUR COOPERATION

Appendix C

Consent Form

The Role of Audit Committees in Corporate Governance: The Case of the Banking Sector in Libya

CONSENT FORM

Name of Site…………………………………….........

Please read and confirm your consent to being interviewed for this project by initialling the appropriate box(es) and signing and dating this form

1. I confirm that the purpose of the project has been explained to me, that I have been given information about it in writing, and that I have had the opportunity to ask questions about the research. ☐

2. I understand that my participation is voluntary, and that I am free to withdraw at any time without giving any reason and without any implications for my legal rights. ☐

3 I give permission for the interview to be tape-recorded by research staff, on the understanding that the tape will be destroyed at the end of the project. ☐

4. I agree to take part in this project ☐

____________________	__________	____________________
Name of respondent	Date	Signature
____________________	__________	____________________
Name of researcher taking consent	Date	Signature

PROJECT ADDRESS:
Mr Abdulhakim Masli, Principal Investigator. A PhD Student at Nottingham Trent University.
Email: abdulhakim.masli2012@my.ntu.ac.uk
Or hakm2005@yahoo.co.uk

Appendix D

Participant Information Sheets

The Role of Audit Committees in Corporate Governance: the Case of the Banking Sector in Libya

PARTICIPANT INFORMATION SHEETS

Thank you for considering participating in this research project. Before you decide whether to grant me an interview, it is important that you understand the reason why this research is being carried out, and what your participation will involve. I shall be grateful if you will take the time to read the following information carefully, and discuss it with colleagues or other people if you wish. Please feel welcome to get back to me if anything is unclear, and to take as much time as you need to decide whether or not to take part.

What is the purpose of the study?

This study is being undertaken as part of a PhD degree in Accountancy at Nottingham Trent University, UK. The purpose of this study is to investigate the perceptions of the current roles and responsibilities of audit committees in Libya's banking sector. It also seeks to explore the factors affecting the effectiveness of these committees and to identify ways in which their effectiveness might be enhanced.

Recent episodes of corruption and collapse in a number of major corporations across the world have revealed weak control mechanisms and highlighted the need for greater transparency in order to protect shareholders and stakeholders alike. The Enron collapse in particular led regulators and governments throughout the world to pay renewed attention to the audit committee as a key governance mechanism. These examples of corruption have resulted in the creation of corporate governance guidelines which give a prominent role to audit committees.

As the Libyan economy moves towards privatisation, broadening of ownership and attraction of foreign investment, it has become important to review and improve the ways in which corporate governance operates, as well as the effectiveness of audit committees in Libyan corporations. The results of some previous studies indicate that there are several challenges and obstacles facing both corporate governance in general, and audit committees in particular, in Libya. This research seeks to contribute to this process by analysing the role played by audit

committees in corporate governance in the country's banking sector, which is the most important sector in Libya's economy. Corporate governance is very important in this sector because it provides a structure and guidelines for stakeholder rights and sets out the responsibilities of banks' executive bodies.

The key research objectives

1. To explore the current role of AC in the Libyan banking sector.
2. To investigate the factors that affect the effectiveness of ACs in this sector.
3. To identify ways of enhancing the effectiveness of ACs in this sector.

The project commenced on 4th November 2013 and is due to complete by 3rd November 2017.

Research questions

These aims and objectives lead to the following main questions:

1. What role do ACs currently play in the Libyan banking sector?
2. How do these committees perform their role?
3. What factors impact on the effectiveness of ACs in this sector?
4. How do these factors affect the role of ACs?
5. What can be done to enhance the effectiveness of ACs in this sector?

Who is running this study?

The study is being run by Mr Abdulhakim Masli, a PhD Student at Nottingham Trent University (Principal Investigator), and supervised by: Dr Donald Harradine, Principal Lecturer of accounting, and Professor Malcolm Prowle and Professor Musa Mangena, professors of accounting, all of whom are faculty members at Nottingham Business School at Nottingham Trent University.

