

An Empirical Examination of the Determinants of Audit Report Delay in Libya

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Abstract

Financial statements communicate crucial information about the financial health of a company. Financial statements must be made available to stakeholders in time so that they can use the information to make important decisions. However, the timely release of a financial report can be impeded by a range of factors. This study is concerned with audit delay or the delay caused in financial reporting due to the time taken by auditors to review and approve financial statements submitted by companies in Libya. Data from the Libyan Stock Market show that the mean audit delay for the period 2008 to 2010 was 170 days. This means that Libyan companies, on average, take approximately five and a half months after their balance sheet date to release their audited accounts. The lack of timeliness in reporting is quite serious in Libya and appropriate measures to reduce audit delay have not been considered in Libyan financial reporting policy. This study takes on the task of examining the determinants of audit delay in the financial reporting of listed and non-listed companies in the country with a view to formulating better practices that can reduce audit delay.

With this purpose in mind, the study identified a matrix of company characteristics and audit factors from the existing literature. The company-specific characteristics include company size, industry type, quality of internal control systems, company yearend, profitability and extraordinary items, and the audit-related factors include audit firm size and type of audit opinion. A survey was conducted with auditors from the government institution (Institute of Financial Auditing, IFA) and external firms auditing private companies (External Auditors, EA) to examine their perceptions of these factors as determinants of audit report delay in Libya. The results of this study indicate that company size has a significant effect on audit delay where large companies in Libya are more likely to face longer audit delays than smaller firms. The second company-related factor, the industry sector to which a company belongs, was found to be a significant determinant as audit delay is shorter for financial services companies than companies in the non-financial sector. A significant negative relationship was shown between the quality of internal control systems and audit delay, with longer audit delays occurring in companies with poorer quality systems. Companies with yearends coinciding with the official end of year (31 December) and companies reporting extraordinary items are

both more likely to have a longer audit delay. Although previous research has found that companies reporting profits are more likely to publish their audited financial statements quickly to convey their 'good news', the results of this study contradicts this as profitability was found to have an insignificant effect on audit delay. Finally, both the audit-specific characteristics used in this study are found to have a significant effect on audit delay. Companies audited by large audit firms and those with unqualified audit opinions are more likely to have shorter audit delays.

Findings from this research assist in identifying the existing barriers to timely release of reports and in formulating better practices to reduce audit delay. In terms of future research, one possible avenue is to investigate the relationship between timeliness of financial reporting and stock market behaviour surrounding the release of annual reports in Libya. As the Libyan Stock Market was only established in 2006, further research needs to be conducted to investigate whether the audit delay of listed companies in Libya has changed significantly after being listed on the stock market

Declaration

“I Salem Mohamed Eghlaiow, declare that the PhD thesis entitled An Empirical Examination of the Determinants of Audit Report Delay in Libya is no more than 100,000 words in length including quotes and exclusive of tables, figures, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work” .

Dedication

This thesis is dedicated to my late mother Fatma's spirit who died in 1994 just before I received my first degree. May Allah (God) bless her and grant her a place in the hereafter in his paradise.

I also wish to dedicate this thesis to my beloved father (Mohamed), sisters, brothers and their families for their unending support, encouragement and love.

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While academic and administrative support was important for the successful completion of this thesis, emotional support from those near and dear to me was equally, if not more important in helping me reach this point. I am deeply indebted to my family, especially my parents, my sisters and my brothers for their endless patience, constant encouragement and unlimited moral support. Their support and love sustained me through periods of frustration and gave me comfort during my time away from home.

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In case I have forgotten to mention any names, I would like to express my heartfelt thanks to anyone else who has made any kind of contribution to this study.

Table of Contents

An Empirical Examination of the Determinants of Audit Report Delay in Libya	i
Abstract	ii
Declaration	iv
Dedication	v
Acknowledgments	vi
List of figures	xi
List of tables	xi
List of abbreviations	xiv
Publications	xvi
Chapter 1 Introduction	1
1.1 Introduction	1
1.2 Research Background	2
1.3 Auditing and Financial Reporting	4
1.4 Importance of Auditing	6
1.6 Statement of Significance	8
1.7 Objectives of the study	10
1.8 Research Methodology	11
1.9 Thesis Outline	12
Chapter 2 Research Background: Socio-economic Context and Auditing Sector in Libya	14
2.1 Introduction	14
2.2 Libya: Social, Historical and Economic Background	14
2.2.1 Libya in Brief	14
2.2.2 Libya: Historical Context	16
2.2.3 Libya: Economic Context	18
2.3 Accounting and Auditing Profession in Libya	25
2.3.1 Development of accounting in Libya	25
2.3.2 Related Accounting and Auditing Regulations	27
2.3.3 Current Status of Financial Accounting and Reporting System in Libya	31
2.4 Summary	34
Chapter 3 Financial Reporting: Objectives, Characteristics and Users	35
3.1 Introduction	35
3.2 Objectives of Financial Reporting	35
3.2 Qualitative Characteristics of Financial Statements	40

3.2.1 Financial Statement and Accounting Information should be Relevant.....	41
3.2.2 Financial Statement and Accounting Information should be Reliable.....	42
3.2.3 Financial Statements and Accounting Information should be Understandable	45
3.2.4 Financial Statement and Accounting Information should be Comparable ..	46
3.2.4 Considerations for a Qualitative Assessment.....	48
3.3 Users of Financial Statements.....	49
3.3.1 Internal users	52
3.3.2 External users	53
3.4 Summary	59
Chapter 4 Timeliness of Financial Reporting and Audit Delay	60
4.1 Introduction.....	60
4.2 Timeliness of Financial Reporting.....	60
4.2.1 Defining Timeliness	60
4.2.2 Timeliness of Financial Reporting and Investment Decision-making	63
4.2.3 Statistics on Timely Financial Reporting across the World.....	65
4.3 Audit Delay and Financial Reporting	67
4.4 Identifying Factors of Audit Delay	72
4.4.1 Company Characteristics.....	73
4.4.2 Audit Factors	82
4.5 Conceptual Framework and Hypotheses Development.....	87
4.5.1 Size of Company	89
4.5.2 Nature of Company's Activity or Industry Type	90
4.5.3 Internal Control System Quality	90
4.5.4 Company Yearend.....	91
4.5.5 Extraordinary Items.....	91
4.5.6 Profitability.....	92
4.5.7 Audit Firm Size	92
4.5.8 Type of Audit Opinion	92
4.6 Summary	93
Chapter 5 Research Methodology	94
5.1 Introduction.....	94
5.2 Research Philosophy and Methodology	94
5.2.1 Quantitative Methodology.....	95
5.2.2 Qualitative Methodology.....	97
5.2.3 Justification for Quantitative Approach for this study	99

5.3 Selection of the Sample	101
5.4 Research Method: Survey Questionnaire	103
5.5 Developing the Questionnaire	105
5.5.1 Questionnaire Design and Content.....	106
5.5.2 Language, Wording and Translation of the Questionnaire	109
5.6 Pilot Testing.....	111
5.7 Questionnaire Distribution and Collection	112
5.8 Data Analyses	114
5.9 Summary	116
Chapter 6 Survey Findings	117
6.1 Introduction.....	117
6.2 Demographic Attributes.....	117
6.2.1 Job Position	117
6.2.3 Gender	118
6.2.4 Age	119
6.2.5 Level of Education	120
6.2.6 Place of Education for Last Degree.....	121
6.2.7 Type of Firm.....	121
6.2.8 Work Experience.....	122
6.2.9 Number of Companies audited.....	122
6.3 Factors Influencing Audit Delay from Company Audited	123
6.3.1 Company Size	124
6.3.2 Industry Type	133
6.3.3 Internal Control System Quality	141
6.3.4 Company Yearend.....	146
6.3.5 Extraordinary Items.....	152
6.3.6 Profitability.....	157
6.4 Factors Influencing Audit Delay from Audit Firm.....	161
6.4.1 Audit Firm Size	161
6.4.2 Type of Audit Opinion	167
6.5 Summary and conclusion.....	172
Chapter 7 Discussion and Conclusion.....	173
7.1 Introduction.....	173
7.2 Discussion of Results.....	173
7.3 Summary of Research Process.....	178
7.4 Recommendations.....	180

7.5 Research Contribution	183
7.6 Limitations of the Study and Further Research	184
Bibliography	187
Appendix.....	206
Questionnaire (Arabic).....	207
Questionnaire	220

List of figures

Figure 2.1 Libya and its provinces	15
Figure 2.2 Oil production in Libya 1965-2010.....	21
Figure 3.1 Characteristics of useful financial reporting	57
Figure 3.2 Users of financial statements	58
Figure 4.1 Distinction between financial statement and auditing	68
Figure 4.2 Time-lag in financial reporting	69
Figure 4.3 Conceptual framework	89
Table 5.1 Summary of the number of the distributed and collected questionnaires for each group of respondents	114
Figure 5.2 Results of reliability analysis	115

List of tables

Table 2.1 Foreign financial resources available to Libyan Government.....	19
Table 2.2 Libya's trade deficit 1954-1960 (Value in millions of Libyan pounds £LI = US \$2.80).....	20
Table 6.1 Participants' job position	118
Table 6.2 Participants' gender.....	119
Table 6.3 Participants' age	119
Table 6.4 Participants' level of education.....	120
Table 6.5 Participants' place of last degree	121
Table 6.6 Participants' job	121
Table 6.7 Participants' years of work experience	122
Table 6.8 Number of companies audited every financial year	123
Table 6.9 General effect of SIZE measured by total assets on AD	124
Table 6.10 Binomial Test	125

Table 6.11 Relationship between SIZE (total assets) and AD	126
Table 6.12 Binomial Test	126
Table 6.13 General effect of SIZE measured by number of employees on AD.....	127
Table 6.14 Binomial Test	127
Table 6.15 General effect of SIZE measured by number of branches on AD.....	128
Table 6.16 Binomial Test	129
Table 6.17 Relationship between SIZE (number of branches) and AD	129
Table 6.18 Binomial Test	130
Table 6.19 Statistics for relationship between SIZE and AD.....	130
Table 6.20 Response frequencies of the participants with regard to the relationship between AD and SIZE.....	132
Table 6.21 Response percentage of the participants with regard to the relationship between AD and SIZE.....	132
Table 6.22 SIZE items one sample t-test.....	133
Table 6.23 General effect of belonging to FIN on AD.....	134
Table 6.24 Binomial Test	134
Table 6.25 Relationship between FIN and audit delay.....	135
Table 6.26 Binomial Test	136
Table 6.27 General effect of belonging to NON-FIN on AD.....	136
Table 6.28 Binomial Test	137
Table 6.29 Relationship between NON-FIN and AD.....	137
Table 6.30 Binomial Test	138
Table 6.31 Statistics for relationship between INDUS and AD	138
Table 6.32 Response frequencies of the participants with regard to the relationship between INDUS and AD	140
Table 6.33 Response percentage of the participants with regard to the relationship between INDUS and AD	140
Table 6.34 INDUS items one sample t-test.....	141
Table 6.35 General effect of poor ICSQ on AD.....	141
Table 6.36 Binomial Test	142
Table 6.37 Relationship between ICSQ and AD.....	143
Table 6.38 Binomial Test	143

Table 6.39 Statistics for relationship between ISCQ and AD.....	143
Table 6.40 Response frequencies of the participants with regard to the relationship between AD and ICSQ.....	145
Table 6.41 Response percentage of the participants with regard to the relationship between AD and ICSQ.....	145
Table 6.42 ICSQ items one sample t-test.....	146
Table 6.43 General effect of YE on AD.....	147
Table 6.44 Binomial Test.....	147
Table 6.45 Nature of relationship between YE and AD.....	148
Table 6.46 Binomial Test.....	148
Table 6.47 Statistics for relationship between YE and AD.....	149
Table 6.48 Response frequencies of the participants with regard to the relationship between AD and YE.....	151
Table 6.49 Response percentage of the participants with regard to the relationship between AD and YE.....	151
Table 6.50 YE items one sample t-test.....	152
Table 6.51 General effect of EXTRA on AD.....	152
Table 6.52 Binomial Test.....	153
Table 6.53 Nature of relationship between EXTRA and AD.....	153
Table 6.54 Binomial Test.....	154
Table 6.55 Statistics for relationship between EXTRA and AD.....	154
Table 6.56 Response frequencies of the participants with regard to the relationship between AD and EXTRA.....	156
Table 6.57 Response percentage of the participants with regard to the relationship between AD and EXTRA.....	156
Table 6.58 EXTRA items, one sample t-test.....	157
Table 6.59 General effect of PROFIT on AD.....	157
Table 6.60 Binomial Test.....	158
Table 6.61 Statistics for relationship between PROFIT and AD.....	158
Table 6.62 Response frequencies of the participants with regard to the relationship between AD and PROFIT.....	160

Table 6.63 Response percentage of the participants with regard to the relationship between AD and PROFIT.....	160
Table 6.64 PROFIT items, one sample t-test	161
Table 6.65 General effect of FSIZE on AD.....	162
Table 6.66 Binomial Test	162
Table 6.67 Nature of relationship between FSIZE and AD	163
Table 6.68 Binomial Test	163
Table 6.69 Statistics for relationship between FSIZE and AD	164
Table 6.70 Response frequencies of the participants with regard to the relationship between AD and FSIZE.....	166
Table 6.71 response percentage of the participants with regard to the relationship between AD and FSIZE.....	166
Table 6.72 FSIZE items, one sample t-test.....	167
Table 6.73 General effect of QOPIN on AD.....	167
Table 6.74 Binomial Test	168
Table 6.75 Nature of relationship between QOPIN and AD.....	168
Table 6.76 Binomial Test	169
Table 6.77 Descriptive statistics of QOPIN items.....	169
Table 6.78 Response frequencies of the participants with regard to the relationship between AD and QOPIN	171
Table 6.79 Response percentage of the participants with regard to the relationship between AD and QOPIN	171
Table 6.80 FSIZE items, one sample t-test.....	172

List of abbreviations

AD Audit delay

EA External auditors

IFA Institute of Financial Accounting

LAAA Libyan Association of Accountants and Auditors

SIZE Company size

YE Company yearend

INDUS Industry type

FIN Financial companies

NON-FIN Non-financial companies

EXTRA Extraordinary items

ICSQ Internal control system quality

PROFIT Profitability

FSIZE Audit firm size

QPIN Qualified audit opinion

Publications

I extend my thanks to the editors who made helpful suggestions and accepted for publication the following versions of work developed in this thesis:

1. Eghlaiow, S., Wickremasinghe, G., & Sofocleous, S 2012, 'A Review of Empirical Determinants of Audit Delay', *Corporate Ownership and Control*, vol. 9, no. 2, pp. 511-514.
2. Eghlaiow, S., Wickremasinghe, G., & Paguio, R 2013, 'An Empirical Examination of the Determinants of Audit Report Delay in Libya', 8th Annual London Business Research Conference.

Chapter 1 Introduction

1.1 Introduction

Financial statements communicate crucial information about the financial health of a company. Financial statements must be made available to stakeholders in time so that they can use the information reported therein to make important decisions. No matter how informative or well-prepared, the value of a financial report depreciates if it is not made available in time for users to make informed decisions. Therefore, the usefulness of published corporate financial statements depends on their timeliness as well as their accuracy.

Around the world, delay in the auditing of financial statements has been identified as leading to an overall delay in their publication. While auditing is indispensable for ensuring the accuracy and transparency of published financial statements, there is a need to address the delays caused by auditing. This problem of audit delay is particularly pernicious in developing countries where regulatory norms for the timeliness of auditing are not enforced properly and where the general business culture is not attuned to observing punctuality and efficiency in matters like financial reporting. In addition, there are deficiencies in the support structure of the auditing profession, whether in terms of skilled professionals or the number of auditing firms, which further contribute to the problem of audit delay.

Audit delay caused by inefficiencies or obstacles during the process of auditing is an important factor in the timeliness of publishing financial statements. This study investigates the determinants of delay in publishing the audited reports of Libyan companies. It aims to identify variables relating to the attributes of companies and their auditors which can cause audit delay. This chapter provides a cursory context to the study together with a brief overview. The first section provides a background to the study and identifies the nature of the research problem to be addressed. It then outlines the role of auditing in delivering accurate financial statements and discusses the delays in releasing financial statements that arise from time taken in the auditing process. This is followed by brief discussions of the significance of the study and the research objectives that guide it. Finally, the methodology adopted for this study is briefly

outlined and the chapter ends with a description of the contents of each of the chapters to follow.

1.2 Research Background

The usefulness of publishing corporate financial statements for monitoring corporate activities, facilitating investment decisions and ensuring transparency of operation has been accepted by many regulatory bodies such as the Accounting Principles Board, the Canadian Institute of Chartered Accountants, the Institute of Chartered Accountants in England and Wales, and the Financial Accounting Standards Board. Carslaw and Kaplan (1991) also contend that decisions based on information from financial statements may be affected by the timeliness of its release. This means that the published information may lose its relevance if there is undue delay in it being reported.

Timely reporting contributes to the prompt and efficient performance of stock markets in their pricing and evaluation functions (Owusu-Ansah & Stephen, 2000) and undue delay in releasing financial statements increases the uncertainty associated with investment decisions (Ashton et al., 1987). As a result of the delay, stakeholders may have to take investment decisions without proper verification or resort to information from unofficial channels that may provide wrong information and mislead decision makers. Further, the longer the period between the formal company yearend and the actual date of publication of the annual report, the higher the chances that the information will be leaked to certain interested investors (Abdulla,1996).

With the formalisation of reporting of corporate activity and financial performance through the medium of stock markets and financial information networks, the timeliness of information release has become a crucial issue in the accounting profession. Timeliness has been recognized as an important characteristic of accounting information by accounting professionals, users of accounting information and regulatory agencies (Zeghal, 1984). The timeliness of the release of financial statements has become subject to an increasing amount of attention from accounting researchers and regulatory bodies (Leventis et al., 2005). Our study is particularly concerned with how the timeliness of financial reporting can be negatively affected by delays in releasing audited reports. Delay in auditing has been regarded as the most important determinant of the timeliness

of earnings announcements in previous empirical research (Bamber et al., 1993; Chambers & Penman, 1984; Givoly & Palmon, 1982; Han & Wild, 1997; Kinney & McDaniel, 1993; Sinclair & Young, 1991).

The publication of financial statements on time is strongly linked to the timely completion of auditing processes (Leventis et al., 2005). In the process of releasing their financial statements, companies have to get their statements verified by external auditors to ensure the accuracy, fairness and transparency of the information. Companies often have to wait until the annual report is tested by the auditors to their satisfaction before announcing earnings. Financial statements informing a company's stakeholders about its operations, profits and current status needs to be checked by an external auditor to ensure its veracity and reliability. In other words, it is not possible to release annual financial statements unless they have been subjected to an external audit and have been verified to be correct. But sending the report to auditors, conducting the audit and negotiating the final statement often turns into a long process that could contribute to delay in the actual publication of the report. Audit delay is generally defined as the excess time taken to audit a financial statement and it is measured by the length of time from a company's fiscal yearend to the date of the auditor report. This demonstrates the vital role of the timeliness of the auditing process in determining the timing of information release.

With respect to the Libyan context, all Libyan companies (public, private, listed and non-listed) are subject to external audit which is either done by the staff at the Institute of Financial Auditing (IFA) or by other external auditors (EA). The IFA is responsible for auditing organisations that receive grants, loans or any sort of aid from the government, organisations with more than a 25 per cent public sector contribution to their capital and social organisations supported by the government. Furthermore, all foreign companies and their subsidiaries operating in Libya are also audited by the IFA. Most other private sector companies with domestic ownership can engage other external auditors to review their financial statements. The regulatory bodies of corporate activities in Libya also specify the time limit for the preparation of annual reports which are to be presented at the annual general meeting. Companies must publish their audited reports within four months after the end of the financial year.

According to information obtained from the Libyan Stock Market, mean audit delay for the period 2008 to 2010 was 169.214 days with the shortest delay recorded at 34 days and the longest delay at 268 days. The mean value of delay (≈ 170 days) means that, on average, Libyan companies take approximately five and a half months after their balance sheet dates to release their audited accounts. This evidence suggests that there is very little compliance with the regulatory deadlines for publishing audited reports and timeliness in their financial reporting policy does not seem to be an important concern for Libyan companies. The mean audit delay in Libya seems to be much longer compared to that found in other developed and developing countries. The mean delay of 170 days in Libya is quite high when compared with the global statistics: Australia 78 days (Dyer Iv & McHugh 1975), USA 62.5 days (Ashton et al., 1987), Canada 54 days (Newton & Ashton, 1989b), New Zealand 87.7 days (Carslaw & Kaplan, 1991), Malaysia 122 days (Che-Ahmad & Abidin, 2009), Zimbabwe 61.7 days (Owusu-Ansah & Stephen, 2000), Hong Kong 105 days (Ng & Tai, 1994), Greece 113 days (Owusu-Ansah & Leventis 2006), Saudi Arabia 46 days (Almosa & Alabbas, 2008), Egypt 67.21 days (Afify, 2009) and Nigeria 60 days (Modugu et al., 2012).