Who is funding this study?

The study is funded by both Misurata University and the Libyan Higher Education Ministry. This project is part of an education development program in Libya.

Why have I been chosen to take part?

I am asking you to give me an interview because you are one of the members of the five groups who have a working relationship with the audit committee. These groups include members of

the board of directors, audit committee members, executive managers, internal auditors and external auditors.

Do I have to take part?

Your participation is entirely voluntary, and you are therefore free to take part or not, as you choose. If you do decide to take part, you will be given an information sheet to keep, and you will also be asked to sign a consent form. You will still be free to withdraw at any time; this includes the right to withdraw your interview from the study after it has taken place.

If you decide not to take part, or to withdraw at any stage, you will not be asked to provide any reasons.

What do you want me to do?

I would like you to take part in an interview lasting approximately 1:00 hour. It will take place in your workplace, if appropriate, or another location designated by yourself or the researcher, and will be arranged at a time convenient to yourself. The topics to be covered have been identified in the section of this document titled 'What is the purpose of the study?'. There will also be plenty of scope for discussing issues around the area of the study.

I will ask for your written permission to tape the interview, to ensure that the information you give me is accurately recorded.

What will happen to the information I give in my interview?

The tape of your interview will be transcribed. I will then analyse the information and feed it into our results. The recording and transcript will be handled only by the researcher, in line with data-protection principles and our approved research protocol.

At the end of the study, all the transcripts will be kept in a locked filing cabinet in my desk at NTU in a safe and secure place. The data collected from the interviews will also be transferred from Libya to the UK and will be kept in a safe place. Also, electronic files are kept on password-protected computers which are not accessible to any other university staff. While this is usual practice, because it makes valuable research data available to other researchers, the transcripts will be fully anonymised before they are archived. Any information that identifies you or your organisation, or that gives any clues to your identity, will be removed. I am confident that these precautions will ensure that no-one will be able to trace your transcript back to you or your organisation.

How will you protect my confidentiality and anonymity?

You will not be named in any publication arising from this project unless your role forms part of a narrative that is already in the public domain, for example, if you were the named author of a published document or gave evidence to a public inquiry relevant to the study. No unpublished opinions or information will be attributed to you, either by name or position, without your express consent.

I will, unless consent is given, exercise all possible care to ensure that you cannot be identified by the way we write up our findings.

What are the possible disadvantages and risks in taking part?

The main cost to you will be the time needed to be interviewed. The main risk is that you might give me information that is detrimental to you or your organisation, or that runs counter to data-protection laws.

I am confident that the arrangements described above will prevent any of your information being shared with anyone outside the research team. For this reason, we believe that the risk of any detriment is extremely low.

What are the possible benefits?

I hope that you will find the interview interesting, and will take satisfaction from helping to develop knowledge of this important topic. I also hope that you will find the results of the project helpful to your work.

What will happen to the results?

I will write up the results in a PhD thesis at Nottingham Trent University, and will publish academic articles on my research in journals that are widely read by managers in the banking sector and other sectors in Libya, identifying actions which can be taken to enhance the effectiveness of audit committees in Libyan firms.

How can I find out more about this project and its results?

I will send a copy, if requested, of the executive summary to all our interviewees, so you will be able to read about our findings. The researcher will be happy to discuss any aspect of the study with potential participants prior to or following their involvement.

Has anyone reviewed the study?

The study has been reviewed by the supervisory team, and has been accepted by the College Research Degrees Committee at Nottingham Trent University, and my research project has been registered for MPhil with the possibility of a transfer to PhD.

The project has received ethical approval from the College Research Ethics Committee (CREC), under arrangements for research governance at Nottingham Trent University.

Who is responsible if anything goes wrong?

This project is being administered by Nottingham Trent University, which is therefore responsible for the conduct of the project.

Contacts for further information

Please feel very welcome to contact the researcher for further information at the following address:
abdulhakim.masli2012@my.ntu.ac.uk

Also, the supervisory team can also be contacted at the following addresses:

Dr Donald Harradine
Principal Lecturer in Accounting
Nottingham Business School
Division of Accounting and Finance
Email: donald.harradine@ntu.ac.uk

Professor Malcolm Prowle
Professor of Accounting
Nottingham Business School
Division of Accounting and Finance
Email: malcolm.prowle@ntu.ac.uk

Professor Musa Mangena
Professor of Accounting
Nottingham Business School
Division of Accounting and Finance
Email: musa.mangena@ntu.ac.uk

THANK YOU VERY MUCH FOR YOUR COOPERATION

Mr Abdulhakim Masli
Principal Investigator
PhD Student
Nottingham Trent University

NTU

Appendix E

NOTTINGHAM BUSINESS SCHOOL
Nottingham Trent University

دور لجان المراجعة في حوكمة الشركات:
حالة القطاع المصرفي في ليبيا

(صحيفة استبيان للدراسة الميدانية - القطاع المصرفي في ليبيا)

السيد/..

السلام عليكم ورحمة الله وبركاته،،،

أنا كباحث أقوم بإعداد رسالة دكتوراه في قسم المحاسبة والمالية بجامعة نوتنجهام ترنت ببريطانيا، لذلك فأنا مهتم بدراسة ومعرفة أرائكم وتصوراتكم الخاصة للوضع الحالي للجان المراجعة في القطاع المصرفي في ليبيا.

وسأكون ممتنا لمشاركتكم في هذا البحث من خلال الاستبيان المرفق. كما أن خبرتكم يمكن أن تساهم في إثراء البحث العلمي والتي من شأنها أن تكون ذات فائدة في تطوير الدراسة الحالية، من خلال دراسة الوضع الحالي لممارسات لجان المراجعة في القطاع المصرفي في ليبيا، وبعد ذلك للتحقيق في تأثير أي من العوامل على هذه الممارسات، ومن ثم يمكن اتخاذ الإجراءات لتحسين فعالية لجان المراجعة.

أخيرا، أود أن أؤكد لكم أن المعلومات والآراء الشخصية التي تقدمها ستعامل بمنتهى السرية. وسأكون ممتنا للغاية إذا قمت باستكمال هذا الاستبيان، وسوف أقوم شخصيا باستلامه منكم. أرجو أن تتقبلوا مني مقدما أطيب تحياتي وتقديري لكم لتعاونكم واهتمامكم.

شاكرين حسن تعاونكم معنا وإنفاق جزء من وقتكم الثمين لخدمة البحث العلمي،،،،

والسلام عليكم ورحمة الله وبركاته،،،

الباحث: عبدالحكيم محمد مصلي
hakm2005@yahoo.co.uk

أ) يرجى وضع علامة (✓) في المكان المناسب وفقا لوظيفتك:

• عضو مجلس الإدارة		• عضو لجنة مراجعة	
• مدير تنفيذي (يشمل مدراء الفروع ورؤساء الأقسام)		• مراجع داخلى	
• مراجع خارجي		• (أخرى) يرجى تحديد..................	

ب) يرجى وضع علامة (✓) في المكان المناسب وفقا لمؤهلك العلمي:

• دكتوراه		• ماجستير	
• بكالوريس		• (أخرى) يرجى تحديد	

ج) يرجى وضع علامة (✓) للإشارة إلى مجال تخصصك:

• محاسبة		• تمويل	
• اقتصاد		• إدارة	
• (أخرى) يرجى تحديد			

د) يرجى وضع علامة (✓) لبيان عدد سنوات الخبرة في مجال العمل:

• أقل من 5 سنوات		• من 5 سنوات إلى أقل من 10 سنوات	
• من 10 سنوات إلى أقل من 15 سنة		• 15 سنة فأكثر	