The exceptionally long audit delay in Libya is a matter of concern and the reason for this poor performance, especially when compared to other countries, is yet to be discovered. Part of the reason for this situation could be the lack of auditors in Libya and/or weak enforcement from the regulatory bodies. Also, because most companies in Libya are owned by the state, there is less pressure for them to prepare and publish their annual reports on time. The process of financial reporting in Libya is also slow due to the lenient time-limit of six months. The problem is further compounded by audit delay where the lack of auditing infrastructure can often drag the publication of the financial report beyond the six-month time limit. Auditing firms in Libya are lagging behind their global counterparts in terms of technological capacity as well as the quality of skilled staff, leading to problems in timeliness and the efficiency of auditing practices.

1.3 Auditing and Financial Reporting

Accounting is defined as a process of quantifying the financial activities of economic entities and providing this information to users to help them make economic decisions (Cook & Winkle, 1988). Decisions to purchase or sell securities, lend money, extend

commercial credit, enter into employment agreements, and other kinds of economic decisions depend in a large part on financial information (Robertson & Louwers, 1999). Indeed, it has been argued that the primary role of accounting is to provide an effective measurement and reporting system for decision-making (Porwal, 2001).

Users of accounting information can be broadly grouped under two categories, those internal to the entity such as managers, ownership and employees, and external users such as creditors, investors, regulatory agencies, taxing authorities etc. Both groups of users need assurance that the information furnished is reliable, accurate, fairly presented, and free from bias. For this reason, after the financial report is prepared, it needs to be reviewed by a competent person or persons other than the one who prepared the statement in order to ensure that the information provided is correct and free from bias. This is done by persons or agencies called auditors who are assumed to have no bias or vested interests in the contents of the information and who can be trusted to check that the company accountants have accurately reported the actual conditions of the company. Therefore, auditing is an important part of the communication process in accounting. Users of financial information demand reliable information and auditors help satisfy that demand.

The main duty of auditors is to examine and evaluate the client's financial statements and to communicate their opinion about their veracity and reliability. The auditor examines whether the client's financial statements portray a truthful picture of the company's financial performance and if they comply with the stipulations of the International Financial Reporting Standards (IFRS). This opinion is published through an appropriate audit report to interested parties such as investors and authorities. The audit report can thus be recognized as the end stage of the auditing process and represents the culmination of the auditor's task.

The contents and opinions in the audit report can vary depending on the auditor's satisfaction or dissatisfaction with the company's accounts. The auditor expresses his or her opinion in one of four types of audit report: unqualified, qualified, adverse, and disclaimer of opinion. The type of report issued by the auditor depends on particular circumstances and each type of report is appropriate for specific situations (Hayes et al. 2005; Porter et al. 2008). If the auditor believes that the financial statements represent a

true, accurate and fair view of the company's affairs, then he/she will issue an unqualified report approving the statements. If the auditor has doubt about some aspects of the statements, he/she may approve them but with a qualified opinion explaining those doubts to justify how some aspects of the statements need to be read with caution. The more extreme cases of disapproval occur with an adverse report or disclaimer of opinion. An adverse report indicates that the auditor does not agree with the veracity of the financial statement and a disclaimer of opinion is issued when the auditor informs the public that his/her opinion has not been approved and incorporated in the report published by the company.

1.4 Importance of Auditing

There is no doubt that users of annual reports consider the auditor's report to be a critical device for assuring that the information given to them fairly represents the facts of a company's situation, or that it shows the nature of the biases if the annual report is inaccurate. The purpose of independent expert opinion given in an audit is to lend credibility to the financial statements released by a company (Stamp & Moonitz, 1979). Auditing is useful in a number of different contexts and is comprised of two main types—internal and external. Internal auditing, which is performed by an employee of the entity, aims to determine whether the existing system in the company is effectively designed to communicate management's directives, collect necessary data, and report results to the management. Internal auditing is thus oriented towards ensuring the internal efficiency of the company's operations and the proper flow of information between departments. Internal auditors work in the interests of the company. External users of accounting information will, however, not derive complete satisfaction from an internal auditor's assurance about the fairness and accuracy of accounting reports. Therefore, external auditors who can be believed to be free of bias or partisan interest need to be engaged to have the information in the reports 'checked out' (Porter et al., 2008). Also, the purpose of auditing in both cases differs, as internal auditing is more concerned with efficiencies within the organisation, while external auditing is concerned with the financial performance of the company and expected returns to all stakeholders. An independent auditor, external to the business, examines financial statements prepared by the management to ensure that the information reported in them

accurately represents the condition of the company to the users of its financial statements.

According to the American Accounting Association's (AAA) Committee on Basic Auditing Concepts (1973), the demand for external auditing is created by four conditions in the business environment:

1. Potential or actual conflict of interest.
2. Consequences of errors.
3. Complexity.
4. Remoteness.

First, the demand for external auditing may arise from the existence of a conflict of interest between the users and providers of information. After the Industrial Revolution, the company form of organization emerged, characterized by a separation of ownership (shareholders) and control (managers). With a distinction between the roles of management and other stakeholders, there is an information gap between the two since the managers, involved in the day-to-day operations of the company, may have more knowledge of the company's status than the other stakeholders. Managers may deviate from the overall objective of the firm of wealth maximization in pursuance of their own goals which may not be in the best interests of the owners. Further, managers may also have an incentive to disclose false information about reaching the targets set by the owners without having actually achieved those set goals (Jensen & Meckling, 1976). Thus, auditing is needed as a mediating process between management and other stakeholders to ensure that the information presented to stakeholders fairly represents the facts of the situation or, if it does not, audit opinion must show the nature of the biases. The statements reported by managers to portray the firm's financial performance, position, and cash flows need to be audited by an impartial authority to ensure that the information represents the company's status as accurately as possible.

The second reason for having external auditing comes as a consequence of the activities that depend on financial information. Since the users of company statements rely on financial information for making a host of decisions – from buying shares to changing operational structures – they are concerned with the possibility of biased, misleading,

irrelevant or incomplete information. They need to be assured that the information is reliable and complete so that they can act upon their decisions without fear or uncertainty. In this situation, the external auditor's work adds to the credibility of the underlying information and, as a consequence, users may be more confident in the information and make more accurate decisions and evaluations (Ittonen, 2010).

The third objective behind the auditing of financial reporting is to maintain a link between the actual process of accounting and the communicated information. This relationship is becoming more complex with advancements in accounting practices and communications technology, so auditing is needed to ensure that the information is provided in an understandable way to users. Moreover, Ittonen (2010) argues that the interpretation of financial statements also requires a thorough understanding of accounting and reporting practices, business processes, governance issues and institutional settings.

Such a requirement makes it very difficult or even impossible for the majority of users of financial information to obtain direct assurance as to the quality of the information received. Therefore, there is a growing need for the financial statements to be audited by an external auditor who has the necessary competence and the ability to understand the firm's business, accounting practices and its transactions to validate the accuracy of the information (Salehi & Bizhan, 2010).

Finally, auditors help to bridge the gaps and biases in information reporting that arise from the remoteness of the business environment caused by the separation of the users of information (owners, creditors, potential investors etc.) and information sources. As users of information are not involved in the day-to-day operation of the business, they can only observe the business from a distance. This deprives them of the ability to directly assess the quality of the information received. For this reason, a third party is needed by users to audit the firm, to help them assess the quality of the financial information provided.

1.6 Statement of Significance

The foregoing discussion has defined all the major aspects of the research problem and provides the background to this study. It highlights that audit delay in Libya is of

concern as most companies in Libya are not able to complete the auditing process in time to release their financial statements by the declared date of financial yearend. As the issue of delay in timely reporting is quite serious in Libya, this study takes on the task of examining the causes and effects of audit delay in the financial reporting of listed and non-listed companies in that country. Audit delay for the purposes of this research is defined as the number of days between the date of a company's financial statements and the date of the auditor's report.

Prior research has pointed out that audit report delay can be influenced by the general economic environment and national accounting, political and cultural systems (Bribesh, 2006, EI-Sharif, 1980). Although there is no prior research determining the reasons behind this problem, there is evidence that the absence of strict regulatory frameworks, general indifference towards maintaining accurate financial records and weaknesses in the auditing infrastructure all contribute to audit delay in Libya. It has also been suggested that because most Libyan companies are owned by the state, there is less pressure for them to prepare and publish their annual reports on time (Bribesh, 2006, Almalhuf, 2009). But it could be argued that structural deficiencies in the auditing infrastructure, standards of timeliness in corporate reporting and regulatory frameworks will evolve with the maturation of the economy and broader socio-political development. These are larger structural problems that can only be addressed on a holistic basis by the national government through diversification of the economy beyond the public sector, strengthening the legal framework and improving accounting education.

This study therefore focuses on discovering those attributes existing in Libyan's companies and auditing firms that contribute to audit delay. Instead of examining the larger socio-economic factors which are beyond the control of commercial companies or the accounting sector, this study will focus on factors originating from within the companies and auditing firms that can cause audit delay. Identifying such factors will help to determine how certain attributes lead to longer audit delay in some firms and thus the guiding research question of the thesis can be framed in the following terms:

What are the company and audit firm attributes that contribute to audit delay in Libya?

Discovering the reasons for audit delay may enable companies, auditors and policy makers to adopt steps that can identify sources of audit delay and mitigate the negative consequences. Arguably, such information will not only facilitate a better understanding of the specific contextual factors behind audit delay, these issues can also be targeted by the companies and their auditors to improve efficiency in publishing their reports on time. In other words, the findings of this research can be used to identify existing barriers to the timely release of reports and to formulate better practices that can reduce audit delay. As Ashton et al. (1989) argue, “better understanding of the determinants of audit delay may facilitate inferences concerning the structure and function of the auditing profession”. This research will also be the first study to investigate external auditors’ perceptions regarding the determinants of audit delay in Libya.

1.7 Objectives of the study

Following an extensive literature review of the existing empirical research, the study has identified specific variables relating to company and auditor characteristics that are relevant for examining audit delay in Libya. Therefore, the objective of the study is to:

1. Investigate the relationship between company attributes and audit delay in Libya, by:
 - a. examining the relationship between the size of a company and audit report delay;
 - b. examining the relationship between the nature of a company’s activities and audit report delay;
 - c. examining the relationship between the internal control systems of companies and audit report delay;
 - d. examining the relationship between the timing of company yearend and audit report delay;
 - e. examining the relationship between extraordinary items and audit report delay;
 - f. examining the relationship between profitability and audit report delay.
2. Investigate the relationship between audit firm characteristics and audit delay in Libya:

- a. examining the relationship between audit firm size and audit report delay;
- b. examining the relationship between type of audit opinion and audit report delay.

In addition to the above main goals, the study also seeks to identify the differences in the subject groups' perceptions (External auditors versus auditors from the Institute of Financial Auditing) of the effect of the eight selected variables on audit delay in the Libyan context.

1.8 Research Methodology

This section provides an overview of the research methodology used to conduct the study. A detailed specification of the methodology, including the rationale for the selection of the research methodology, is provided in Chapter 5. In order to achieve the aims and objectives of the current study, it was necessary to review studies on this topic conducted in both developing and developed countries. So the researcher focused on the available literature pertinent to the subject area as the first step in identifying the issues addressed in this thesis. The literature review covered many sources such as books, periodicals and journals, PhD theses and conference papers. Reviewing prior research assisted the researcher in identifying the relevant variables affecting audit delay and formulating the hypotheses for empirical testing. The next step is concerned with the data for testing the hypotheses. A research method is a set of means used to collect and /or analyse data to fulfil the research objectives. There are various data collection methods, for example, observation, interview, questionnaire survey and case study. Given the research objectives of this study and the need to examine the perceptions of a wide range of auditors, it was decided that a questionnaire survey would be the most appropriate approach to data collection. A questionnaire survey enables the researcher to access and gather quantitative data from a large sample. Apart from surveying individual respondents about their perceptions on audit delay, data regarding the publication dates of audited annual financial statements for the period 2008 to 2010 was collected from statistics available for the 28 companies listed on the Libyan Stock Market in order to determine the audit delay times for the total sample.

The questionnaire was divided into three main sections and each section included several questions or statements pertaining to a specific topic of relevance to the study. The first section contained questions relating to the demographic profile of the respondents. The second part of the questionnaire was designed to examine the perceptions of participants as to the impact of company-specific factors on audit delay in Libya, while the respondents' perceptions of the effect of some audit-related factors on audit delay were collected in the third section.

The study used a combination of both personally-administered and mailed survey questionnaires. The researcher's preference was to use mailed questionnaires as this allows quick and easy access to a large number of respondents across a vast geographical area. However, this method was combined with personally distributed questionnaires to counter the low response rate of the mailed questionnaires. Both descriptive and parametric statistics such as Chi-square for one sample, the binominal test and the one sample t-test were used to analyse collected data. The findings of the data analysis are described in detail along with a critical discussion of the results of the study in the last chapter of the thesis.

1.9 Thesis Outline

This chapter has provided an introductory overview of the thesis covering the research background, research problem, objectives and methodology of the study. Following this the thesis is organised into the following chapters:

Chapter 2 is concerned with giving an overview of relevant information about Libya and its economy in order to provide the context for the study and familiarise the reader with the setting of the study. It discusses some general facts about Libya as a nation in relation to its geography, population, history, culture, political system and economic developments. This is followed by an outline of the accounting and auditing profession, practices and regulatory frameworks in the country.

Chapter 3 discusses the importance of financial reporting, the usefulness of financial accounting as a practice and provides a profile of users who partake of information from financial accounting. It also examines the four main requisite characteristics of good

accounting information that have been established in the accounting literature, namely, relevance, reliability, comparability and comprehensibility.

Chapter 4 focuses on the importance of timeliness as a criterion of useful financial information and the critical importance of timely financial statements for users in making investment decisions. It identifies audit delay as a major hurdle for timely financial reporting. From an extensive literature review of previous empirical research in the field, it identifies relevant variables relating to company and auditor attributes that affect audit delay. All the variables are explained and a conceptual model with hypotheses relating to each variable is presented.

Chapter 5 moves on to a discussion of the research methodology used to collect and analyse data to test the hypotheses. It reviews the research design, research paradigm, and research instruments employed in the study. The use of quantitative surveys for collecting data is discussed, as are the limitations of the method and the difficulties encountered during fieldwork.

Chapter 6 presents the results of the quantitative data collected from the questionnaires. It examines the participants' perceptions about the timeliness of auditors' reports in Libya by testing the data in relation to the nine hypotheses formulated in Chapter 4.

Chapter 7 is the concluding chapter of the thesis. It provides an overview of the whole study and presents a summary of the research findings. This is followed by a brief outline of recommendations to improve the timeliness of auditing in Libya. The chapter also highlights the study's contribution to the accounting/auditing profession and the academic literature on the subject of audit delay. The chapter ends with a note on the limitations of the study and suggests areas for further research.

Chapter 2 Research Background: Socio-economic Context and Auditing Sector in Libya

2.1 Introduction

This chapter aims to provide the background to Libya as a nation as well as its auditing / accounting sector to help provide the context for the research problem at hand. The chapter is divided into two parts. The first part gives a brief overview of the general social, political and economic environment in Libya with information about its location, population and climate and its history, culture and society. The second part is devoted to a description of the auditing profession in Libya and covers the history of accounting in Libya, the nature of accounting education in Libyan universities, the laws governing the auditing profession in Libya and existing academic research on accounting and auditing in Libya.

2.2 Libya: Social, Historical and Economic Background

To understand the functioning of auditing firms and the practice of accounting as a profession in Libya, one also needs to have a rough understanding of the social and economic context. Business practices or commercial enterprises do not exist in a vacuum but instead are part of the larger societal context in which they are embedded. Therefore, an understanding of that larger societal context is needed to better examine the reasons and rationales behind the kind of business ethics or practices deployed in a certain country. This first part of the chapter is thus concerned with providing a brief background to Libya as a nation, focussing on its social, political and historical context in order to familiarise the reader with both the country and the context of the research problem.

2.2.1 Libya in Brief

Libya is an Arabic state located in the centre of the northern coast of the African continent, bordered by Algeria and Tunisia in the west, the Mediterranean Sea in the north, Egypt and Sudan in the east and Chad and Niger in the south. Libya is one of Africa's largest countries ranking fourth in size in Africa and fifteenth in the world. It occupies a vast area of 1,759,540 square kilometres (679,362 square miles) and boasts 1,900 kilometres of coastline with the Mediterranean Sea to the north from Tunisia in

the west to Egypt in the east. It is about one-half the size of Europe and one-quarter the size of the United States of America and slightly larger than Alaska. Libya is divided into three distinct regions: Cyrenaica, in the east, oriented towards Egypt and the Levant; Tripolitania, in the west, oriented towards the Maghreb and Europe; and the Fezzan, in the south, which looks towards the Sahel and the rest of Africa.

Figure 2.1 Libya and its provinces



The first census of Libya was conducted in 1954; the population at that time was 1,080,000 including 45,000 Italians, 13,000 Jews and 4,000 Maltese (Bribesh, 2006). Since 1954, the census has been undertaken every ten years. According to the World Bank, the last census of Libya conducted in 2009 showed that Libya has a population of 6,419,925 people, of which 30 per cent are under the age of 15 and most of population is restricted to a coastal strip along the Mediterranean. Most Libyans are Sunni Muslims of the Malikit sect. The official language in Libya is Arabic which is used in government and business, although English is taught in schools from grade four, and Italian is also spoken in some Libyan cities. The climate of Libya has marked seasonal variations influenced by both the Mediterranean Sea and the desert. While there is a temperate Mediterranean climate along the coast, an arid desert climate prevails in the rest of the country with an average annual rainfall of only 10 inches (25cm), which falls intermittently between November and early May.

2.2.2 Libya: Historical Context

Birth of the Libyan nation Because of its strategic location in the middle of North Africa, the history of the Libyan region has been characterised by a seemingly never-ending procession of foreign rulers who have continually tried to subdue the restless network of tribes which have populated the hinterland of Libya (Collins, 1974). In 647, an Ummayyad Arab army of 40,000 swept through North Africa, establishing Muslim rule. The Ummayyad regime and the subsequent Abbasid and Aghlabid rulers promoted Islam and presided over a return to order in Libya where irrigation systems were rebuilt and trade was restored. By the ninth century, most Libyans had converted to Islam. By the beginning of the 16th century Libya had become part of the Ottoman Empire (Turkey), and the three provinces of Tripolitania, Cyrenaica and Fezzan were joined together into one territory in Tripoli. Wright (1981) argued that the Turkish occupation of Libya was as much a religious administration as a colonial one.

As the Turkish government weakened, they were pushed out by the Italian troops, who landed in Tripoli (the current capital of Libya) on 3 October, 1911. The Italian occupation of Libya lasted for more than 30 years and Italy treated Libya as its fourth shore. Although the Italians instituted a colonial regime in Libya, it is clear that a few good things also happened under Italian rule though most of these were intended to help the Italian settlers. Roads were improved, and new irrigation systems delivered water to dry desert lands. But because of the hardships imposed on the people, Libyans hated Italian rule and the Italians met strong resistance from Libyans. According to Davis (1990) half of the country's population, or about 750,000 people died, during the Italian colonization in Libya. As a result of this resistance, Italy ceded control of the whole country in 1934. Libyans joined the allies in the World War and after the defeat of Italy and Germany by the allies in 1943, Libya was placed under an Anglo-French military government with Tripolitania and Cyrenaica being under British administration and the French controlling Fezzan.

The road to independence in Libya was paved on November 21, 1949 when the UN General Assembly passed a resolution stating that Libya should become independent before January 1, 1952. Libyan independence was proclaimed one week before the deadline set by the United Nations on 24 December 1951 making Libya the first country

to achieve independence through the United Nations. Article 213 of the constitution was approved by the National Assembly on 7 October, 1951 and the United Kingdom of Libya was declared as a hereditary monarchy (Wright, 1981) and Mohamed Idris Al-Senussi was chosen by the National Assembly as Libya's first king.

The ascendance and fall of the Qaddafi regime: On September 1, 1969, while the king was away in Turkey receiving medical treatment, a group of young army officers and soldiers took over the control of the government and ended the monarchy in a bloodless coup. At the young age of twenty seven years, the leader of the coup Muammar Qaddafi became the supreme leader of Libya. Qaddafi changed Libya's name from the Republic of Libya to Socialist People's Libyan Arab Jamahiriya which proclaimed the end of any form of conventional institution of government whether authoritarian, family, tribal, factional, class, parliamentary, partisan or part coalition. But the 'socialist' ideology proclaimed in The Green Book by the Qaddafi-led regime did not translate into an egalitarian and democratic society in Libya.¹ The democratic society that Qaddafi purports to have established does not reflect the reality of life in Libya. Qaddafi lays down the law, supported by a military ready to defeat any challengers. In order to ensure that no centralised body could challenge his own authority, Qaddafi and his team set up a complex process in which all Libyan people could voice their opinions through smaller local government bodies.

Over more than four decades, Qaddafi's name has been linked to terrorist activities and he has been accused of running a brutal regime over his people. As a result of this, the international community slowly but effectively isolated the Qaddafi regime politically, diplomatically and economically and Libya was subjected to multilateral sanctions by the United Nations from April 1992. Despite its wealth in natural resources, Libya under Qaddafi's rule has remained one of the least industrialised countries in the Arabic world.