القسم (2) ـ الممارسات الحالية للجنة المراجعة

1. دور اللجنة في مراقبة البيانات المالية

يرجى بيان ما إذا كانت العبارات التالية تبين الممارسات الحالية للجنة المراجعة بالمصرف (لا يقصد بذلك أفضل الممارسات). يمكنك اختيار درجة واحدة من بين الخيارات التالية:

(1) لا أوافق بشدة **(2)** لا أوافق **(3)** غير متأكد **(4)** أوافق **(5)** أوافق بشدة

س1	دور لجنة المراجعة في مراقبة القوائم المالية					
.1	لجنة المراجعة تفحص وتراجع السياسات المحاسبية بالمصرف وأي تغييرات عليها والتقديرات الهامة.	1	2	3	4	5
.2	لجنة المراجعة تراقب مدى توافق القوائم المالية للمصرف مع المعايير المحاسبية.	1	2	3	4	5
.3	لجنة المراجعة تراجع وتراقب تقارير المراجعة الخارجية بشأن القوائم المالية للمصرف.	1	2	3	4	5
.4	لجنة المراجعة تفحص وتراقب التصحيحات التي قامت بها الإدارة فيما يتعلق بالقوائم المالية التي أبلغ عنها المراجعون الداخليون.	1	2	3	4	5

الرجاء إضافة أي تعليقات: ....

....

2. دور لجنة المراجعة في وظيفة المراجعة الداخلية

يرجى بيان ما إذا كانت العبارات التالية تبين الممارسات الحالية للجنة المراجعة بالمصرف (لا يقصد بذلك أفضل الممارسات). يمكنك اختيار درجة واحدة من بين الخيارات التالية:

(1) لا أوافق بشدة **(2)** لا أوافق **(3)** غير متأكد **(4)** أوافق **(5)** أوافق بشدة

س2	دور لجنة المراجعة في المراجعة الداخلية					
5.	لجنة المراجعة تفحص أهداف وخطة ومهام واختصاصات المراجعة الداخلية بالمصرف.	1	2	3	4	5
6.	لجنة المراجعة تراجع تقارير المراجعة الداخلية بالمصرف وأي إجراءات يتم اتخاذها بشأن ذلك.	1	2	3	4	5
7.	لجنة المراجعة تتأكد من أن المراجعة الداخلية بالمصرف لديها الموارد اللازمة وإمكانية الوصول إلى المعلومات.	1	2	3	4	5
8.	لجنة المراجعة تتلقى تقارير عن نتائج أعمال المراجعين الداخليين.	1	2	3	4	5
9.	لجنة المراجعة تجتمع مع مدير المراجعة الداخلية بالمصرف مرة واحدة على الأقل في السنة دون وجود الإدارة.	1	2	3	4	5
10.	لجنة المراجعة تعزز استقلالية المراجعين الداخليين بالمصرف.	1	2	3	4	5
11.	يمكن للجنة المراجعة التوصية بتعيين أو استبدال مدير المراجعة الداخلية بالمصرف.	1	2	3	4	5
12.	لجنة المراجعة تفحص وتراقب مدى فعالية الرقابة الداخلية بالمصرف وتقييمها من قبل المراجعين.	1	2	3	4	5

الرجاء إضافة أي تعليقات: ....

....

3. دور لجنة المراجعة في عملية المراجعة الخارجية

يرجى بيان ما إذا كانت العبارات التالية تبين الممارسات الحالية للجنة المراجعة بالمصرف (لا يقصد بذلك أفضل الممارسات). يمكنك اختيار درجة واحدة من بين الخيارات التالية:

(1) لا أوافق بشدة **(2)** لا أوافق **(3)** غير متأكد **(4)** أوافق **(5)** أوافق بشدة