In 2011, the Libyan people revolted against Qaddafi to bring an end to the authoritarian political system he has controlled in Libya for the last four decades. Inspired by

¹ Freedom House has designated Libya as "not free" and has assigned it a rating of 7 out of 7 for political rights and 7 out of 7 for civil rights. The lower the rating the higher the degree of political and civil liberties.

revolutionary activities in the neighbouring countries of Tunisia and Egypt, the Libyan people started demonstrating peacefully on 17 February in Benghazi and other eastern cities such that the situation quickly spiralled out of Qaddafi's control. But unlike Tunisia and Egypt, the story of Libyan revolution has been much darker as it turned into a full-scale civil war with great loss of life and destruction. After much fighting and destruction, Qaddafi's regime was toppled and the way was paved for a new democratic government.

2.2.3 Libya: Economic Context

There is no doubt that the most serious concerns of developing countries are economic in nature—improving the standard of living, increasing work output, rationalising agricultural production, and so on (Baffoe-Bonnie & Khayum, 2003). At the time of the independence, Libya was recognised as one of the poorest countries in the world. Wright (1981) notes, “National poverty, with annual income estimated at \$35 *per capita*, was reflected by social ills - high birth and death rate; much sickness from malnutrition in a generally healthy climate; widespread illiteracy and ignorance; and shortage of education and training in the skills necessary for economic and social advancement and self-government”. Despite numerous obstacles, Libya made remarkable economic and social progress between 1951 and 1969. From being one of the poorest countries in the world, whose greatest asset was probably its 1000-mile Mediterranean coastline, Libya has now turned into one of Africa's wealthiest nations. Libya's economic development has witnessed a number of changes and has gone through different historical stages. The discovery of oil is so crucial to the story of Libya's economic development. The nation's economic history can best be understood by examining the Libyan economic system before and after the discovery of oil. This section will shed light on the dramatic changes that the Libyan economy has experienced with the discovery of oil.

i. Libyan Economy Before The Discovery Of Oil

Prior to the discovery of oil in Libya in 1959, the country's economy was characterised by problems which exist in most developing countries: a low level of domestic consumption and production, a chronic trade deficit offset only by foreign aid (see

Table1), a low level of literacy and health and inadequately exploited natural resources [US Department of Commerce, 1970].

Table 2.1 Foreign Financial Resources available to Libyan Government*

JULY 1, 1951-JUNE 30, 1960 (In millions of U.S. dollars)

SOURCE	1951-57	1957-58	1958-59	1959-60	Total
United States	34.9	26.4	29.0	35.7	126.0
United Kingdom	50.9	12.0	9.2	9.2	81.3
United Nations	4.5	0.8	0.8	0.8	6.9
France	2.4	1.3	-	-	3.7
Italy	0.8	-	1.4	1.4	3.6
Others	3.4	-	-	-	304
Total	96.9	40.5	40.4	47.1	224.9

"Basic Data on the Economy of Libya," U.S. Department of Commerce, World Trade Information Services, Economic Reports, Part I, No. 61-10, 1961, p. 13.

Before the discovery of oil, Libya was faced with serious problems of an economic nature. Agriculture occupied the efforts of over 80 per cent of the population and yielded, in most cases, a pitifully small return owing to a combination of factors including poor rainfall, hot destructive desert winds (gibly)², locust swarms, and primitive farming methods. Industry offered even fewer possibilities since there were practically no mineral resources or power stations. In addition, human resources had a distinct qualitative limitation stemming primarily from a lack of education, training, and motivation, and to a lesser extent from the paucity of health facilities.

It has been shown that the federal budgets of Libya before the discovery of oil were subsidised by Western aid. According to Cecil (1965), more than 58 per cent of the April 1959-March 1960 budget of Libya was subsidised by foreign aid. The country's balance of trade was negative as its imports far exceeded its exports. According to Wright (1981), in 1950 income from exports (US\$6.35 million) covered less than half the

² A gibly is a hot and dusty wind descending from the interior highlands of Libya towards the Mediterranean Sea.

cost of imports (US14.19 million). Libya’s international trade position at that time was affected by many difficulties (see Table 2.2).

Table 2.2 Libya's trade deficit 1954-1960* (Value in millions of Libyan pounds £LI = US \$2.80)

	1954	1955	1956	1957	1958	1959	1960
Imports a	11.3	14.3	16.5	22.7	23.9	27.7	60.4 ^b
Exports	3.4	4.3	3.8	4.7	4.3	3.6	4.0
	-7.9	-10.0	-12.7	-18.0	-19.6	-24.1	-56.0

Source

* National Bank of Libya: 'Fifth Annual Report of Directors, Year ended 31 March 1961.'

a Excludes direct imports by oil companies.

b Includes direct imports by oil companies.

ii. Libyan Economy after the Discovery of Oil.

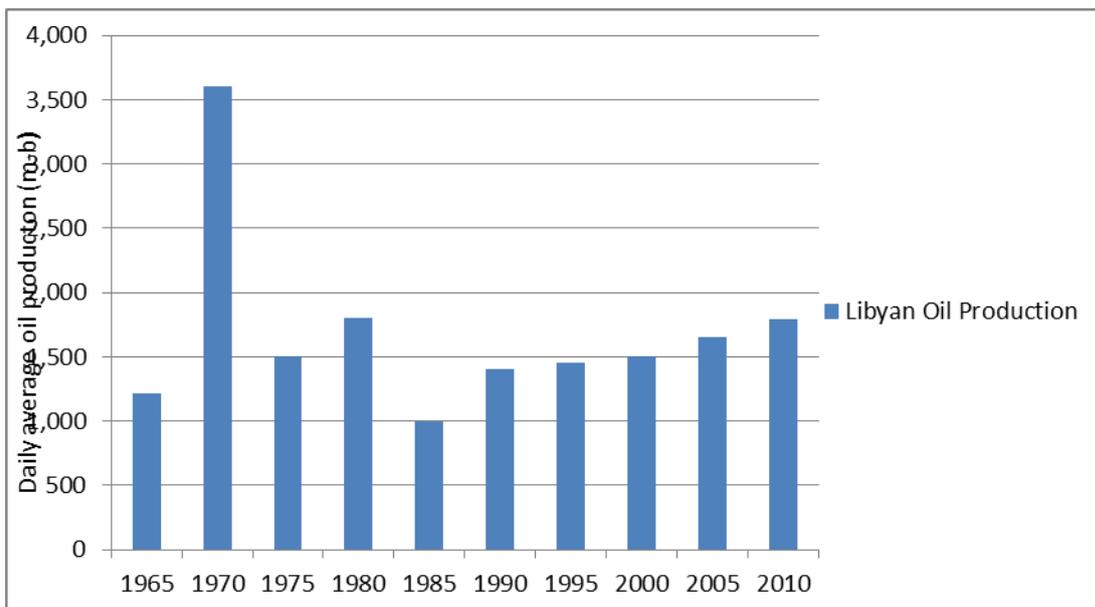
One of the most remarkable of the numerous changes that occurred in Africa in the sixties was the emergence of a new oil province in the northern Sahara, an area which had until then been unexplored for oil. For the first time, in January 1964 the Libyan government was able to announce that crude oil export had eliminated the balance of trade deficit that had set back the young nation. There is no doubt that, one way or another, most of Libya’s political and economic importance today is rooted in the discovery of oil in the country in 1959.

Actually, the story of the discovery of oil began tentatively before WW1, as long ago as 1915, when Italians occasionally found traces of natural gas while drilling deep water wells (Wright, 1981). With no settled political future, the war in the country ended any possibility for further exploration. After independence, Libya began to look for oil in its territories and proceeded to open the country to foreign oil companies. Many foreign oil companies responded to the government’s invitation and proceeded to set up exploratory digs in the Libyan Desert. By the beginning of 1954, just nine oil companies (six American, one British, one French and one Anglo-Dutch) succeeded in getting permission to explore the Libyan Sahara. By the beginning of 1961, there had been more active exploration for oil in Libya than in any other country in so short a time with nearly twenty companies from across the world in two-thirds of the Libyan territory and even extending offshore into the Mediterranean. While inviting these

foreign companies, the government published a minerals law in 1951 followed by its first petroleum law in 1955 to safeguard Libya's economic and ownership interests in these natural resources.

The story of Libyan development in the 1960s was led by an unprecedented boom in the petroleum sector. Per capita income increased dramatically from about US\$35 in the early 1950s to US\$1,018 in 1967 and government revenues from petroleum increased twentyfold from US\$40 million in 1962 to an estimated US\$800 million six years later. Export production began at 20,000 barrels per day (b/d) in 1961 and reached 1.5 million b/d by 1966, 2.6 million b/d in 1968 and 3.6 million b/d in 1970 which nearly equalled those of the long-established producers (Saudi Arabia and Iran, 3.7 million b/d in 1970). Within just eight years of the first shipment, Libya became the world's fourth largest exporter of crude oil.

Figure 2.2 Oil production in Libya 1965-2010



Source: OPEC Annual Statistical Bulletin, 2010

By the mid-1980s, a slump in the oil price after 1986 negatively affected the Libyan trade balance as Libyan oil revenues went down from US\$21 billion in 1980 to US\$6.5 billion in 1986. According to Baryun (1993), for the first time since the 1963 oil boom, the trade balance recorded deficits in the three years from 1987 to 1989. As a result of the sharp decline in oil price, long-term development plans were cancelled and replaced

by annual budgets from 1982 up to 2000. As a response to the sharp drop in oil prices in the 1980s, Libya began opening its doors to international trade and moving from state ownership towards a market-oriented economy. With a view to cutting public expenditure, the government adopted its first economic reform policy in March 1987 that allowed limited private sector investment in Libya for the first time since 1977 (Vandewalle, 2006). In order to systematise and control the trend toward privatization, the government introduced a new concept called *tashrukiyya* or shared ownership that endorsed the creation of cooperatives to which some partners contribute labour and capital (Vandewalle, 1998).³ This move was followed by establishing a privatisation law (No.9) on September 1992 where a minimum requirement for employee ownership is imposed and workers' ownership is encouraged through saving schemes for the purpose of buying shares in privatized companies.

All these steps were taken by the government to liberalise the economy, reduce its heavy reliance on oil revenue and improve its performance. In order to meet the reform policies targeted to modernize and diversify the economy, the government implemented some important measures which aimed to (i) bring domestic prices in line with world prices; (ii) adopt tariff reform and establish a comprehensive program to reform the public sector and to encourage private activities in the economy; (iii) improve the performance of monetary policy within a well-defined framework and develop indirect monetary instruments and money markets; and (iv) strengthen the banking system (IMF, 2003). But ten years of UN sanctions coupled with state dominance in economic activities had made a significant adverse impact on the economy in Libya and made it impossible to adopt any reform policy to boost the economy.

iii. Economic sanctions on Libya

The conflict between the Qaddafi regime and the US started in December 1979 when the US blacklisted Libya claiming it was a state sponsor of terrorism. Six years later, in January 1986, under the authority of the International Emergency Economic Power Act (IEEPA), the US imposed a comprehensive sanction against Libya on import/export trade, landing rights, transportation to or from Libya, and financial transactions

³ The idea of *tashrukiyya* is based on sharing the returns on investment between (worker, machine, capital).

including the freezing of Libyan assets in the United States. The sanction was in reaction to the Qaddafi's regime's involvement in the terrorist attacks that occurred at the Rome and Vienna airports in December 1985. According to Vandewalle (2006), the direct impact of the US unilateral sanction between 1986 and 1992 was relatively small. The US Government Accountability Office (GAO) report in 1987 explained that the departure of US oil companies from Libya had little effect because the oil previously produced and sold by these companies was now produced and marketed by the Libyans, providing them with additional revenues. The extensive availability of oil field equipment, supplies, and services from other foreign sources allowed Libya to meet its needs without having to rely on the US. The lack of Libyan dependence on US products and the unwillingness of other countries to institute similar sanctions reduced the impact of the US sanction.

Multilateral sanctions against Libya were imposed by the UN on the 15th April 1992, under Security Council resolutions 748 (1992) and 883 (1993) after Libya refused to hand over two Libyan suspects involved in the December 1988 PanAm 103 airplane bombing over Lockerbie, Scotland which killed 270 passengers (including 189 Americans).⁴ The new sanction included an air embargo, a ban on the import of arms and oil production equipment, further reduction of diplomatic personnel, and freezing of Libyan assets and economic resources worldwide. The sanctions affected the country's development plans and put an effective stop to privatisation or any liberalisation of the economy and trade. According to the Economist intelligence Unit (1995), all privatisation endeavours in Libya were put on hold as the state tightened its control over the country to deal with the sanctions.

On 5 April 1999, the Qaddafi regime embarked on a strategy to end Libya's international isolation and to distance itself from terrorist actions by handing over the two Libyan men suspected in the PanAm 103 airplane bombing for trial by a Scottish court sitting in the Netherlands after Qaddafi and other high Libyan officials had been given an 'immunity deal'. As a result, the UN immediately suspended the sanctions on

⁴ Resolution 731 urged the Qaddafi regime to provide a full and effective response to the extradition requests and to contribute to the elimination of international terrorism while Resolution 748 imposed economic sanction on Libya.

Libya.⁵ In response, the Security Council lifted all UN sanctions against Libya on 12 September 2003. In another move to end Libya's isolation, the Qaddafi regime promised that Libya would abandon its biological weapons programme and accept international monitoring effective from December 2003. Since the suspension of UN sanctions in 1999, Libya has relaunched its liberalisation programme and initiated a series of cautious changes to move from a planned to a market-based economic system. The plans aim to liberalise Libya's economy and trade and encourage foreign investment in selected sectors, particularly in hydrocarbons (IMF, 2003).

Libya as a nation has paid a high economic price for the Qaddafi regime's policies and its involvement in terrorism is estimated to have cost billions of dollars. According to the World Bank, sanctions have cost the Libyan economy approximately US\$18 billion in lost revenue, mostly as a result of underinvestment in oil, while a report sent to the UN in March 2000 by the Libyan government put the damage higher at about \$33 billion (Takeyh, 2001).

The Qaddafi regime has failed to wean the Libyan economy away from its dependence on oil and gas. Even now, oil and gas forms the backbone of the national economy and as per data in 2010 it contributed about 95 per cent of export earnings, 25 per cent of GDP, and 80 per cent of government revenue. As the economy is so dependent on exports of oil and gas, planning has been crucial to direct its socio-economic development. Despite Libya's oil wealth, it is estimated that one-third of the population lives under the poverty line and the average wage of a worker in Libya is the lowest among all other oil-producing countries in the region and it has remained unchanged at about US\$200 a month for the last thirty years. Moreover, the Libyan economy suffers from a high rate of inflation, a balance of payments' deficit, and low employment and growth rates. All these challenges have ultimately led to an imbalance in the economy. According to census figures released by the Libyan authorities in 2009, Libya has one of the highest jobless rates in the region at about 20.74 per cent compared with 9 to 15 per cent in other countries in the region.

⁵ One of the suspects was found guilty of murder and sentenced to life imprisonment in January, 2001, while the other suspect was acquitted and freed by the Scottish government in 2009 on humanitarian grounds.

Another obstacle to economic growth in Libya is corruption. According to Transparency International's 2009 corruption perception index, Libya was ranked 146th of 178 countries. It has been reported that multinational companies operating in Libya face numerous obstacles due to these corruption issues in the bureaucracy. Instead of paying bribe, companies need to make what is called "payoffs to keep doing business". According to State Department cable (2009), the Qaddafi family itself and its close political allies controlling the regime in Libya have a direct stake in anything worth buying, selling or owning and Qaddafi or his loyalists often extract millions of dollars in "signing bonuses" and "consultancy contracts".

2.3 Accounting and Auditing Profession in Libya

2.3.1 Development of accounting in Libya

This section sheds light on the accounting and auditing profession in Libya in terms of its development, education in the discipline and legal structures regulating the profession. It has been argued that colonisation has impacted on the accounting and auditing environment in most developing countries and the Libyan case is no exception. Bait El-Mall et al. (1973, p. 85) argue that

Accounting principles and auditing standards in Libya follow those of Britain – a derivative of British rule after the Second World War. Large firms and government advisers were British, and, until the First of September Revolution in 1969, the director of the State Accounting Office, J. H. Newbegg, was a British Chartered Accountant.

As it was noted previously, Italy considered Libya as its fourth shore during the period of Italian colonisation (1911-1943). In order to improve the living conditions of the new Italian settlers during this period, the Italian government attempted to develop all aspects of life in Libya including implementation of modern accounting practices, education and profession. As a consequence, many Italian accountants brought to Libya the same accounting systems and work practices implemented in their homeland. But it can be argued that the impact of the Italian accounting system on the Libyan context was not so strong because the Italians did not involve Libyans in administrative and accounting jobs and kept their accounting system to themselves (Kilani, 1988).

In 1923, the Italian government introduced the first tax law in Libya's history, which was enforced in its original form from the Italian system and not modified to suit the Libyan context. Under this law, all companies operating in Libya were required to submit their financial statements and other accounts at the end of each fiscal year to the tax department (Bait El-Mal, 1990). This law was the cornerstone for establishing the accounting sector in Libya and stayed in effect until 1968 when it was replaced by a new income tax law.⁶ It has been reported that the accounting sector during the Italian colonisation was confined to financial accounting and there was no evidence of any auditing practices or management accounting during that period (Kilani, 1988).

After independence in 1951, there was major development in the accounting profession in Libya as the nation experienced some drastic and serious changes in the economic and political sectors. The discovery of oil in Libya in the 1950s attracted many foreign companies keen to do business in Libya and that, in turn, led to an urgent need for investors, creditors, business managers and governmental agencies to develop the accounting profession in Libya. Due to the absence of an effective accounting system and auditing profession in Libya at that time, international firms operating in Libya were allowed to implement and follow the accounting policies standards and procedures they applied in their home countries.

Kiliani (1988) states that accounting education, accounting academics, global companies and global accounting firms (especially American and British firms) have played a vital role in the development of the Libyan accounting system. Kiliani (1988) further argues that the impact of international business on the evolution of the accounting profession is based on two factors:

1. International firms (or their subsidiaries) doing business in Libya;
2. Accounting training of Libyan nationals by such companies.

In this regard, Robin who worked in Libya in the early 1980s as an auditor of a British company, stated that British and American accounting practices are still widely followed by companies working in Libya and most of the time the tax authorities accept

⁶ The Italian tax law was suspended in Cyrenaica by the British administration in 1943 while it was applied in Triolitania till 1968.

financial statements prepared and certified according to American and British accounting practices as valid statements for tax purposes. This has had a significant impact on Libyan companies, some of whom still employed British accountancy systems till the 1980s (Kiliani, 1988) .

Although it has been more than thirty-nine years since the Libyan Accountants and Auditors Association (LAAA) was established, there is a general agreement among accountants, academics and researchers in Libya that very little has been done by the LAAA to build a theoretical base for accounting as a profession (Kilani, 1988; Bengharbia, 1989). There has been a failure to develop accounting and auditing standards, while a much-needed Code of Ethics that would improve professional practice is also sadly missing (Almalhuf, 2009; Bakar & Russell, 2003; Buzied, 1998). Also, no ongoing professional training is required for continuing membership with the LAAA (Ahmad & Gao, 2004), and for this reason audit firms normally do not conduct any training programmes for their auditing staff. These circumstances bring the competence level of Libyan professional auditing practice into question. Consequently, it can be argued that the LAAA has failed to regulate itself and to recognize its obligation towards the public interest. Moreover, the LAAA has not achieved its objectives of promoting continuing education and training amongst accountants as a means of improving the status of the profession.

2.3.2 Related Accounting and Auditing Regulations

Law No. 116 of 1973: By the beginning of the 1970s there were strong demands from different parties involved in economic activities in Libya to set up a professional body to regulate and develop the public and private accounting profession. In order to meet these demands, the Libyan government on 20 December, 1973 established Law No. 116 of 1973. The law is considered as the actual starting point for organising and developing the profession of accounting in Libya, and is divided into eight chapters as follows:

1. The establishment of the LAAA;
2. Registration of accountants;
3. Exercise of the profession;
4. Charges;
5. Pension and contribution fund;

6. Responsibility of accountants and auditors;
7. Penalties;
8. General and transitional provisions.

The Libyan Accountants and Auditors Association (LAAA) was established in June 1975 to oversee and regulate the accounting profession. The main objectives of the LAAA are:

1. To organize and improve the conditions of the auditing profession and raise the standards of accountants and auditors professionally, academically, culturally and socially.
2. To arrange conferences and seminars and to participate in such conferences and seminars inside and outside Libya, and to be in contact with new events, scientific periodicals, lectures, and so on.
3. To provide assistance to its members and to set up pension funds.
4. To protect accountants' and auditors' rights and to achieve consensus between them.
5. To penalize all members who breach the traditions and ethics of the profession. (Law No. 116 of 1973, article 3).

According to Law No. 116, all accountants in the auditing profession in Libya must be registered as chartered accountants with the LAAA to ensure a high quality of auditing and only persons who are properly supervised and appropriately qualified are to be appointed as company auditors. The membership of the profession is divided by law no.116 into four general groups:

1. Accountants and auditors
2. Accountants' and auditors' assistants
3. Non-working accountants and auditors
4. Non-working accountants' and auditors' assistants

According to the requirements, foreign accountants who don't hold Libyan nationality are not allowed to practice accounting and auditing in Libya.⁷

⁷ For more details about the requirements see articles No. 24, 26, and 28 of Law No. 116.

In 2006 the LAAA introduced the first Exposure Draft of Libyan Accounting Standards which included 29 accounting standards based on IASs. Large multinational firms entered the country recently due to a lack of LAAA's members who may supply accounting and audit services. Although the Law 116 of 1973, which is the only legislation that regulates the accounting and audit professions in Libya, prohibits non-Libyans from providing statutory accounting and auditing in the country, these multinational firms partnered with Libyan accounting and auditing firms/offices. Consequently KPMG, Deloitte, Price Waterhouse Coopers have been involved in partnerships with national Libyan accounting and auditing firms/ offices in Tripoli. However, Ernst and Young have established its own branch under the name of Ernst & Young and Partners (Shamsaddeen and Akbar, 2010).

Law No. 3 of 2007 for establishing the Institute of Financial Auditing (IFA)

Historically, Law No. 31 passed in 1955 instituted the State Accounting Bureau (SAB) under the supervision of the Ministry of Treasury to review and control the investment and use of public funds. The SAB was combined with the Central Institute for General Administration Control (CIGAC) by Law No. 7 in, 1988 (Ahmed, 2004). On the 22nd of January, 2007, the Libyan government re-launched the SAB as the Institute of Financial Auditing (IFA) and instituted it as an independent body under the control of the General People's Congress (GPC). According to this law, all public companies, organisations and associations with more than 25 per cent of state ownership in capital must be audited by the IFA. The IFA has the right to contract external auditors working in Libya to carry out the task of auditing the financial statements of state enterprises. In such cases the external auditor is directly responsible to report to the IFA instead of the management of these enterprises. However, it is worth noting that Law No. 3 of, 2007 did not explicitly specify any particular accounting or auditing standards that have to be adopted. A number of requirements must be met by accountants to become a member of the IFA. These include:

- Holding Libyan nationality;
- Having at least a bachelor's degree in accounting;
- Having at least five years of accountancy experience;
- Being active over political and civil rights, and

- Being of good conduct, reputation and respectability commensurate with the profession and agreeing to perform with complete honesty and sincerity.

Law No. 134 (2006) for establishing the Libyan Stock Exchange (LSE): On the 3rd of June, 2006, the Libyan General People's Committee (GPC) issued Law No. 134 of 2006 for the purpose of establishing the Libyan Stock Exchange as a joint stock company under the direct control and observation of the General Public Committee of Investment, Economic and Commerce with a capital of 20 million LD, divided into two million shares with a nominal value of ten LD per share. The main purposes and objectives of the LSE as stated in Law No. 134 of 2006 are as follows:

1. To prepare an appropriate investment environment in order to achieve general welfare.
2. To encourage a habit of reservation and raise investment knowledge in order to direct reserves to the most beneficial sectors.
3. To control and observe financial transactions.
4. To serve social and economic development.
5. To contribute to the process of privatisation of state-owned enterprises.
6. To conduct research and collect statistical data about the listed enterprises.
7. To establish the required standards to ensure and secure the correctness of the financial market's transactions.
8. To develop the competence of the LSE's employees by conducting the necessary training programs.
9. To develop cooperative relationships with other regional and international financial markets.

According to Article no. 55, all listed companies are required to prepare their financial statements according to IAS and these statements are to be verified according to international accounting and auditing standards. In addition, listed companies are required to publish their financial statements, notes to the financial statements and auditor's report in at least two prominent domestic newspapers within a week of their ratification by the company's general assembly. Moreover, listed companies are now required to publish quarterly financial statements with a summary from an external auditor's report.

As this brief overview of the various legislations relating to the accounting and auditing sector in Libya has shown, successive governments have taken the requisite steps to establish regulatory bodies and institute necessary laws as the needs of the country's economic and financial sector have grown. The establishment of the LAAA was the crucial starting point for the formalisation of accounting as a profession that could only be practised by registered chartered accountants. Subsequent laws require public companies to be audited by the IFA and set suitable deadlines and formalities for all firms to release their financial statements. This discussion shows that as far as the regulatory framework is concerned, appropriate legislations and controls for financial reporting have been put down, at least on paper. The problem of audit delay then is perhaps more to do with the lack of effective implementation of these guidelines in the country.

2.3.3 Current Status of Financial Accounting, Auditing and Reporting System in Libya

As a developing country, Libya's foray into the arena of economic and social development is still a relatively recent phenomenon. This progression towards socio-economic development gained momentum after the discovery of oil in the 1950s when Libya began experiencing rapid growth in its economy on the basis of oil-generated exports and revenues. The national economy grew around the export of oil and the expansion of oil-based industries leading to an upswing in other areas and industries such as investment, imports, agriculture, industry and other associated services. The rapid expansion of the economy and the growth of various industries necessitated the establishment of a reliable accounting system in the country that could calculate and quantify the net worth and performance of business activities. This led to the growth of accounting as a discipline and as a professional sector in Libya. As the business cycles and sectors have become more complex and interconnected, the demand for timely financial statements has also grown. With the growth of business and the emergence of a complex economic landscape in the country over the years, the number of users of financial information has also increased. All of this has generated the need to develop a policy aimed at organising the auditing profession in Libya to become more credible, efficient and punctual.

Most developing countries (including Libya) have been colonised by developed countries for long periods which leaves these countries suffering from poverty and lack of education. Moreover, most developing countries face managerial issues that exacerbate their accounting problems. Wallace (1990) argued that the accounting systems in developing countries are deficient as a result of weaknesses in the financial and reporting systems and has specified a number of factors including:

- Poor internal control;
- Lack of a management accounting concept;
- Incomplete, inaccurate and late reports as well as undependable systems;
- Shortage of staff;
- Inadequacy of financial accountancy; and
- Irrelevant and deficient reporting.

In the Libyan context, Buzied (1998) argued that there is a lack of the basic requirements of comparability, timeliness, reliability, understandability and relevance in accounting information provided by Libyan companies. Shareia (2006) finds that there are large variances in Libyan auditors' reports since they rely on their own educational and professional background and skills to write auditing reports as a result of the absence of auditing standards, binding laws and guidance on professional ethics and conduct. Moreover, according to a survey conducted by Razek (2002), Libyan accounting firms use different standards, processes and methods to produce an audit report. The survey's results also indicated there were no accepted auditing standards referred to by participating accountants in preparing their reports.

Agbara (2011) pointed out the obstacles and problems facing the auditing profession in Libya. He argued that there are several factors that have influenced the development of the auditing profession in Libya, such as the socio-political and economic situation. Nationalized companies have continued with the established practices and systems from the early 1970s to the present day. Moreover, Libyan audit context suffers from absence of national accounting principles and practices, auditing standards, and rules of professional conduct and ethics (Agbara, 2011).

Libya at this point in time has not adopted any of the current international standards in auditing or accounting practices. In this regard, Laga (2013) argued that there is no doubt that the adoption of International Financial Reporting Standards (IFRS) in Libya is not an easy task due to certain weaknesses of its Accounting infrastructure. In implementing IFRS, Libya will gain many benefits including increasing the level of comparability and providing more reliable, accurate, transparency and valid financial accounting information. However, the process of implementing IFRS in Libya will face several obstacles including lack of technical skills and inadequate knowledge of Libyan professional accountants, the difficulty to develop existing accounting systems, the lack of a regulatory framework to cope with economic and social development, and inadequate education and training of accountants.

Shareia (2006) stated that “Accounting and auditing practice in Libya is controlled by various laws which specify in great detail the requirements set out by the Government to achieve its goals, and by the oversight of the accounting and auditing professional bodies, also strongly influenced by the State. When these are added to Libya’s particular political and social dynamics, the effect on the accounting profession is that of constraint, i.e. a limitation on the perceived role of accounting, and consequently on the appreciation of the need for a well-qualified, robust accounting profession

Zakari and Menacere (2012) believed that the state of auditing in Libya is rudimentary; it is often difficult to incriminate the auditors’ skills for corporate misconduct. As a matter of fact, auditors fail to voice their qualms about the state of affairs for fear of future retaliations for their statements. The factors that directly impact and curb the auditor’s sense of independence in collecting audit evidence may be summed up as follows:

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

- centralisation of decision-making
- lack of professional managerial auditing bodies.

2.4 Summary

The objectives of this chapter were twofold. The first was to give a descriptive overview of Libya's history as a nation and its economic development. The second was to highlight the state of the accounting and auditing profession in Libya, its development and the legal framework regulating the profession. The chapter explains how the trade of crude oil and natural gas played a vital role in the development of Libyan society. Despite the billions of LYD that have been invested in the country during the last few decades, the main goal of expanding the economy and accelerating the growth of the non-hydrocarbon sectors has been not achieved. The economy remains heavily dependent on the oil and natural gas sector.

The chapter also explains that the accounting and auditing profession in Libya has been influenced by the UK and the US due to the huge influence exerted by these two countries through several channels such as oil companies, aid agencies, construction companies and accounting and auditing education systems. The rapid expansion of the economy and growth of various industries has led to the growth of accounting as a discipline and profession in Libya. With the emergence of a complex economic landscape in the country over the years, the number of users of financial information and the demand for timely release of information has grown. Continuing with this theme of broadening the discussion on financial reporting, the next chapter will present a review of the general theoretical literature on the usefulness of financial reporting.

Chapter 3 Financial Reporting: Objectives, Characteristics and Users

3.1 Introduction

The main aim of this chapter is to provide a background to financial accounting as a practice and discuss the usefulness of financial statements. It will outline the importance of financial reporting, the requisite characteristics of good accounting information and of the users who partake of information from financial accounting.

3.2 Objectives of Financial Reporting

Financial reporting emerged during the rapid industrialisation of the 19th century, but accounting legislation did not appear until the first half of the 20th century (Schröter, 2008). It was not until the 1970s that special attention was given to the objectives of the financial statements by accounting professionals in various countries. A number of international reports have been published to identify the purpose of accounting information and the content of financial statements.

A report by International Accounting Standards Committee Foundation (IASCF) argues that financial reporting is not an end in itself. It is a means of communicating to the users of financial statements information that is useful in making choices among alternative uses of scarce resources. Identifying the objectives of financial reporting helps accountants to determine the criteria of recognition and measurement and the form and content of financial reporting (Hegazy & Al-Ghanem, 2010). It has been clearly stated by FASB that

“... the objectives of financial reporting are not immutable--they are affected by the economic, legal, political, and social environment in which financial reporting takes place. Therefore, each country will have to formulate its own objectives depending upon the environment prevailing there (Bhattacharyya, 2007).

In the US, the Accounting Principles Board of the American Institute of Certified Public Accountants (AICPA) identifies the following as general objectives of financial accounting and financial statements:

1. To provide reliable financial information about economic resources and obligations of a business firm.
2. To provide reliable information about changes in net resources (resources less obligations) of an enterprise that result from its profit-directed activities.
3. To provide financial information that assists in estimating the earnings potential of an enterprise.
4. To provide other needed information about changes in economic resources and obligations.
5. To disclose, to the extent possible, other information related to the financial statement that is relevant to users' needs.

The Trueblood Committee (1973) established in April 1971 by AICPA has specified that the basic objective of financial statements is “to provide information useful to investors and creditors for making economic decisions”. The report established by the Trueblood Study Group identified several objectives of financial statements which are:

1. to provide information useful to investors and creditors for predicting, comparing and evaluating potential cash flows to them in terms of amount, timing and related uncertainty.
2. to supply information useful in judging management's ability to utilise enterprise resources effectively in achieving the primary enterprise goal.
3. to provide factual and interpretive information about transactions and other events which is useful for predicting, comparing and evaluating enterprise earning power. Basic underlying assumptions with respect to matters subject to interpretation, evaluation, prediction or estimation should be disclosed.

In the UK, the objectives of corporate financial reporting were defined by the Accounting Standards Steering Committee of the Institute of Chartered Accounts

(ASSC). It stated that the objective of financial accounting was “to communicate the economic measurement of and information about the resources and performance of the reporting entity useful to those having reasonable rights to such information”. Later, in July 1991, the Accounting Standard Board in the UK (ASB) issued a Statement of Principles, citing the objectives of financial statements and qualitative characteristics in the following words:

The objective of financial statements is to provide information about the reporting entity’s financial performance and financial position that is useful to a wide range of users for assessing the stewardship of management and for making economic decisions. (ASB, 1999B, Chapter 1)

As can be seen from these reports, the objectives of financial accounting are defined similarly in the UK and the US, the only difference between them being the fact that while Trueblood in the US emphasised ‘provision’, ASSC in the UK emphasised ‘communication’.

In 1988, a Research Committee by the Institute of Chartered Accountants of Scotland (ICAS) published a report to enhance corporate performance and accountability (McGee et al., 2011). The major objectives of financial reporting defined in the report are:

1. Accounts should show economic reality,
2. Accounts should show a true and fair view,
3. Accounts should be useful for decision-making purposes.

As a response to the Trueblood Report, the Financial Accounting Standards Board (FASB) published a discussion memorandum entitled ‘Consideration of the Report of the Study Group on the Objective of Financial Statements’. The response to this document by interested parties, together with further discussion within the Board, led to the publication of Statement of Financial Accounting No. 1, *Objectives of Financial Reporting by Business Enterprises* intended to establish the objectives of general purpose external financial reporting by business enterprises (IASC & IASB, 2008). The objectives of reporting as defined by the statement are:

1. The role of financial reporting in the economy is to provide information that is useful in making business and economic decisions, not to determine what those decisions should be (paragraph 33).
2. Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions (paragraph 34).
3. Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise (paragraph 37).
4. Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources (paragraph 40).
5. Financial reporting should provide information about an enterprise's financial performance during a period (paragraph 42).
6. Financial reporting should provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distributions of enterprise resources to owners, and about other factors that may affect an enterprise's liquidity or solvency (paragraph 49).
7. Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it (paragraph 50).
8. Financial reporting should provide information that is useful to managers and directors in making decisions in the interests of others (paragraph 52).

In 1987, the Australian Accounting Research Foundation (AARF) published a statement on "Objectives and Basic Concepts of accounting". AARF adopted the Trueblood Report approach in identifying the goals and purposes of accounting financial reporting, the major users and their information needs and the qualitative characteristics of the information. The objectives identified by the statement are:

1. General purpose financial reporting shall provide information useful to users for making and evaluating decisions about the allocation of scarce resources.
2. General purpose financial statements shall disclose information relevant to the assessment of performance, financial position, and financing and investing, including information about compliance (Snavely, 1967).

In Canada, the Canadian Institute of Chartered Accountants published a report on 'Corporate Reporting: Its Future Evolution' in June 1980 (Bhattacharyya, 2007). The report states the following major objectives of financial reporting:

1. An important objective of financial reporting is the provision of useful information to all of the potential users of such information in a form and in a time frame that is relevant to their various needs;
2. To provide information to minimize uncertainty about the validity of the information and to enable the user to make his or her own assessment of the risks associated with the enterprise;
3. The objectives of financial reporting should be taken to be directed toward the needs of users who are capable of comprehending a complete set of financial statements or, alternatively, to the needs of experts who will be called on by sophisticated users to advise them; and
4. To develop standards governing financial reporting which allow ample scope for innovation as improvements become feasible.

In Libya, the Libyan Accounting and Auditing Association (LAAA) also advocate that financial reporting is not an end in itself but should aim to provide all interested users with the information they need to make business and economic decisions. But LAAA accepts that it is impossible to determine the exact objectives of financial reporting because these objectives may be affected by the political, economic, legal and social environment where financial reporting is presented (Heidhues & Patel, 2012).

It could be argued that financial statements do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of

past events and provide only a limited amount of the non-financial information needed by financial statements users. Further, Tohmatsu (2008) pointed out that financial statements show the financial effects of past events and transactions, whereas the decisions that most users of financial statements have to make relate to the future. In its guide book published in 2008, International Financial Reporting Standards (IFRS) states,

“... while all of the information needs of financial statements users cannot be met by financial statements, there are needs which are common to all users. As investors are providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of needs of other users that financial statements can satisfy.”

3.2 Qualitative Characteristics of Financial Statements

The quality of a financial statement depends on the quality of its information, content and its usefulness to interested parties in making economic decisions (Wiley-VCH, 2011). This section will review the qualitative characteristics that are considered to be the requisite attributes of a good financial statement that reports correct information in a form that is useful to the users of the report (Smith, 1995).

Many attempts have been made by accounting bodies and individual authors to address the criteria for evaluating the usefulness of accounting information. These include the guidelines issued by AICPA (1962) and (1973) in the US, AAA (1966) and FASB (1980) in the UK, ASSC (1975), AARF (1987) in Australia and CICA (1980) in Canada. The characteristics outlined in these evaluations can be broadly divided into two categories: primary and secondary qualities.

The primary qualities of financial accounting are that it should be relevant and reliable, while the secondary qualities are its comparability and understandability. Relevance is a primary quality as it is critical that the data in the report relates to the subject of interest of the user. Reliability shows the extent to which the information supplied on the subject in the report is correct and can be trusted by the user. Relevance, however, is considered the more important characteristic. As the Statement of Principles by the AAA Committee states, “where the choices have to be made between options that

relevant and reliable but mutually exclusive, the option selected should be the one result in the relevance of the information package as a whole being maximised.”

On the other hand, comparability and understandability are considered to be secondary qualities. They are equally important but only after the first two criteria of relevance and reliability are met. They are secondary qualities that enhance decision-useful information by allowing users to compare the information in the report with other reports as well as by presenting the data in a clear easy-to-understand form. If information provided in financial statements is irrelevant or unfaithfully represented, neither comparability nor understandability will make the information decision-useful. Some light will be shed on each of these major characteristics in the following sub-sections.

3.2.1 Financial Statement and Accounting Information should be Relevant

Relevance is a key characteristic of usefulness and reports are judged by the criterion of relevance to determine if the report supplies information on the subject that is needed by its users (Tulsian, 2006). If financial information is to be useful, it must be relevant to the decision-making needs of users. The Australian Concepts Statement 3 states that, “for information to be relevant it must have value in terms of assisting users in making and evaluating decisions” (paragraph 9). Financial information is relevant if it makes a difference to the decision maker in his/her ability to evaluate past, present or future events or to confirm or correct their past evaluations (Porwal, 2001). Further, Epstein, Bragg & Nach (2011) state that for information to be relevant, it must help present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public to:

1. make predictions about the outcome of past, present and future events (predictive value),
2. confirm or correct prior expectations (feedback),
3. be available to a decision maker before it loses its capacity to influence their decisions (timeliness).

Regulatory bodies have also recognised the importance of relevance as the primary characteristic of financial reporting. In its statement published in 1980, FASB provides a hierarchy of identifies the importance of relevance:

To be relevant to investors, creditors, and others for investment, credit, and similar decisions, accounting information must be capable of making a difference about outcomes of past, present, and future event or confirm of correct expectation. (FASB, 1980, SFA C No. 2, Para. 47)

Apart from these definitional and conceptual guidelines about relevance, in practice the information conveyed in financial statements tends to be directed towards a standardised decision-making model which is associated with a rational, utility-maximising, consistent user. Thus, while some sophisticated users are provided with insufficient relevant information, others receive information irrelevant to their decision-making needs (George, 1980).

The Statement of Principles discussion of relevance focuses on two characteristics: predictive value and confirmatory value (refer to Figure 4.1). At least one of the two must be fulfilled for the report to be deemed relevant (Gore, 1992). The ASB describes predictive value as the extent to which information supplied in the report is able to accurately measure the flow of events, whereas confirmatory value is the extent to which it helps users to confirm or correct their past evaluations and assessments. It is clear from this discussion that the definitions of relevance are quite similar, the only real difference is whether information must influence decisions or only be capable of influencing decisions.

3.2.2 Financial Statement and Accounting Information should be Reliable

A second major qualitative characteristic of useful information is reliability. Information is said to be reliable when users of the accounting information can rely or depend on this information to make good decisions with a degree of confidence. Inaccurate, inappropriate, biased or incomplete information that does not faithfully represent what it purports to represent, is considered unreliable information. Unreliable information will inhibit rather than enhance understanding, evaluation and decision-making by users and adversely affect the accountability of financial statements to

stakeholders. This characteristic is particularly important and necessary for users who have neither the time nor the expertise to evaluate the veracity of information included in financial statements.

The FASB Concepts Statement 2 states that, “The quality of reliability assures that information is reasonably free from error and bias, and faithfully represents what it purports to present (FASB, 1980, SFA C No. 2).” The Accounting Standards Board (1991) also emphasises that reliability is shown by the extent to which the information is error and bias-free and defines reliability in the following manner:

Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully in terms of valid description that it either purports to represent or could reasonably be expected to represent (Para. 26).