س3	دور لجنة المراجعة في عملية المراجعة الخارجية					
13.	لجنة المراجعة تراجع وتراقب أنشطة وموارد وخبرات واستقلالية المراجعين الخارجيين.	1	2	3	4	5
14.	لجنة المراجعة تفحص وتتحقق من نتائج المراجعة السنوية للمصرف، المقدمة من قبل المراجع الخارجي.	1	2	3	4	5
15.	لجنة المراجعة تتأكد من أن أتعاب المراجعة كافية لتنفيذ عملية المراجعة بالمصرف على نحو فعال.	1	2	3	4	5
16.	لجنة المراجعة تجتمع مع المراجعين الخارجيين دون حضور الإدارة لمناقشة القضايا المتعلقة بعملية المراجعة.	1	2	3	4	5
17.	لجنة المراجعة توصي بتعيين واستبدال المراجعين الخارجيين.	1	2	3	4	5

الرجاء إضافة أي تعليقات: ....

....

القسم (3) - العوامل التي تؤثر على ممارسات لجنة المراجعة

1- عوامل التمكين

يرجى الإشارة إلى أي مدى أنت توافق على أن هذه العوامل تؤثر على ممارسات لجنة المراجعة في المصرف.

(1) لا أوافق بشدة **(2)** لا أوافق **(3)** غير متأكد **(4)** أوافق **(5)** أوافق بشدة

س4	**عوامل التمكين (التحفيز) التي قد تؤثر على ممارسات لجنة المراجعة**					
.18	لجنة المراجعة لديها السلطة والنفوذ الكافي لتنفيذ واجباتها ومسؤولياتها بالمصرف.	1	2	3	4	5
.19	يمكن للجنة المراجعة الوصول بسهولة إلى المعلومات بالمصرف والحصول على الردود المناسبة من كل المستويات الإدارية.	1	2	3	4	5
.20	أعضاء لجنة المراجعة يكرّسون الوقت والجهد الكافي لعمل اللجنة.	1	2	3	4	5
.21	بعض أعضاء لجنة المراجعة لديهم خبرة كافية في مجال المحاسبة.	1	2	3	4	5
.22	لجنة المراجعة بالمصرف تتكون من المديرين المستقلين وغير التنفيذيين	1	2	3	4	5
.23	لجنة المراجعة بالمصرف تجتمع بانتظام لتنفيذ مسؤولياتها، ومناقشة جميع القضايا ذات الصلة.	1	2	3	4	5
.24	لجنة المراجعة بالمصرف لديها عدد كافي من الأعضاء لأداء واجباتها ومسؤولياتها بفعالية.	1	2	3	4	5

الرجاء إضافة أي تعليقات: ....
....

2- عوامل التثبيط

يرجى الإشارة إلى أي مدى أنت توافق على أن هذه العوامل تؤثر على ممارسات لجنة المراجعة في المصرف.

(1)لا أوافق بشدة **(2)** لا أوافق **(3)** غير متأكد **(4)** أوافق **(5)** أوافق بشدة

س5	**عوامل التثبيط (العقبات) التي قد تؤثر على ممارسات لجنة المراجعة**					
.25	ضعف ممارسات الحوكمة في مجلس الإدارة	1	2	3	4	5
.26	عدم وجود متطلبات قانونية صارمة تنظم مسؤوليات وواجبات لجنة المراجعة.	1	2	3	4	5
.27	عدم وجود مؤهلات وخبرات كافية لأعضاء لجنة المراجعة.	1	2	3	4	5
.28	عدم كفاية المكافآت المدفوعة لأعضاء لجنة المراجعة.	1	2	3	4	5
.29	ضعف البيئة القانونية والتنظيمية في ليبيا.	1	2	3	4	5
.30	ضعف مهنة المحاسبة والمراجعة في ليبيا.	1	2	3	4	5
.31	تدخل الحكومة في عمل القطاع المصرفي، خاصة من المصرف المركزي.	1	2	3	4	5

الرجاء إضافة أي تعليقات: ....
....