The Statement of Principles lists some sub-criteria to judge if information in a financial report is reliable:

1. It can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;
2. It is free from deliberate or systematic bias (it is neutral);
3. It is free from material error;
4. It is complete within the bounds of materiality;
5. In its preparation under conditions of uncertainty, a degree of caution has been applied in exercising judgement and making the necessary estimates.

Apart from these guidelines issued by the regulatory bodies, there has also been some academic research on the topic. Solomons et al., (1989) point out that reliable accounting information has three characteristics:

- a) Faithful representation, including completeness and substance over form
- b) Verifiability, including precision and uncertainty

- c) Neutrality, including freedom from bias, prudence, and conservatism.

These characteristics can be explained in further detail to get a better understanding of the concept of reliability.

Faithful Representation: FASB Concepts Statement 2 states that “representational faithfulness is correspondence or agreement between a measure or description and the phenomenon it purports to represent (paragraph 63).” In accounting, reports need to provide information about economic resources and obligations and the transactions and events that change those resources and obligations. In paragraph 33, the IASB Framework states that an important responsibility of accounting professionals is to faithfully represent the transactions and events that have taken place and the change in the economic situation of the company due to them. The Canadian Institute of Chartered Accountants (CICA) also stresses the same point and states that, for information to be faithful in its representation, transactions and events affecting the entity must be presented in financial statements in a manner that is in agreement with the actual underlying transactions and events.

Verifiability: Verifiability is an essential component of reliability. Verifiability ensures that the data is reliable as it helps to provide a significant degree of assurance to a user that accounting measures essentially agree with or correspond to the economic things and events that they represent. The FASB emphasises how the accountants involved in a particular report deliberate with each other and produce a general agreement about the information presented. The FASB framework defines verifiability as “the ability through consensus among measurers to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias.” In the academic literature on the topic, Carmichael et al., (2007) state that the purpose of verification is to confirm the representational faithfulness of accounting information. Furthermore, they also stress that the key to assuring verifiability is to ascertain whether accounting measurements obtained by one measure can be confirmed or substantiated by having other measures measure the same phenomenon with essentially the same results.

Neutrality: The third sub-criterion for a report to be reliable is that the information contained in financial statements is neutral. Accounting information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. The FASB framework defines neutrality as “the absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behavior”. The condition of neutrality is a difficult standard to achieve as any human action is conditioned by subjective values and chance, but financial reporting can achieve this to some extent by reporting economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction. Nikolai et al., (2009) argue that neutrality means that the financial report must not be carried out with a premeditated objective to influence the behaviour of its users.

3.2.3 Financial Statements and Accounting Information should be Understandable

FASB (No. 2) considers understandability, which is also referred to as comprehensibility, to be a secondary quality of financial information. Since financial statements are meant to enable users to make economic decisions, the information provided in financial statements must be capable of being readily understood by users. The ASB, in its Statement of Principles for Financial Reporting (1995), points out that accounting information should be readily understandable to intended users who are reasonably knowledgeable about the kinds of reporting entities that issue financial statements (IASB, 2009). In Libya, the LAAA states that financial reporting must provide useful information to actual and potential investors, creditors and other users in order to help them to make right decisions, and this information must be understandable to the users who have a reasonable knowledge about economic and business events.

It does not, however, mean that the data have to be simplified to the extent that the information being provided becomes meaningless (Stamp, 1982). Making the information understandable to users means that it is presented in a form that is easy to understand and navigate, without sacrificing the complexities and details required for preserving its accuracy. It has been argued that business activities and transactions, nowadays, have become more and more complex, and it might not always be possible to describe complex transactions in simple terms.

FASB states that, “The understandability of the information is related to both the characteristics of the information and of the information-user making it difficult to evaluate without reference to a particular set of decision makers.” This implies that the understandability of the report depends on the manner and terminology in which the report is presented and the proficiency of the user in understanding the information. Solomons et al., (1989) suggest that in many cases the information itself could have different degrees of comprehensibility, even if users of financial statements are assumed to be knowledgeable of the terminology and the nature of financial information. Thus, the quality of understandability is influenced by both users and designers of accounting information.

The first aspect can be addressed by accounting professionals during the process of making the report by ensuring that the information is presented with accuracy in a form that is easy to understand and navigate. In this regard, Kirk (2005) argues that to make financial statements adequate and readable, the information contained in financial statements should be presented in an understandable manner and grouped and organised appropriately. The second aspect requires users of financial information to upgrade their own knowledge of financial terminology and concepts so that they can understand complex financial statements. Users must have a reasonable understanding of economic, business and accounting activities together with a willingness to study the information with reasonable diligence (Buzby, 1974).

3.2.4 Financial Statement and Accounting Information should be Comparable

The IFRS identifies comparability as the quality that enables users to identify similarities in and differences between the effects of economic phenomena from two or more reporting entities. Unlike other qualitative characteristics, comparability does not relate to a single item, but is a characteristic of the relationship between two pieces of information. Braiotta et al., (2010) argue that one key measure of comparability is the extent to which external users of financial statements can identify where an enterprise has changed its policy from one year to the next and where other enterprises have adopted different accounting policies for similar transactions and events.

Nowadays, comparability has become one of the most important and desirable qualities of accounting information as financial statements are being used more and more as tools for decision-making. In fact, the IFRS considers comparability (embracing both consistency and uniformity) as one of the key qualitative characteristics of financial statements that make the information provided in financial statements useful to users. It has been argued that comparing alternative investment or lending opportunities is an essential part of most, if not all, decision-making processes in investment or lending opportunities (Hussey, 2010). Since users' decisions involve choosing between alternatives, they need to compare the financial statements of an enterprise with similar information about enterprises in different financial years. This helps them to identify trends in the enterprise's financial position and performance, which can then be used to make investment decisions (Posner, 2010).

The above discussion highlights that like events must be treated in a like manner so that comparisons can be drawn across different accounting years for the same firm and between the performances of different firms. This means that consistency is an important factor in comparability. FASB identifies consistency as the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. In the academic literature on the topic, (Bragg, 2011; Schipper, 2003) have described the relationship between consistent application of standards and comparability as follows:

... if similar things are accounted for the same way, either across firms or over time, it becomes possible to assess financial statements of different entities, or the same entity at different points in time, so as to discern the underlying economic events.

With this focus on the use of consistent methods and the comparability of data across years and between firms, comparability can often be confused for uniformity. Although comparability is largely dependent on the amount of uniformity attained in recording transactions and preparing financial statements, there is a difference between comparability and uniformity. In its Statement of Financial Accounting Concepts No. 8, P.19, FASB reiterates this difference:

Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. An overemphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of financial reporting information is not enhanced by making unlike things look alike any more than it is by making like things look different.

In other words, comparability requires that information on a particular issue is measured and quantified in a similar way that facilitates comparisons between two reports, but it does not mean that the content of the information itself is the same. As the Australian Masters Accountant Guide (Editors, 2008) points out, the need for comparability should not be confused with mere uniformity and should not be allowed to become an impediment to the introduction of improved accounting standards.

3.2.4 Considerations for a Qualitative Assessment

The importance of the characteristics outlined above arises from the need to promote the usefulness of information contained in financial statements. However, in practice, applying these characteristics with all their various separate functions may give rise to conflicts between them. A simple accounting example of such a conflict would be that between the understandability of producing financial statements and the relevance of the information reported in the statements (CICA, 2009). From a study of financial reporting in Canada, Alexander et al., (2007) identifies several pairs of criteria that might be in conflict, and where a trade-off is necessitated:

1. Relevance-----Objectivity
2. Comparability-----Verifiability
3. Timeliness-----Precision
4. Clarity----- Completeness
5. Conservatism ----- Freedom from bias
6. Uniformity ----- Flexibility
7. Materiality ----- Precision

The literature has also highlighted the fact that there are considerable semantic problems concerned with what is meant by words such as relevance, objectivity, comparability, freedom from bias etc. (Narayanaswamy, 2008; Rajasekaran, 2011). Stamp identifies several areas of difficulty associated with this:

1. there are no generally accepted definitions of the criteria employed and semantic differences may influence user preferences;
2. the criteria employed are neither mutually exclusive nor collectively exhaustive and their meanings clearly overlap and it is possible that all desirable aspects have not been completely covered;
3. it may be unrealistic to expect a consistent assignment of absolute numerical weightings to qualitative criteria, since such a ranking system is likely to be decision-specific.

Furthermore, achieving these qualitative characteristics may require extensive investment of time and resources. In this regard, the (Editors, 2008) acknowledges the necessity of balancing between the qualitative characteristics and their costs and benefits.

Having discussed the qualitative characteristics outlined by various accounting bodies necessary for making information in financial statements, the following section will answer one of the most important questions in financial reporting about the different categories of users and the particular types of disclosure that can be made to each category. This involves a discussion of the manner in which information is disclosed through financial reporting, which part of the information is for whom and what is the purpose of the information being disclosed. These issues of disclosure are critical as they can affect the privacy and security of the firm.

3.3 Users of Financial Statements

As discussed previously, one of the main objectives of financial reporting is to provide information that is useful to a variety of potential users who are interested in seeing financial and other information related to the company in order to make business decisions. Financial information users are the main reason why financial statements are

prepared. This group is made of a number of possible users with different interests and different objectives and this presents a significant challenge for disclosure regulation. A particular difficulty in this area relates to identifying the best approach to balancing the different and competing needs of various user groups of financial statements (Villiers, 2006). The CICA also points out that one of the most difficult problems for the management of any firm is that of balancing the information needs of different audiences when issuing corporate reports. According to the IASB, investors are providers of risk capital, so financial statements that meet the needs of investors will generally meet most of the needs of other users as well. But while there are some needs that are common to all users, there are some that are specific to each category.

Villiers (2006) argues that it is possible to identify a finite and exhaustive set of user groups. In the accounting literature, users of financial statements have been divided into various groups by authoritative bodies which regulate the profession. The Corporate Report (Accounting Standards Steering Committee, 1975) has recognised seven groups of users who have a reasonable right to receive information about the relevant entity. These groups are:

- the equity investor group
- the loan creditor group
- the employee group
- the analyst-advisor group
- the business contact group
- the government
- the public

As evident from the list, the public is considered a legitimate user group. Even though the public has no direct financial interest or relationship with the reporting entity, the ASSC included the public as an interest group because economic entities are part of the broader society and “they compete for resources of manpower, materials and energy and

they make use of community owned assets such as roads and harbours (para.2.36, p.25).” The report also recognised that while corporate reports should seek to satisfy the information needs of these user groups as far as possible, it was impractical to suggest that all needs of all users could be entirely met by such general purpose reports.

The FASB (1978) in SFAC No.1 formulated a long list of user classes similar to the earlier list published by the Corporate Report except that management is recognised by FASB as a new user group. FASB further emphasised the role of investors and creditors as the two main external user groups. In the Australian Accounting Research Foundation (AARF) study conducted by Commission, (2008), seven groups of users including management were identified including “Capital Market Institutions” under the group of “Investors and the Capital Market” by stating that

“Companies must report information to investors and to the capital market institutions for accountability purposes (particularly for stewardship and for profit performance and financial position evaluation) and for their use in financial investment decisions (para.3.19, p.16).”

The Scottish report, Making Corporate Reports Valuable (MCRV), (McGee et al., 2011) categorised the users of financial statements into four groups:

- the equity investor group
- the loan creditor group
- the employee group
- the business contact group

In this list, three groups recognised in the 1975 report were excluded: the public, the government and the analyst-advisor. The authors of MCRV argued that the information provided for the four core groups above can cover the needs of the other three groups. According to them, the above categories also cover the whole spectrum of users, from those who are very knowledgeable in financial matters to those who tend to become

confused when faced with masses of figures. It is worth noting that Barton (1982) also identified just four groups of users similar to MCRV.

Most recently, the CICA (2008) has argued that as there are many diverse users of corporate reports, meeting the needs of all of them would be impossible, therefore, a different approach is needed for classifying the users of financial statements. The CICA classified users into two groups, primary and secondary users. The primary groups of users have a direct involvement and interest in the firm and include shareholders (investors, individual or institutional), creditors and analysts/advisers. Secondary users are the public, standard-setting bodies, the government, regulatory agencies, employees, customers, suppliers, industry groups, other companies, and academic researchers. In Libya, the Libyan Association of Accountants and Auditors (LAAA) has classified the users of financial statements into four major groups which are: investors, creditors, management and analysts. Of these, the investors and creditors are considered as the most important users of financial statements.

It can be concluded from the above discussion that most regulatory bodies generally agree that users of accounting information can be divided broadly into two general groups: internal users and external users (As shown in Figure 3.2). These two groups have different interests and objectives and they look for different things in financial statements. More discussion about these main users, their information needs and the disclosures that can be made to them are provided below.

3.3.1 Internal users

The internal users of financial statements refer to those who are directly involved in managing and operating the business and are responsible for its performance and profitability, for example, management and employees. They need information for business decisions, and may request any information they need to make decisions on internal operations (De Paula & Pereira, 2009; Whittred, 1980).

Management: Management personnel need financial statements when planning the operations of the firm for the future and making decisions about investing the firm's resources (McGee et al., 2011). It has now been widely accepted that managers possess more information about the firm's financial position than outside investors, as

management has the opportunity, power and ability to control the information systems that produce financial and operating reports (Creswell et al., 2003). This imbalance in information is referred to as information asymmetry where one party has more or superior information than another.⁸ With their access to the information, it is the responsibility of management to cautiously and responsibly convey necessary information to those external users with a right to know (McMonnies, 1988).

Employees: Employees are considered to be another important group of internal users of financial reporting. Employees are generally interested in information about their company, its general operations, stability and profitability. Current employees clearly have an interest in the financial affairs of the company as their employer since it is the source of their income (CICA, 2008). In a discussion paper jointly published by FASB and IASB (2006), it is stated that employees are interested in information that helps them to assess the entity's continuing ability to pay salaries and wages and to provide incentive payments and retirement and other benefits (Yoon, 2007)

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3.3.2 External users

The external users of financial statements are those who are not directly involved with running the company but have some direct or indirect interest in the manner in which the firm is run. The 1975 Corporate Report defined external users as those having a right to information concerning the reporting entity arising from the public accountability of the entity. In other words, external users are those who are outside the business and they need information that differs from that needed by internal users (De Paula & Pereira, 2009; Pizzini et al. 2011). External users rely on generated financial statements as this is their major source of information about a company (Hussey, 1997). The LAAA has argued that one of the most important goals of financial reporting is to meet the needs of external users since they have limited access to information and rely heavily on the information provided by management.

There are several types of external users, for instance, investors or shareholders, analysts, the government and regulatory agencies, the public, business contact groups

⁸ For more information about information asymmetry between managers and investors, see (Joshi 2005).

and loan providers. McGee et al. (2011) have identified the fundamental information needs of external user groups as follows:

1. to know the corporate objectives of the entity, and to be able to evaluate the performance against the objectives;
2. to know what the total wealth of the entity is now as compared with what it was at the time of the last corporate report and the reasons for changes;
3. to have adequate information about the economic environment within which the entity has been operating and will be operating;
4. to be able to judge where the entity is going in the future and whether it has the necessary financial and other resources to do so; and
5. to know the ownership and control of the entity itself and the experience and background of its directors and officials.

Investors: Investors, including both current and potential shareholders, are considered to be the largest users of accounting information (Allan & Skinner 1991). Individual and institutional investors are concerned with the risk and return provided by their investments. They need information for assessing a company's ability to pay dividends. The CICA (2008) argue that because shareholders provide risk capital, it is essential to nurture their trust. Denzin and Lincoln (1994) and Easterby-Smith et al. (1991) argue that there are three basic types of decisions taken by investors for which they require relevant and reliable financial information:

1. Buy. A potential investor decides to purchase a particular security (e.g. a stock or bond) based on communicated accounting information.
2. Hold. An actual investor decides to retain a particular security based on communicated accounting information.
3. Sell. An actual investor decides to sell a particular security based on communicated accounting information.

Analysts: This group includes financial analysts, financial journalists, stockbrokers and bond-raters. Analysts play a crucial role in providing skilled analyses and interpretations of financial statements to other user groups such as shareholders and creditors. It has been argued that the needs of this group are defined by the needs of the particular group they are advising (Sarantakos, 1998).

Government, their agencies and regulatory bodies: Governments and their agencies and regulatory bodies need information not just to help them to determine and apply taxation policies, but they require information to regulate the activities of entities and provide a source of national income, taxes and employment. In the Libyan Government, the Ministry of Finance and the Institute of Financial Auditing are the two major agencies that take a keen interest in the financial affairs of business enterprises.

General Public: Economic entities and businesses are part of society and they react and interact with the general public at all levels. Therefore, political parties, public affairs groups, consumer and environmental protection groups arguably have the right to be informed about a company's operations and activities. As Barton (1982) argues, companies owe some responsibility to society for the "economic privileges granted to companies" to operate in society and to use public facilities. According to Johnson and Onwuegbuzie (2004), some typical questions guiding the public in accounting reports are:

1. Does an enterprise exploit local suppliers or labour?
2. Does an enterprise earn profits by compromising on product safety?
3. Does an enterprise take adequate pollution control measures?
4. Does an enterprise profit from exploitation of natural resources?

Creditors: The LAAA considers creditors to be one of the primary users of financial statements. The Corporate Report (1975) pointed out that the rights of loan creditors to information "arise from the direct financial relationship or potential relationship between the group and the borrower to whom funds are entrusted". Creditors are concerned about the security of their loans, so they are interested in information that

would permit them to determine whether their loans and any related interest will be paid back on time (Johnson & Onwuegbuzie, 2004). It could be further argued that while short-term loan creditors are concerned with the company's ability to generate cash in the near future, longer-term creditors will clearly be concerned with the company's stability or long-term prospects (Sarantakos, 1998).

Business contact groups: Business contact groups include entities that depend on a company for business and include: customers, trade creditors and suppliers. A company's present, potential and past customers have an interest in its financial affairs because they are concerned about whether they can rely on it as a continuing source of supply. Suppliers have an interest in the continuation of an entity and use financial information to assess the likelihood of the entity continuing to buy from them and paying money for the supplied goods on time. Trade creditors are likely to be interested in the liquidity of the business to be certain of the ability of the entity to pay its outstanding debts on the stipulated date of maturity (Fraenkel et al., 1993).