القسم (4) - إجراءات تعزيز فعالية لجان المراجعة

يرجى الإشارة إلى أي مدى توافق على أن هذه الإجراءات من شأنها أن تعزز من فعالية لجنة المراجعة بالمصرف.

(1) لا أوافق بشدة **(2)**لا أوافق **(3)** غير متأكد **(4)** أوافق **(5)**أوافق بشدة

س6	**إجراءات تعزيز فعالية لجان المراجعة**					
32.	يجب على مجلس الإدارة بالمصرف بذل المزيد من الجهد والدعم للجنة المراجعة في أداء مسؤولياتها وواجباتها.	1	2	3	4	5
33.	ينبغي وضع متطلبات قانونية صارمة بالمصرف لإلزام لجنة المراجعة بأداء مسؤولياتها وواجباتها على نحو فعال.	1	2	3	4	5
34.	ينبغي أن يعين أعضاء لجنة المراجعة على أساس خبراتهم ومؤهلاتهم.	1	2	3	4	5
35.	ينبغي منح أعضاء لجنة المراجعة تعويضات كافية للقيام بمهامهم ومسؤولياتهم على أكمل وجه.	1	2	3	4	5
36.	استحداث وتعديل القوانين والتشريعات الليبية بما يتماشى مع حوكمة الشركات عموما ولجان المراجعة خصوصا.	1	2	3	4	5
37.	تعزيز ودعم مهنة المحاسبة والمراجعة في ليبيا بما يضمن تطوير وتحسين مستوى ممارسات حوكمة الشركات.	1	2	3	4	5
38.	ينبغي ألا يسمح للتدخل الحكومي بالتأثير سلباً على حوكمة الشركات وممارسات لجنة المراجعة.	1	2	3	4	5

الرجاء إضافة أي تعليقات: ....

....

س7: وأخيرا، الرجاء إضافة أي تعليقات أخرى تعتقد أنها تتعلق بممارسات لجان المراجعة في القطاع المصرفي في ليبيا

هل ترغب في الحصول على نسخة من ملخص ونتائج هذه الدراسة؟

إذا كان الأمر كذلك، يرجى كتابة عنوان بريدك الإلكتروني:

....

شكرا جزيلاً لكم على اهتمامكم وتعاونكم معنا لخدمة البحث العلمي

Appendix F

دور لجان المراجعة في حوكمة الشركات:

حالة القطاع المصرفي في ليبيا

الباحث: عبدالحكيم محمد مصلي

(نموذج المقابلة ـ بقطاع المصارف في ليبيا)

2016

القسم (1) معلومات عامة

• اسم المشارك	....
• اسم المنظمة	....
• المؤهل العلمي	....
• الوظيفة الحالية	....
• عدد سنوات الخبرة	....

القسم (2) - الحالة الراهنة لممارسات لجنة المراجعة

س1: أدوار لجنة المراجعة
1. هل يمكن لك أن تتحدث عن أدوار لجنة المراجعة بالمصرف؟
2. ما هي أدوار ومسؤوليات لجنة المراجعة بشأن المراجعة الداخلية بالمصرف؟
3. هل لدى لجنة المراجعة اتصالات ولقاءات مع المراجعين الداخليين بالمصرف؟ إذا كان الأمر كذلك، هل هذه الاجتماعات دون حضور أي من أعضاء مجلس الإدارة؟
4. هل لدى لجنة المراجعة أي دور في التوصية بتعيين واستبدال مدير المراجعة الداخلية بالمصرف؟
5. ما هي أدوار ومسؤوليات لجنة المراجعة بشأن عملية المراجعة الخارجية بالمصرف؟
6. هل لدى لجنة المراجعة اتصالات ولقاءات مع المراجعين الخارجيين؟ إذا كان الأمر كذلك، هل هذه الاجتماعات دون حضور أي من أعضاء مجلس الإدارة؟
7. هل لدى لجنة المراجعة أي دور في التوصية بتعيين واستبدال المراجع الخارجي للمصرف؟
8. ما هي أدوار ومسؤوليات لجنة المراجعة بشأن القوائم المالية للمصرف؟
9. ما هي الأدوار والمسؤوليات التي تقوم بها لجنة المراجعة بشأن الرقابة الداخلية بالمصرف؟