Figure 3.1 Characteristics of useful financial reporting

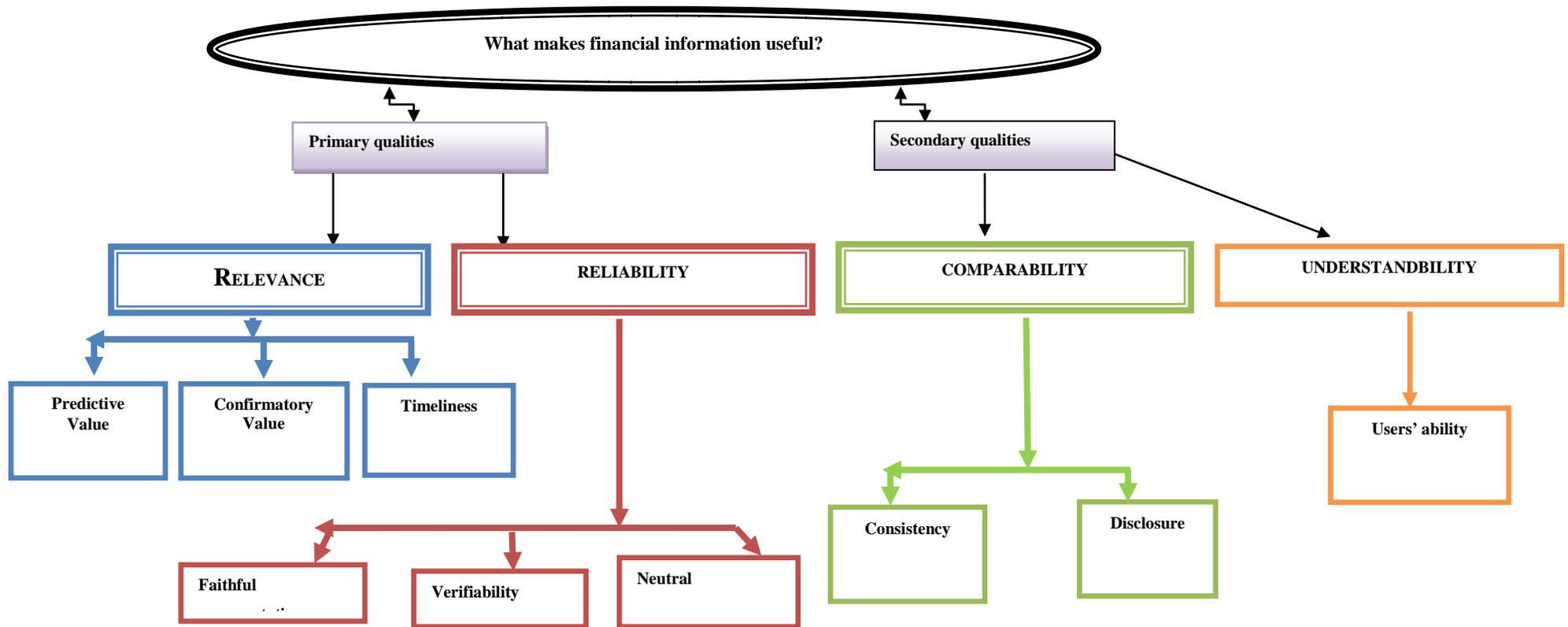
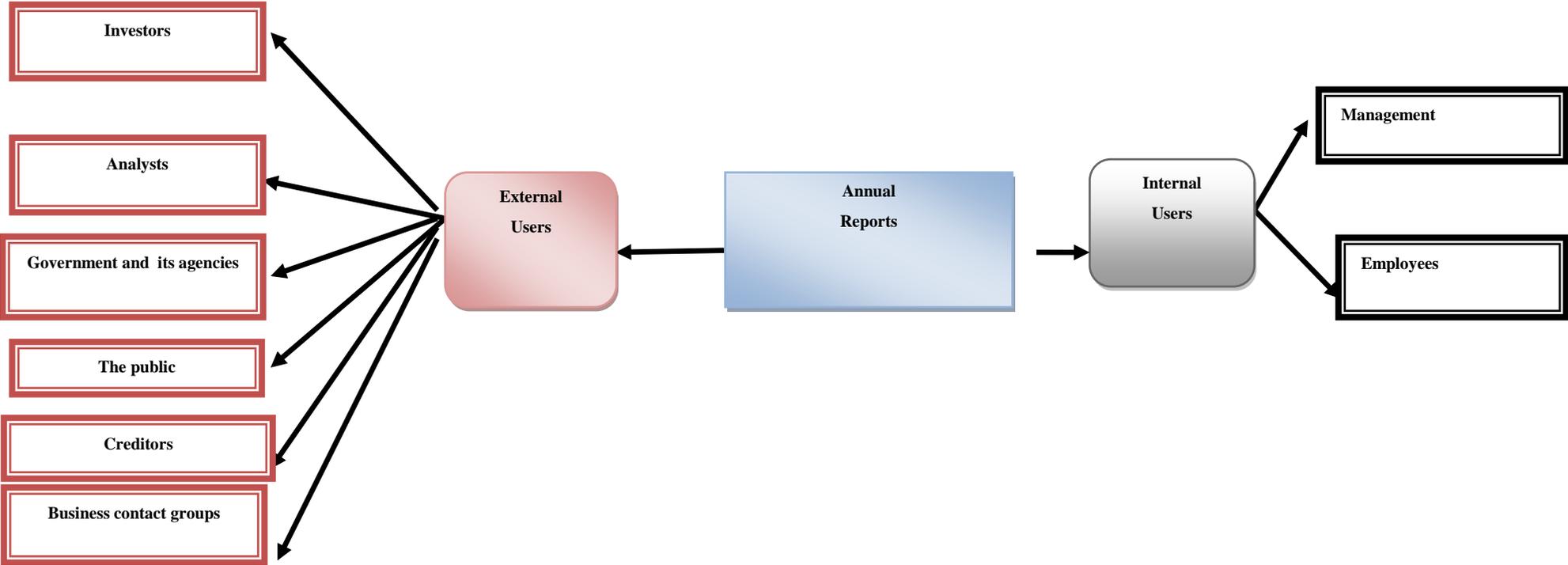


Figure 3.2 Users of financial statements



3.4 Summary

The main purpose of this chapter has been to discuss the usefulness of the financial reporting. The chapter was divided into three main sections. The first section provided a discussion of the objectives of financial reporting by surveying the guidelines given by some authoritative bodies on the objectives of corporate reports. The second section dealt with the requisite characteristics of accounting information that enhances its usefulness. These characteristics of relevance, reliability, understandability and comparability were discussed and explained in detail. The final section presented an overview of the different categories of users of financial information and their classification determined by the level of their involvement in the firm, into external and internal users. The next chapter will discuss the factors affecting the timeliness of audit reporting and the impact of audit delay on financial reporting.

Chapter 4 Timeliness of Financial Reporting and Audit Delay

4.1 Introduction

A lot of attention has been paid to the subject of the timeliness of financial reporting in recent years and timeliness has been universally accepted as an important characteristic of financial statements by accountants, managers and financial analysts. It is not only necessary that users have financial information that is relevant to their predictions and decisions, but that they have up-to-date information relating to the current financial period as stale information or information relating to past financial years cannot help them in their business decisions for the year ahead (Chai & Tung, 2002).

This chapter is concerned with understanding the issue of the timeliness of financial reporting and lays the theoretical background for examining the factors affecting the production of timely financial statements in Libya. It begins by reviewing the concept of timeliness in financial reporting and its importance to users of financial statements and especially for making crucial investment and share pricing decisions. The chapter then narrows its focus to look at auditing processes to clarify how audit delay can cause problems in the timeliness of financial reporting. A review of the extant literature is used to illustrate the prevalence of audit delay across the world and to explain the structure of audit delay. The next step is to identify the factors leading to audit delay. Current research shows that audit delay is caused by company characteristics and audit factors, so relevant variables from these two factors are identified from a review of prominent empirical studies conducted over the last three decades to form a conceptual model for this study.

4.2 Timeliness of Financial Reporting

4.2.1 Defining Timeliness

Timeliness is an old and important concept in accounting and stresses the importance of making information available to decision makers while it can still be used (McNabb, 2010). Put another way, financial information becomes stale after a few months and thus more or less useless. Timeliness is considered as an important component of relevance of financial information. In FASB Concepts Statement 2, paragraph 56, timeliness is cited as:

... an ancillary aspect of relevance. If information is not available when it is needed or becomes available only so long after the reported events that it has no value for future action, it lacks relevance and is of little or no use.

Accounting bodies in Canada and New Zealand also consider timeliness as a sub-quality of relevance. The UK Statement of Principles does not consider timeliness to be a formal quality, however, paragraph 3.2 states that for the report to be considered relevant it must be able to provide information in time to influence decisions. In IASB Framework, paragraph 43, timeliness is considered as a necessary constraint for the financial report lest information lose its relevance. The Corporate Report (1975) states that:

The information presented should be timely, in the sense that the date of its publication should be reasonably soon after the end of the period to which it relates, so that it contributes meaningful new information about the entity, and in the sense that corporate reports are more useful if they contain up-to-date measures of value.

A broad definition of timeliness was proposed by Garsombke (1981) who defined it as the difference between the date on which the accounting period ended and the date on which information was received by the users of the financial statements. Patton (1990) also states that, "Timeliness is defined...as the reporting lag from the end of the fiscal period covered by the report to the date of report". The longer the information takes to reach users in the time of need, the less relevant it is to potential investors and creditors (Saunders et al., 2009). The timely release of audit reports and their accompanying information is of utmost concern to users of financial statements (Kothari et al., 2008).

Davies and Whittred (1980) have argued that the concept of timeliness in financial reporting has two dimensions: there is the frequency of reporting and length of the reporting period and there is the lag between the end of the reporting period and the date the financial statements are issued. Similarly, Enarsson (2006) stated that there are two aspects of timeliness in financial reporting: one is the frequency of the reports and the other is the delay from the accounting date of the report to the date of the report's release. Timeliness in this study is concerned with the second aspect of the delay in the issue of financial statements to users.

Scholars like Grady (1965), Hendriksen (1977), and others have acknowledged the role of timeliness in accounting theory. Ismail and Chandler (2005) argued that the usefulness of financial information, among other things, depends on the level of disclosure and its

timeliness. McGee et al. (2008) consider timeliness a very important component of transparency in financial reporting. In fact, Kakani (2006) went so far as to state that “any information which is not provided at the right time, is no information” and Kenley and Staubus (1972) have argued that “the value of a financial statement varies inversely with the time taken to prepare it”.

Although such arguments may sound a little too emphatic, the critical importance of timeliness is not only reported in the scholarly literature but has been accepted in the literature produced by regulatory bodies as well. The American Accounting Association in 1954 argued that “Timeliness of reporting is an essential element of adequate disclosure” and this premise was iterated again by the Accounting Principles Board of the American Institute of Certified Public Accounting in 1970. The National Association of Accounting (NAA) has said, “Information may be useless if it is not available at points in time which are in relatively close proximity to the decision points of users” (Trueman, 1990). The Governmental Accounting Standards Board (GASB, 2011) has pointed out the importance of timeliness of government financial reporting:

By preparing timely financial statements, governments allow interested citizens, taxpayers and other constituents to access decision-useful information that can be used to make a range of important decisions regarding housing, schools, voting and the services they receive in return for their tax dollars.

In the UK, the Corporate Report (1975) pointed out that the financial statement information should be timely:

The (accounting) information presented should be timely, in the sense that the date of its publication should be reasonably soon after the end of the period to which it relates, so that it contributes meaningful new information about the entity, and in the sense that corporate reports are more useful if they contain up-to-date measures of value (paragraph. 3.9).

A more recent description of the timeliness of financial statements was provided in 2008 by the Canadian Institute of Chartered Accountants (CICA) which stated that timeliness requires current information to be made available to interested parties and the usefulness of information for decision-making purposes declines as time elapses.

Often the pressure to produce timely reports may conflict with other characteristics such as accuracy or completeness of information. This conflict is called a trade-off where the two conflicting characteristics are carefully considered from a cost-benefit analysis to deliver the most agreeable balance between the two. It may seem that information will be more complete and accurate if the time constraint is relaxed, but several authors have argued that there is compelling evidence for the improvement of timeliness in the provision of disclosures in order to ensure relevance (Courtis, 1976; Dyer & McHugh, 1975; Gilling, 1977; Whittred, 1980). Moreover, it has been argued that releasing the information on time is more important in many cases than ensuring its precision. In this regard, CICA (2003) has pointed out that “To sacrifice some degree of precision for increased timeliness sometimes may be desirable because an approximation produced quickly may be more useful than precise information that takes longer to produce”.

4.2.2 Timeliness of Financial Reporting and Investment Decision-making

Timeliness is not only a general criterion of the usefulness of financial statements but, more specifically, timely financial reporting is crucial for share pricing and investment decision-making in the stock market. CICA (2008) claims that timely reports contribute to the efficiency of capital markets in correctly pricing securities on a continuous basis and companies must release reliable information to investors and their advisers on a timely basis. Miller and Bahnson (2002) states that the more quickly information is published, the more quickly uncertainty is removed and the inevitable result of timelier reporting is lower capital costs and higher security prices. Sale (2003) further adds that the provision of timely information in the corporate report is of even more importance in emerging economies. This is because other sources of information such as media releases, news conferences and financial analysts are not well developed and regulatory bodies are not as effective in developing economies as they are in developed economies.

In fact, several studies have found that timeliness is not merely a good characteristic of financial reporting in theory, it also has a proven positive relationship with security prices. This has been proven by a number of studies conducted in the U.S which have found that the share price rises when a firm releases its earnings report earlier than expected, and it declines if the earnings report is released later than normal (Chambers and Penman, 1984; Givoly and Palmon, 1982; Iqbal and Farooqi, 2011; Kross and Schroeder, 1984). Chambers and Penman (1984) used a sample of the annual earnings announcements of 100 randomly selected

companies listed on the New York Stock Exchange over the period 1970–1976 to investigate the relationship between the timeliness of earnings reports and share price behaviour surrounding their release. The results showed that abnormal returns associated with the release of reports published earlier than expected were positive in nature, while abnormal returns associated with release of reports published later than expected were negative. Kross and Schroeder (1984) examined the association between share prices and the timing of earnings announcements in a sample consisting of 3552 quarterly earnings announcements of 297 companies covering the period 1977–1980. They found that companies which announced their earnings results early had returns that were significantly higher than the returns of companies announcing them late. (McGee et al., 2011) explain the relationship between the speed with which financial results are announced and the effect on stock price in the following way:

This phenomenon can be explained by the fact that financial information seems to seep into the stock price over time, so the more time that elapses between yearend and the release of the financial statements, the more such information is already included in the stock price.

In addition, Givoly and Plamon (1982) examined share pricing to find out whether there was an association between reporting lag and decrease in information content. The study examined the stock price behaviour in two portfolios (early and late announcements) during a test period of 17 weeks centred on the announcement week. The results showed that markets reacted differently to early and late announcements. Early earnings reports appeared to convey more new information than late reports. Further, the writers also argued that “the phenomenon is more pronounced for portfolios formed under timeliness classification which relies on past behaviour of the reporting lag of the company”. It thus appeared that the production of alternative sources of information by the firm over time was not carried on at a steady rate but instead was concentrated around the firm’s expected announcement date; when this date approached or passed without an announcement, production of alternative information was intensified (Givoly & Palmon, 1982).

It is clear from the above discussion that delay in financial reporting may provoke suspicion among media analysts and large shareholders about any excuses concerning delays in company reports. Longer reporting lags open up gaps that can increase reliance on information supplied from other sources and also cause information to be leaked to the stock

market before the official release (Brown et al., 2011). Such delay may also raise many questions about the financial condition of the company such as:

- What do these delays and excuses hide?
- Is there more to these delays than initially meets the eye?
- Is the company hiding something much worse?
- Is the delay symptomatic of a serious underlying problem?

4.2.3 Statistics on Timely Financial Reporting across the World

Given the importance of timely financial reporting, stock markets and other accounting regulatory bodies around the world require listed companies to publish their audited accounts within a specified period after the end of their accounting year. In Libya, the Commercial Law issued in 1954 requires all Libyan companies to publish their annual reports within four months (120 days) from the end of fiscal year. The LAAA in Libya has specified a time limit of up to a maximum of six months after the end of the financial year for the presentation of the annual reports at the annual general meeting. In the UK, there are also strict time limits for the publishing of accounts. All companies listed on the London Stock Market are required to publish their annual reports as soon as possible after the accounts have been approved by the directors, in any case, normally not later than six months after the yearend (Stittle 2003). Unlisted public companies in the UK have a time limit of seven months which can be extended by three months if the companies have overseas interests. In France, listed companies should publish their annual reports within 180 days from the end of the fiscal year, while French Company Law requires all listed companies to submit their audited annual reports to the ordinary annual general meeting (AGM) within six months from the end of the fiscal year (Ahmed, 2003). In China, Article 61 of the 1998 Securities Law requires listed companies to publish their annual reports within 120 days from the end of the financial year (Zhu, 2007). In Australia, the Australian Securities Exchange (ASX) requires all listed companies to submit their annual reports within four months after the financial yearend. In the US, the Securities and Exchange Commission also recognizes the importance of timeliness and requires that listed companies file their 10-Q quarterly financial statements within 35 days from the end of the quarter and their 10-K annual reports within 75 days of the fiscal yearend, while foreign private companies are required to file Form 20-F within 90 days from the yearend.

But in spite of these regulations, delay in financial reporting has been noted across the world. Empirical research on timeliness in financial reporting delay has been conducted over the last few decades. Whittred (1980) attempted to assess the effect of a new listing requirement adopted by the Australian Associated Stock Exchanges (ASX) in 1972, which stipulated that listed companies issue their financial statements within four months after the end of the fiscal year. The results from an unrestricted random sample of 100 industrial and commercial companies listed on the ASX indicated that the 1972 revision had little effect on the reporting behaviour of Australian companies. While the average total lag prior to the revision excluding 1971 was approximately 106.7 days, it was 105.3 days for the period 1972-77. Further, it was reported that the percentage of companies that were unable to report within the prescribed 120 days remained at the same proportion of roughly 25 per cent.

Ahmed (2003) examined various aspects of the issue of timeliness of corporate and audit reporting in France to identify the trend in reporting delay in French companies over time. The results derived from 5500 annual reports of companies listed on the Paris Stock Exchange for the period January 1986 to December 1995 indicated that the average reporting delay in France had fallen steadily from 114.7 days in 1986 to 101.1 days in 1995. Although all the companies met the 180-day legal requirement for corporate reporting in France, this requirement was lenient compared to certain English-speaking countries (e.g. Australia and the US).

Ng and Tai (1994) are credited with conducting the first study to investigate reporting delay outside Western countries. Descriptive statistics of a sample of 292 and 260 companies listed on the Hong Kong Stock Exchange for the years 1991 and 1990 showed that mean audit delay for 1990 and 1991 was approximately 110 days and 109 days, respectively. The reporting delay reported in this study was comparatively longer than those reported in previous studies in Western countries such as the US 62.5 days (Ashton et al., 1987), Canada 54 days (Newton & Ashton, 1989), New Zealand 87.7 days (Carslaw & Kaplan, 1991). This could be attributed to the fact that companies in Hong Kong under the Stock Exchange Listing Requirement are allowed to issue their financial statements within 180 days following the end of the fiscal year; that is nearly three months longer than the deadline in effect in the US, Canada and New Zealand.

A study by (Owusu-Ansah, 2000) is considered to be the first of its kind to examine the timeliness of annual reports in an African country. The study was conducted on a sample of

47 non-financial companies listed on the Zimbabwe Stock Exchange (ZSE) in 1994. Descriptive statistics showed that only 2 per cent of the sample companies submitted their audited annual reports to the ZSE within 160 days after the end of financial year, as required.

Abdulla (1996) studied the determinants of the timeliness of Bahraini annual reports by using a sample of 26 Bahraini companies listed on the Bahrain Stock Exchange (BSE) during the period 1985-1991. Over this period, the mean time delay of publication date had decreased gradually from 96 days in 1985 to 85 days in 1991. Univariate and multivariate tests used in this study showed an insignificant difference between the average time delays before and after the establishment of the stock exchange. This could be due to the absence of regulations forcing all listed companies to publish their annual reports on time. In fact, the results indicated that some companies exceeded the maximum period by more than 100 days in some cases, making an audit delay of about 260 days. This scenario represents an extreme case of reporting delay. Abdulla (1996) voiced his concern about how financial statements issued 260 days after the end of the financial year were being accepted by the BSE without any penalty and how such reports could help users make any decisions at all.

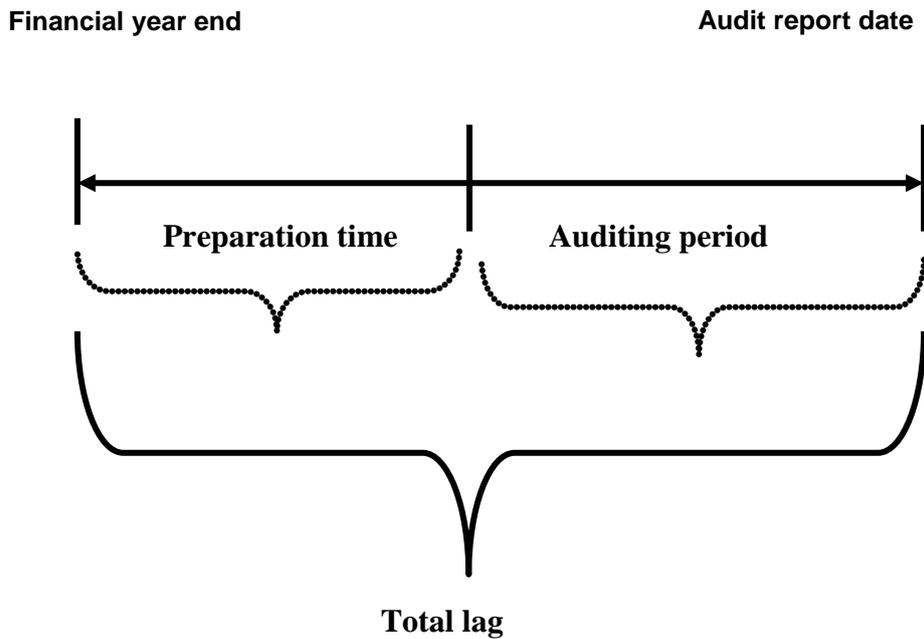
4.3 Audit Delay and Financial Reporting

From their research in Australia, Whittred and Zimmer (1984) and Whittred (1980) have classified reporting lag into:

1. Preliminary Lag which refers to the interval of the number of days from the year-end to the receipt of the preliminary final statement by the Stock Exchange.
2. Auditor's Signature Lag which refers to the interval of the number of days from the year end to the date recorded as the opinion signature date on the auditor's report.
3. Total Lag which refers to the interval of the number of days from the yearend to the receipt of the published annual report by the Stock Exchange.

As can be seen in Figure 4.1 below, there is a distinction between the time required by the company to prepare its financial statements (client preparation time) and the time required by the auditor to audit these statements (auditor completion time) (Simnett et al. 1995).