القسم (3) عوامل التمكين والتحفيز

س2: عوامل التمكين والتحفيز التي قد تؤثر على ممارسات لجنة المراجعة
10. هل تعتقد أن لجنة المراجعة لديها ما يكفي من السلطة والنفوذ إلى الاضطلاع بمسؤولياتها بالمصرف؟ يرجى توضيح وجهة نظركم.
11. هل يمكن للجنة المراجعة الوصول بسهولة إلى المعلومات المطلوبة بالمصرف؟
12. هل أعضاء لجنة المراجعة يكرسون الوقت والجهد الكافي لأداء واجبات ومسؤوليات اللجنة بالمصرف؟ يرجى شرح كيفية القيام بذلك.
13. من وجهة نظرك، هل أعضاء لجنة المراجعة لديهم خبرة كافية عن الممارسات المحاسبية بالمصرف؟ وهل لديهم معرفة كافية عن كل أعمال المصرف؟
14. كيف يتم اختيار وتعيين أعضاء لجنة المراجعة؟ وكيف تقيم استقلال لجنة المراجعة بالمصرف؟
15. هل تعتقد أن لجنة المراجعة في المصرف لديها ما يكفي من الأعضاء لأداء واجباتها ومسؤولياتها على نحو كاف؟
16. من وجهة نظرك، هل تجتمع لجنة المراجعة ما يكفي لأداء واجباتها ومسؤولياتها كما ينبغي، ومناقشة جميع القضايا ذات الصلة؟ يرجى التوضيح.

القسم (4) – عوامل التثبيط

س3: عوامل التثبيط (العقبات) التي تؤثر على ممارسات لجنة المراجعة
17. في رأيك، ما هي عوامل التثبيط أو العقبات التي تؤثر على ممارسات لجنة المراجعة في المصارف الليبية؟ يرجى التوضيح
وهل يمكنك أن توضح وجهة نظرك أكثر فيما يلي: أ) ضعف ممارسات حوكمة الشركات بالمجلس ب) عدم وجود مواد قانونية صارمة بشأن مسؤوليات وواجبات لجنة المراجعة ج) عدم وجود شروط لعضوية لجنة المراجعة من حيث المؤهلات والخبرة د) المكافآت لأعضاء لجنة المراجعة غير كافية ه) البيئة القانونية والتنظيمية غير كافية و) ضعف مهنة المحاسبة والمراجعة في ليبيا ز) التدخل الحكومي خاصة من المصرف المركزي في عمل المصارف

القسم (5) - خطوات تعزيز فعالية لجان المراجعة

س4: كيفية تعزيز فعالية لجان المراجعة
18. هل يمكن أن توضح كيف ستعالج القضايا المذكورة أعلاه لتعزيز فعالية لجنة المراجعة بالمصرف؟
19. هل هناك أي إجراءات أخرى يمكن اتخاذها لتذليل العقبات وتعزيز فعالية لجان المراجعة بالمصرف؟
20. ومن هو المسؤول عن تنفيذ هذه الإجراءات؟ وكيف يتم أداؤها بشكل صحيح؟

س5: وأخيراً، لا تتردد في تسليط الضوء عن أي قضايا أخرى، والتي تعتقد أنها تتصل بممارسات لجنة المراجعة في ليبيا، والتي لم يتم تناولها في هذه المقابلة.

هل ترغب في الحصول على نسخة من ملخص ونتائج هذه الدراسة؟ إذا كان الأمر كذلك، يرجى كتابة عنوان بريدك الإلكتروني:

....

"شكراً جزيلاً لتعاونك في انجاز هذا البحث"