Figure 4.1 Distinction between financial statement and auditing



Dyer and McHugh (1975) used a sample of 120 industrial and commercial companies listed on the Sydney Stock Exchange (SSE) in June 1971, covering the period 1967-71, to explore time lag in reporting. They also identified three lags of Preliminary lag, Auditor's signature lag, and Total lag. The total lag for 1971 was broken down into four major components:

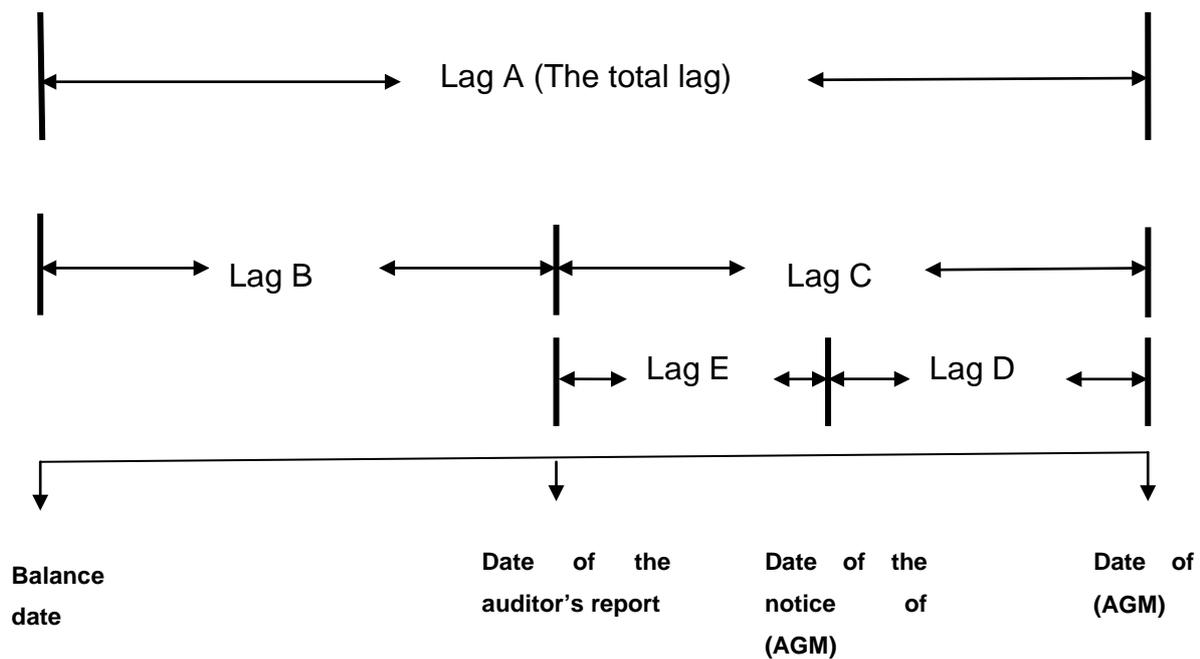
- Lag A represented that delay during which the auditors were unable to carry out their final examination of 90 per cent of the balance sheet accounts.
- Lag B represents an estimate of the actual yearend audit examination time, i.e. the period from which the auditors assessed 90 per cent of the accounts to the date the audit report was submitted to the directors.
- Lag C represented the interval between the receipt of the auditor's report by the directors to the date the auditors signed the report. It represented the time taken by the directors to consider the auditors' report and for the auditors and directors to make any final adjustments.
- Lag D represented the time taken to print the report.

As can be seen from this breakup of the total lag, Lag B and C constitute the time taken by auditors to produce the report and the finalisation of the report between the directors and auditors.

Courtis (1976) conducted a similar empirical study in New Zealand by using data obtained from the 1974 annual reports of 204 listed New Zealand public companies. The lags identified by Courtis (1976) are:

1. Lag A, the interval period between balance date and the date of the annual general meeting (AGM).
2. Lag B, the interval of days between the balance date and the date of the auditor's report.
3. Lag C, the interval of days between the date of the auditor's report and the date of the annual general meeting (AGM).
4. Lag D, the interval of days between the date of the auditor's report and the date of the notice of the annual general meeting.
5. Lag E, the time period between the notice of the annual general meeting and the date of the actual annual general meeting was held.

Figure 4.2 Time-lag in financial reporting



Here again, lags B, C and D comprise time periods relating to the production, deliberation and approval of the auditor's report.

As these studies have shown, the time taken by auditors to review and approve the report can constitute a significant portion of the total lag in reporting. In fact, the time taken for auditors to deliver their reports is considered to be an important determinant of the publication date of the annual reports (Simnett et al., 1995). Since it is not possible to release an annual report

unless it is certified as accurate by professional chartered accountant(s), the completion of the audit is a major step in delivering timely annual earnings announcements (Bamber et al., 1993; Givoly & Palmon, 1982).

Edward Stamp (1966) conducted the first empirical study of the effect of audit delay on the timeliness of annual accounts. He investigated what he called the question of speeding accounts which affected New Zealand shareholders with a comparative study to compare the timeliness of four New Zealand and four Australian companies, on the one hand, with four US companies on the other. In spite of the US companies being larger on average than both the New Zealand and Australian companies, Stamp found that the auditors in Australia and New Zealand took approximately twice as long to report as the American auditors. The American auditors' reports were made available approximately 40 days after their clients' balance dates, while the Australian and New Zealand auditors took approximately 80 days (Hossain & Taylor, 1998).

From his study, Curtis (1976) claimed that New Zealand listed public companies took 128 days beyond their balance dates before they finally presented the audited accounts to the shareholders (at the AGM), in which 84 days were taken to complete the audit process of corporate accounts. On the other hand, a study in Canada by Ashton et al. (1989) showed that Canadian companies audited by Canadian auditors had a mean audit delay which was stable at 55 days in each year. This was relatively shorter than the mean delays found in previous studies in other countries.

In terms of the research on non-Western countries, Owusu-Ansah (2000) reported that auditors in Zimbabwe, on average, took 62 days from a company's fiscal yearend to the date of the audit reports' signature, while companies took between 7-23 days after the auditors had certified the accounts to publish their annual reports. Hossain and Taylor (1998) empirically examined the impact of selected corporate attributes on audit delay for a sample of 103 non-financial companies listed on the Karachi Stock Exchange (KSE) for the year 1993. The descriptive statistics results indicate that audit delay was usually reported by the Pakistani listed companies at around 143 days which is approximately 100 and 60 days longer than audit delay in the US and Australia, respectively.

Comparative or longitudinal studies have also shown how audit delay has fluctuated over the years in different locales. While some studies reported a reduction in audit delay over the

years, others have reported an increase in the average time take for the finalisation and production of audit reports. These studies have also proposed different reasons for the changing patterns of audit delay.

Two major studies reporting an increase in audit delay were conducted in New Zealand and Australia. Carslaw and Kaplan (1991) examined audit delay for a large sample of New Zealand public firms for the years 1987 and 1988. Descriptive statistics for the sample companies for the two years indicated that the mean audit delay for 1987 and 1988 was approximately 88 and 95 days, respectively, which was longer than that reported by previous studies. The authors attributed the increase in audit delay to the rapid growth in the size and number of companies listed on the New Zealand Stock Exchange which had not kept pace with the times. It was also argued that the companies' operating and financing environment had also become more sophisticated and complicated, leading to more complex auditing and accounting procedures. Simnett et al. (1995) studied the timeliness of corporate audit reporting by using nine years of data (1981-1989) collected on Australian companies listed on the Australian Securities Exchange (ASX). The results indicated that audit delay had increased gradually over the nine years to approximately 88 days as a consequence of the fact that the business environment that companies operate in had become more complex and uncertain.

In contrast, a 15-year longitudinal study of audit delay by Givoly and Palmon (1982) found that the mean delay decreased from 61 days in 1960 to only 41 days in 1974. The writers argued that the improvement in timeliness could be attributed to many factors. An increase in the use of more advanced data processing devices and the development of internal control systems had led to a faster preparation of financial statements and a shorter audit period. As companies shifted to a system of quarterly reports, there arose greater involvement of auditors throughout the year. Auditors became more familiar with business operations which also meant they were able to conduct the annual audits more quickly. The increased awareness of investors of the potential value of accounting reports and their concern over the reliability and relevance of accounting numbers also exerted some pressure on companies to publish their financial statements as early as possible.

All the empirical research cited above highlights the prevalence of audit delay in financial reporting across the world. Some of these longitudinal studies map the patterns of audit delay over the years and even provide a rationale for the increase or decrease in audit delay. In

order to understand the source of audit delay, however, a detailed review of prior research identifying factors of audit delay is needed. Therefore the chapter now turns to a discussion of empirical research conducted on factors affecting audit delay to identify the relevant factors that can be used to examine audit delay in Libya.

4.4 Identifying Factors of Audit Delay

Audit delay for this study is defined as the number of days between the date of the financial statements and the date of the auditor's report. In order to identify the source of audit delay, Courtis (1976) attempted to identify whether it was management or the auditor who was responsible for the lack of punctuality in realising audited annual reports. Auditors, however, offered three reasons why they should not be held to blame. They argued that the main cause of lag in the actual auditing process was the company's inability to keep its accounts up-to-date. This prevented the auditors from immediately commencing a meaningful audit review as they had to spend some weeks bringing the accounts up to book. The auditors claimed that in some cases the reports were post-dated to coincide with the publishing of the printed annual reports. The auditors argued that inefficiencies in the printing industry also caused long reporting delay. This gives rise to a debate between auditors and companies on who is to be held responsible for the delay. In Courtis' view, however, it is wrong to lay the blame squarely on either management or the auditor despite the protestations by the auditors. Instead, Courtis argued that there is a whole complex of reasons arising from the interaction between the two which leads to audit delay. Courtis considered it unpolitic to hold either one of the two parties completely responsible for the lack of punctuality. This echoes remarks made by other authors who have argued that the length of a company's reporting delay is the outcome of an interaction between the auditing firms' attributes and the companies' attributes which jointly determines the duration of the yearend audit period.

Similarly, Gilling (1977) argued that punctuality, or the lack of it, in the production of financial statements could be attributed to the efficiency or tardiness of either management or the auditor, or to discrepancies occurring during interactions between them. According to Gilling, the timeliness of corporate financial reporting would be largely determined by management as it imposes time constraints on the auditors. But in the absence of such constraints, the reporting delay would be largely determined by the speed and efficiency of the audit process and the manner in which the auditors schedule their work. Therefore, Gilling emphasised the importance of the auditor's role in setting time limits:

... as the lag with which we are concerned is essentially an auditing lag, reflecting the auditors' decisions on what is to be done, the manner in which it is to be done and the time at which it is to be done, it would seem to be more appropriate to examine the auditors' activity and attributes, rather than corporate attributes.

From these studies, it becomes apparent that audit delay is the result of a host of factors concerning both parties. Rather than laying the blame on either party, it is better to identify factors relating to both the company and the auditor to arrive at a reasonable explanation for audit delay. Therefore, this literature review will proceed with a thorough examination of the empirical research in the field to identify variables related to company-specific and auditor-specific factors which are relevant to explaining audit delay in Libya. As stated earlier in the introduction to this chapter, audit delay for the purposes of this study is defined as the number of days between the date of the financial statements and the date of the auditor's report.

The review of audit delay across the world in a previous section showed that audit delay is also implicated with the level of economic development and financial infrastructure in place. It must again be emphasised here that this study chooses to put aside these broader issues and focuses instead on company characteristics and audit factors. Economic development and financial infrastructure are larger structural issues that evolve with the broader social development in a country. These issues may be relevant for a more global or comparative study of audit delay across different nations. But the factors of company and auditor characteristics help to identify the more immediate reasons for audit delay. The focus on identifying such factors is in line with the normative goal of this study to reduce the level of audit delay as such issues can be rectified, or at least addressed, by firms and auditors in their current capacity.

4.4.1 Company Characteristics

Considered to be the first study on audit delay in Australia, Dyer and McHugh (1975) examined the relationship between selected corporate attributes and reporting delay using univariate analysis. The independent variables used in their study were **company size**, **yearend closing date**, and **relative profitability**. The study found that **company size** was related to audit delay as larger companies (with assets over \$5 million) had consistently been more timely reporters than smaller firms. This was to be expected as large companies were more in the public eye and depended on maintaining a reputation of timeliness to attract

investors. A study of the relationship between **company yearend** and total lag revealed that the majority of Australian firms closed their books on 30 June. Consequently, there was peak demand for the resources of auditing companies on that date which, in turn, caused an additional delay in completing the yearend examination leading to an additional delay in reporting. Testing the claim that firms with bad profit news took longer to publish their annual reports than firms with good profit news, the authors found no association between the **relative profitability** (rate of return on ordinary capital) and the total time taken by Australian companies to publish their annual reports. Firms with exceptional results (positive or negative) did not differ in reporting delay from those with average profits.

In his pioneering study on audit delay in New Zealand, Gilling (1977) found **company size** to be a significant determinant of audit delay specifically as a result of the manner in which auditing firms in New Zealand scheduled their work. The leading auditing firms scheduled their work in the following order: overseas companies, large public companies and smaller public companies. In spite of the more complex accounting work involved in large companies, it was found that companies with total assets over NZ\$50m and overseas companies operating in New Zealand had shorter audit report lags. Gilling explained that this ordering of priorities was partly a result of client pressure on auditing firms but, more significantly, it was caused by the auditor's need to plan, control and even out the work flow. He also argued that since large companies consumed more of the auditor's time and costs than smaller companies, auditors sped up the completion of large companies' audits to obtain a speedier recovery of fees.

Following the pioneering study by Dyer and McHugh (1975), Curtis (1976) conducted a study in New Zealand to examine whether fast reporters displayed different corporate characteristics than slow reporters. The novelty of this research was that the study added other criteria such as **age, number of shareholders, length of report** and **industry classification**. The variables used were: **company size** (as defined by the book value of total assets, the dollar value of sales revenue, and number of employees), **age** (as defined by the number of annual general meetings held by the company as a public company), **number of shareholders, industry classification, company yearend, relative profitability, and the page length of the annual report**. The results showed that **size of company** was insignificant under all three definitions i.e. fast reporters did not differ from slow reporters with respect to size. There was also a lack of statistical significance between **age of the**

company and audit delay and the same results were found for both **number of shareholders** and **length of the annual report**. But the study indicated that there was an unusually high diversity of New Zealand company balance dates with only 40 per cent of the study's sample companies having a **company yearend** of 31 March while 20 per cent of the sample using 30 June to close their accounts to keep in line with their Australian connections. Finally, Curtis (1976) also investigated the relationship between **industry classification** and audit delay and the results showed that only three industries of the 16 classifications appear to show average results which fall outside the second and third quartile ranges. Fuel and energy and finance-type companies tend to be the most prompt in reporting with a mean lag of 38.5 days, service industry companies were slow reporters with a mean delay of 100.7 days and mining, and exploration companies (which were also the most unprofitable industries in New Zealand at the time) were the tardiest in releasing their audited accounts with a mean delay of 160.5 days. Statistical results for **profitability**, measured in absolute profit values and five profitability ratios, showed that there was an inverse relationship between **profitability** and time-lag for absolute profit and two of the ratios.

In addition to the **size of company**, Givoly and Palmon (1982) introduced two other company characteristics relating to the quality of its **internal control system** and the **complexity of its operation**. The results revealed that there was a negative relationship between the **size of company** measured by sales volume and reporting delay as larger companies tended to report earlier than smaller companies. The writers argued that larger companies have greater resources that enabled them to purchase less delay as larger companies are usually audited by big CPA firms that possess the necessary audit resources for timely reporting. In addition, they argue that larger companies are more susceptible to maximum pressure from shareholders to be more punctual so they are more cautious about audit delay. Since **complexity of operations** has a bearing on the overall operational structure of the company, the authors argue that it might capture some untapped factors influencing the audit process. The company attribute of **complexity of operations** was measured by sales growth in the recent past and by the ratio of inventories to total assets. The results showed there was no consistent relationship between **internal control system** and the time lag, but **complexity of operations** was directly related to time lag.

In their study on audit delay in Zimbabwe, Owusu-Ansah (2000) found some significant results for **company size** from a two-stage regression which indicated that larger companies

in Zimbabwe were more likely to release their annual reports faster than smaller companies. The authors explain that large companies in Zimbabwe may have the resources to employ modern technology which enables them to release their annual reports on a timely basis. They also argue that large companies may possess **strong control systems**, so auditors do not need to spend a long time in conducting compliance and substantive tests. In addition, **company age** was found to be a significant variable as older companies were found to have a shorter financial reporting delay, which meant that the “reporting lead time of a company is a decreasing function of its age”.

Ashton et al. (1989) collected data from 465 companies during the period 1977-1982 to investigate the relationship between the dependent variable (audit delay) and independent variables shown to be important in prior studies. Apart from **company size** (measured by total assets) and month of **yearend**, it examined **industry classification** categorising companies into financial services companies and all others. The results indicated that there was an inverse relationship between **size of company** and audit delay. They also indicated that companies with **yearends** in December or January had shorter delays by 13.2 days. **Industry classification** was significant in all six years and audit delay was shorter for financial service companies.

Hossain and Taylor (1998) empirically examined the impact of selected corporate attributes on audit delay for a sample of 103 non-financial companies listed on the Karachi Stock Exchange (KSE) for the year 1993. The study examined seven corporate attributes, including, **size of the company** (measured by total sales and assets), **debt-equity ratio**, **profitability** (measured by rate of return on assets and net profit margin), **subsidiaries of multinational companies** and **industry type**. The surprising result of this study was that while **profitability** was found to be significant at only the 20% level, the variables commonly used in previous research, such as **company size** and **industry type**, were found to be insignificant, whereas the new variable of **subsidiaries of multinational companies** was significant at the 5% level.

Apart from the static attributes of a company like **size**, **yearend** and **nature of control system**, it is evident here that **profitability** has emerged as a key factor to be examined for audit delay. Focussing specifically on **profitability**, Givoly and Palmon (1982) investigated the relationship between the timeliness of annual reports, their contents and certain company attributes using a sample of 210 companies in 25 different industries listed on the New York Stock Exchange. Givoly and Palmon (1982) showed that there was a consistent order in the

earnings release dates of companies in 21 of the 25 selected industries depending on **profitability**. Results indicated that bad news tended to be delayed due to “the managers’ natural desire to defer any repercussions from shareholders and managers’ wish to continue and complete recent negotiations and contracts in the best possible light” (Givoly & Palmon, 1982). Although apparently not a major factor in the reporting delay, this tendency was nonetheless significant.

In a similar study, Haw et al. (2000) examined the relationship between the timeliness of annual reports and companies’ operating and **market performance** in the capital market of China by using a sample containing 1890 annual reports for the period 1994 to 1997. The descriptive results showed that the mean annual report delay among the Chinese companies was approximately 96 days. Moreover, consistent with previous research in mature markets such as Australia and the US, both parametric and non-parametric tests indicated that companies with good news tended to release their annual reports earlier (about 90 days) than those with bad news (about 106 days), and companies with losses were found to be last to release their annual reports (the average delay among those companies was about 116.5 days).

Garsombke (1981) attempted to determine the variables affecting the timeliness of corporate financial disclosure with a random sample of 120 companies chosen from the ISL Daily Stock Price Index for the period October-December, 1972. Apart from **firm size** and **company yearend**, the study also included some new company characteristics like **listing status** in the stock market, **management attitude** and **relative profitability**. The results indicated that there was a negative relationship between the **size of the company** (measured by total assets) and the timeliness of financial disclosure. Larger companies were more punctual in their disclosure than smaller companies as the management of larger companies was more likely to realise the benefits of timely disclosure such as easier marketability of securities and greater opportunities for financing. With regard to the relationship between **company yearend** and the timeliness of company financial disclosure, it was reported that while the majority of companies had fiscal years ending on 31 December, companies with a fiscal yearend in the first quarter of the calendar year were less timely than other companies. This finding was attributed to the fact that CPA firms were busy auditing their calendar yearend clients in the first quarter of the year, so it was reasonable to assume that the companies with January, February and March yearends did not receive timely audits. The

results of this study, however, did not support the hypothesis that good news of **relative profitability**, as measured by a change in the rate of return or earnings per share, was reported more quickly than bad news. The results also showed there was a negative correlation between the current ratio and the timeliness of a company's financial disclosure, and a positive correlation between the debt ratio and timeliness. This was opposite to the Grasombke's (1981) hypothesis that **management attitude** would determine the date of release and good news would be reported more quickly than bad news. The author attributed this to the fact that management were apathetic to reporting in general and did not make any concerted attempt to make timely reports regardless of whether the news was good or bad.

With regard to the other new factor of **listing status**, Garsombke (1981) used statistics to determine whether there was a difference in timeliness among companies having a different **listing status** (whether a firm was listed on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX) or the Over-The-Counter (OTC)). The results indicated that there was a statistically significant difference between listing statuses. The anomaly was that companies listed on AMEX were less timely with an average delay of 61.9 days than companies on either the NYSE or the OTC which took 44.7 and 52.7 days, respectively.

Listing status was also used as a variable by Abdulla (1996) in Bahrain, along with **size of company** (measured as the natural log of total assets), **profitability**, **financial leverage** (measured as the ratio of total liabilities to total assets), and **industry membership**. The author investigated the impact of the existence of stock exchanges on annual report delays by comparing the delays after and before the establishment of the Bahrain Stock Market (BSE) in June 1989. With respect to the other independent variable of **size**, it was found that larger companies tended to release their financial statements earlier than smaller companies. Additionally, companies with bad news about their **performance** tended to release their financial statements later than those with good news. But the relationship between timeliness and the other variables of **industry membership**, **financial leverage** and **listing status** were found to be insignificant.

Henderson and Kaplan (2000) used an empirical model based on the general model developed by Bamber et al. (1993) to investigate the determinants of audit delay in the banking sector. A sample of 93 domestic commercial banks listed on the Bank Compustat annual file for the period 1988-1993 were tested for audit delay. The descriptive statistics showed a wide variation in audit delay between sample banks. Mean audit delay ranged from

approximately 10 days to 51 days between different banks, while the variation in audit delay for a given bank was narrow over the study's period. The panel data regression indicated that banks were more likely to have a longer audit delay when they faced **financial difficulties**, **reported net losses**, **faced high uncertainty** and **had a high proportion of income from non-traditional sources**.

Oftentimes, delays can occur not necessarily due to poor profits or performance but to the occurrence of some abnormal events in financial accounting that require careful and focussed scrutiny and thus delay the audit. Davies and Whittred (1980) conducted the first study to address the possibility of such factors being behind audit delay and added a new item called **extraordinary items** to the commonly-used variables of **company size**, **relative profitability** and **company yearend**. The results reported in this study on the **company size** variable were in line with Dyer and McHugh (1975), as it was found to be one of the factors affecting the total reporting lag. In particular, companies classified as 'moderate' in size were significantly less timely reporters than companies of 'small' and 'large' size. Consistent with the results reported by Dyer and McHugh (1975) on the association between **relative profitability** and total lag, Davies and Whitred (1980) found there was no tendency for profitable companies to report quickly or for less profitable companies to report slowly. But contrary to Dyer and McHugh, Davies and Whitred (1980) found that **financial yearend** had little influence on the total reporting delay as the total delay on companies with a 30 June yearend since 1971 was significantly longer than the others on only two occasions. With respect to the association between the presence of **extraordinary items** and the reporting delay, the results showed that this variable had little impact on any of the defined delays. This was attributed to the fact that the presence of extraordinary items was not all that uncommon. Also, the audit programmes used by auditors were planned well enough to handle such items without any major disruptions to their work schedule. There were, however, significant increases in the auditor's signature lag due to an increase in auditor-client negotiations.

Ashton et al., (1989) examined the effect of **sign of net income**, **contingencies**, and **extraordinary items** on audit delay in a sample of 465 companies listed on Toronto Stock Exchange across six years from 1977 to 1982. **Extraordinary items** were found to be significant in all six years as the audit delay was shorter by 11 days for companies that did not report **extraordinary items** or require qualified opinion. **Sign of net income** was

significant in five years and audit delay was 9.2 days shorter for companies with low debt proportions and positive net incomes and longer for companies which reported losses.

Kinney Jr and McDaniel (1993) extended the prior research on audit delay and the occurrence of abnormal or unusual requirements in the yearly financial report by linking it to **correction of previously reported interim earnings**. The authors argued that the time taken for the correction of previously reported earnings could lead to increased yearend audit work and audit auditor/clients negotiation to monitor the changes. Data were collected for a sample of 85 companies which made yearend announcements of corrections to previously reported interim earnings over the period 1976-1988. The descriptive audit delay statistics indicated that the companies correcting previously reported quarterly earnings had a mean audit delay of 67.91 days, while matched companies only had a delay of 50.66 days. In addition, the results also showed that audit delay was significantly positive for companies with interim overstatements and declining earnings.

As reporting delays can differ significantly between companies that are healthy and those entering a period of financial distress, Whittred and Zimmer (1984) examined whether **bankruptcy** had any effect on audit delay. At the first stage of the investigation, the study compared the reporting behaviour of companies which had failed with companies which had not. 53 failed companies and 37 non-failed companies listed on the Sydney Stock Exchange between 1964 and 1978 were selected for the study. Five years of data were obtained to assess how reporting behaviour changed during the years prior to failure. The results indicated that companies facing financial distress had longer auditor's signature delays (a proxy for the amount of time spent in yearend audits and/or auditor-client negotiation) at least three years prior to the failure. While 75 per cent of non-failed companies released their reports within 124 days (the legal maximum delay was 120 days), only 25 per cent of failed companies had met this deadline. This means that management could delay, or even suppress, potentially damaging information regarding the company's financial condition.

Lawrence (1983) measured the time delays for a sample of 110 companies filing for **bankruptcy** between 1975 and 1981 by collecting three dates for each firm: fiscal year date, date of bankruptcy and date financial statements were published. Companies were chosen by an examination of firm listings under the subject heading "bankruptcy" in the Wall Street Journal Index and the New York Times Index. The results showed that the reporting delays were longer than expected under more favourable conditions. The average lag was 3.9

months with a standard deviation of 2.0 months. It was reported that 22 per cent of the companies in the sample filed for bankruptcy between their fiscal yearend and the release of the financial statements.

Almosa and Alabbas (2008) attempted to explore the factors that have an effect on timeliness of audit report in Saudi Arabia by using a sample of 91 companies listed on Saudi Stock Market for the years 2003, 2004, 2005 and 2006. The study developed a model which hypothesized that audit delay is a function of company's attributes variables. The results indicated that there was a positive relationship between audit delay and **company's size**. However, the audit delay was negatively associated with income (as proxy of **profitability**) which means audit delay was shorter for companies gaining profits. In addition, the results also showed that the audit delay in Saudi was shorter for **financial companies**

A host of factors relating to company characteristics have been identified in these studies. Some of the generic factors relating to company attributes are **company size, month of yearend, industry classification, multinational/local status, listing status** and **management attitude**. Variables related to earning are **sign of net income, financial difficulties, debt-equity ratio, relative profitability** and **market performance**. There are also some variables relating to some significant discrepancies in firm performance and profitability which could delay audited reports such as **extraordinary items, correction of previously reported interim earnings, contingencies, bankruptcy, high uncertainty** and **non-traditional income**. But all these factors must be carefully compared and considered to choose ones for the current study that have been consistently validated in previous studies and to identify variables with synonymous concepts that can be merged together. This will help in building a conceptual framework that addresses all the aspects of company characteristics in a parsimonious way, avoiding unnecessary complications and repetition of overlapping variables in the actual analyses.

Of all these variables, **company yearend** is a universally synonymous concept that can be used as it is, along with **internal control system** which is a distinct concept relating to the manner in which operations in the company are run. But all the other variables need some further discussion to streamline or merge them. Characteristics like **age, number of shareholders, employee strength, multinational/local status** and **listing status** are all functions of **size of company** so these can be subsumed under this single variable. **Nature of company activity** is a better term that can encompass **industry classification** as well as

complexity of operation. While there were a range of terms relating to financial performance such as **total earnings, net income** and **debt-equity ratio** these can be subsumed under **relative profitability** without any contention. Similarly, **extraordinary items** is a broad term that can encompass a range of discrepancies in financial reporting by a company such as **contingencies, correction of previous reports, high uncertainty, non-traditional income to bankruptcy.** Lastly, **listing status** is not considered in this study as it is a predetermined criterion of the sample selected for the study along with **management attitude** which has only been used in Garsomkbe's (1981) study and is invalidated there . In summary, the company characteristics that are used to understand audit delay in this study are: **size of company, nature of company activity, internal control system in the company, company yearend, profitability** and **extraordinary items.**

4.4.2 Audit Factors

Gilling (1977) is credited with one of the first studies to examine the relationship between corporate reporting lag and the attributes of auditors. Gilling studied a sample of 187 New Zealand public companies that represented 73 per cent of all listed public companies in New Zealand, with data being collected from a survey of the 1976 annual reports. The study showed that the number of accounting firms providing audit services to public companies in New Zealand was highly concentrated with the seven largest firms auditing over 80 per cent of all New Zealand public companies. It was reported that, on an average, the seven largest auditing firms were able to perform the audit and sign their reports in a shorter time than other auditors. While the leading seven firms produced their audit reports in only 75 days, the remaining auditing firms took nearer 90 days, on average, to perform the audit. This study established the relevance of **audit size** to the timeliness of financial reporting and audit delay.

Ashton et al. (1987) used an auditor-specific sample of companies contrary to previous studies which relied on secondary data sources to examine the determinants of audit delay , in order to formulate a systematic relation between audit delay and audit-related variables. These were **relative mix of audit work performed at interim and final dates, number of years of audit experience** (of the auditing firm with the company) and **type of audit opinion.** It was found that audit lag was significantly shorter for companies that (1) receive unqualified audit opinions, (2) had a less relative amount of audit work performed after yearend.

In order to provide an adequate explanation for corporate reporting lags, Davies and Whittred (1980) extended on Dyer and McHugh's (1975) study by pursuing Gilling's (1977) suggestion that auditing firms attributes should be examined to explain reporting delay. A replication of Dyer and McHugh's study was conducted by Davies and Whittred (1980) using a sample of 100 commercial and industrial Australian companies listed on the Australian Securities Exchange (ASX) over the period 1972 to 1977. It was found that **auditing firm size** was a major determinant of reporting delay in Australia. The results showed that companies audited by the larger auditing firms (the Big 8)⁹ had shorter delays than those that were audited by other auditing firms. To explain this result, the Davies and Whittred (1980) argued that larger Big 8 auditing firms most often have larger clients which are more likely to have 'on-going' audits than small companies. Also, the Big 8 firms are more efficient because they have better resources and the ability to access modern technology. The companies that changed their auditors during the period of the study were compared with a control group of similar companies which experienced no change in auditors, but the authors found no association between a **change in auditors** and preliminary reporting delay. There was no delay on this account as the change in auditors was carefully pre-planned and approved by the shareholders at the AGM which took place eight or ten months prior to the release of the final financial statements. This meant that the change in auditors has no significant deleterious effect on the timelines of reporting.

Drawing on this second aspect of **change in auditors**, Schwartz and Soo (1996) conducted a focussed study in US of 502 companies having auditor changes with the sample taken from Form 8-k filings over the period 1988-1993. The results showed that the mean audit delay for all companies in the sample was 60.13 days. In addition, it was found that companies that changed auditors early had a shorter audit delay and those who changed late had a longer audit delay. Further, the study also indicated that there was no evidence of a significant market reaction to announcements of early or late auditor changes. The authors suggested that their results were consistent with the timing hypothesis which suggests that companies changing their auditors early are more likely to have a well-planned and controlled process and thus experience shorter audit delays.

The **nature of audit opinion** also affects the time taken to conduct auditing. Whittred (1980) compared the reporting behaviour of Australian companies which received qualified audit

⁹ The 'Big 8' are defined (alphabetically) as: Arthur Anderson & Co.; Arthur Young & Co.; Cooper & Lybrand; Deloitte, Haskins & Sells; Ernst & Whinney; Peat, Marwick, Mitchell & Co.; Price Waterhouse & Co and Touche Ross & Co.

opinions with a random sample of Australian companies which received unqualified audit reports the ten-year period 1965-74. The 245 sample companies were divided into four groups—100 companies which received a qualified audit report, 16 companies in which auditors reported that they were “unable to form an opinion”, 9 companies whose accounts were “not true and fair”, and 120 which companies received an unqualified audit report. The results indicated that companies which received unqualified audit opinions took, on average, 107 days to submit their annual report to the Stock Exchange, while companies which received qualified audit opinion took 124 days on average. Moreover, it was reported that the more serious the qualification, the greater the delay, thus, companies receiving serious audit qualifications had a longer audit delay with the average delay being 169 days. This audit delay was attributed to an apparent increase in the yearend audit time and an almost certain increase in auditor-client negotiation time as a result of the impending qualification.

Newton and Ashton (1989) examined a sample of about 300 companies listed on the Toronto Stock Exchange (TSE) from 1977 to 1982 who engaged with the eight largest auditors in Canada to examine the impact of **structure of the auditing** on audit delay. Other smaller auditing firms were eliminated in this study because the researches had no measure of structure for the smaller audit firms. The results indicated that the mean audit delay increased slightly over the study period from 51.6 days in 1977 to 53.9 days in 1982. Contrary to the authors’ expectations, the results indicated a positive relation between audit delay and audit structure in all of the five years. In other words, greater audit structure was found to be associated with a greater audit delay.

Jaggi and Tsui (1999) examined whether the audit business risk and audit firm technology is associated with audit delay in Hong Kong companies using a sample of 393 companies over the period 1991-1993, and selecting those companies which had financial statements for the study period on all the independent and control variables. The results showed that Hong Kong companies audited by audit firms using the **structured audit approach** were likely to take a comparatively greater audit time.

Bamber et al. (1993) aimed to investigate factors that have an impact on the length of time external auditors require to complete the audit by proposing a relatively comprehensive model of audit report lag based on the **amount of audit work** required, **incentives** to provide timely reports, and the extent to which the auditor employs **a structured audit approach**. The results showed that audit report lag was an increasing function of three factors affecting

the **amount of audit work** required with auditor business risk (proxied by concentration of client ownership and client financial condition), audit complexity (proxied by client industry), and other work-related factors (extraordinary items, net losses, and qualified audit opinions). There was an inverse relationship between audit report lag and the degree of increased **incentives** to provide the client with a more timely audit report (i.e. for larger clients or those reporting good earnings news). Total audit report lag was shorter for clients of unstructured audit firms than for clients of **structured audit firms**. However, the results suggested that, also, structured audit firms were able to adapt more quickly when an unanticipated event occurred and thus their clients experienced a shorter abnormal audit report lag than clients audited by unstructured audit firms.

Knechel and Payne (2001) examined the relationship between audit report delay and three audit firm factors that had not been previously investigated. These include **incremental audit effort** (e.g. hours), **resource allocation of audit team** effort measured by rank (partner, manager, or staff), and the **provision of non-audit service**. Data collected from an international public accounting firm for the fiscal year 1991, relating to 226 audit engagements with nine industry categories and two engagement size categories were studied. The results indicated that the mean audit delay for the sample was approximately 68 days. While the shortest delay was in the banking industry (40.86 days), government service companies had the longest delay with an approximate delay of 97 days. Moreover, the results also indicated that private company audits were completed 19.2 days later than those of public companies, while companies with a non-busy season yearend had shorter audit delays (approximately 17.34 days) than those with a busy season yearend. With respect to regression tests, it was found that audit report delay was positively associated with **audit hours** and the **provision of tax services**, and negatively associated with partner and manager hours and the provision of Management Advisory and Tax services.

Afify (2009) examined determinants of audit delay for 85 companies listed on the Cairo and Alexandria Stock Exchange for year 2007. The results indicated that the audit delay for the sample ranged from a minimum delay of 19 days to a maximum delay of 115 days and the average of the delay was 67.21 days which means most of Egyptian companies met the regulatory deadline. The results also indicated that **the type of auditor** was found not to be significantly associated with audit delay.

Shukeri and Nelson (2011) examined the factors that have an effect on the timeliness of annual audit report in Malaysia for a sample consisted 300 companies listed on the Kuala Lumpur for the year ended 2009. The results indicated that majority of the companies in the sample complied with the reporting requirements on audit report as required. Further, It was reported that the average audit report delay was almost three months which was below the maximum periods of 180 days as stipulated by the Bursa Malaysia. Moreover, the results also indicated that companies audited by the **biggest audit firms** (the Big Four) had a shorter audit delay

Modugu et al., 2012 examined the relationship between **audit firm size** and audit delay in a new contest, Nigeria, by using a sample of 20 companies was selected for a period of 2009 to 2011. The results showed that the audit delay was ranged from a minimum delay of 30 days to a maximum delay of 276 days while the average of the delay was approximately two months. In addition, the results indicated also that **audit firm size** was found not significantly associated with audit delay.

From this study's literature review of audit factors used in previous empirical studies, these variables were identified: **audit firm size, change in audit firm, type of audit opinion, structured audit approach, incentives to auditors, amount of auditing work, incremental audit effort, resource allocation of auditing team and provision of non-auditing services**. Again, it is important to parse these variables to ensure that there are no overlapping variables that unnecessarily complicate the analyses and select those with a single concept underlying them to help build a parsimonious yet rigorous conceptual model. It may be argued here that **type of audit opinion** is a broad enough term to incorporate **provision of non-auditing services** and **amount of auditing work** (which is synonymous with **incremental audit effort**). On the other hand, **structured audit approach** and **allocation of auditing team** can both be considered functions of **audit firm size** and incorporated under it. This study considers **resource allocation of auditing team** to be related to the functioning of the auditing firm and not as relevant to audit delay as such. On the other hand, **incentives to auditors** or **change in audit firm** are extraordinary items that will be addressed as they emerge with regard to specific companies but will not be used as a general variable. Therefore, this study regards **audit firm size** and **type of audit opinion** as representing two distinct and relevant audit factors that can affect audit delay.

4.5 Conceptual Framework and Hypotheses Development

The present study will investigate factors affecting the timeliness of audit reports in the Libyan context. Audit delay for this research is defined as the number of days between the date of financial statements and the date of the auditor's report. A model for examining audit delay will be developed by using nine explanatory variables. The model of audit delay developed by Ashton, Willingham and Elliott (1987) and Carslaw and Kaplan (1991) has been used and validated by many empirical studies in the field. This study also follows the model formulated by them, given the positive response it has received in most previous studies on audit delay (Afify, 2009; Almosa & Alabbas, 2008 ; Bonsón-Ponte et al., 2008; Hossain & Taylor, 1998; Jaggi & Tsui, 1999; Leventis et al., 2005 ; Soltani, 2002).

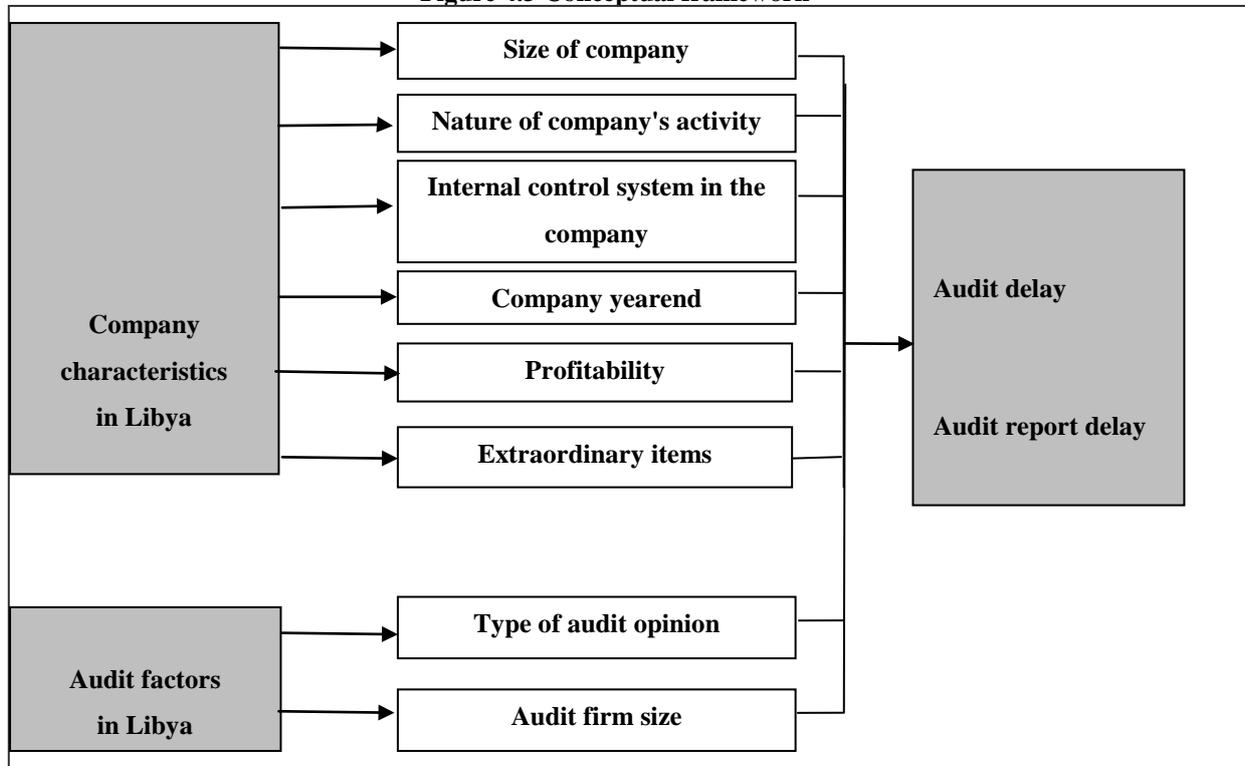
The model of audit delay is, however, found to only focus on factors affecting audit delay in isolation and does not pay attention to the existing relationship between the firm and the auditing entity. Therefore, the model for audit delay in this study is also based on agency theory to incorporate the dynamics of the relationship between the two entities, the firm and the auditor, to better understand the reasons for audit delay. The development of agency theory is often tracked back to Berle and Means (1932), although some writers have suggested that this theory was established by Adam Smith in 1776 in his influential book *The Wealth of Nations* (Wearing, 2005). According to Jensen and Meckling (1976), the agency relationship is a contract under which one party (the principal) engages another party (the agent) to perform some service on their behalf. As part of this contract, the principal will delegate some decision-making authority to the agent. While agency relationships often work well, problems may arise if agents and principals have different goals. Agents may take actions that are not in the best interests of their principals. They may be able to do this because there is an information asymmetry between principal and agent (Hill & Jones, 2007). Information asymmetry becomes a significant problem in the agency relationship when it is combined with moral hazard. Moral hazard is the potential for agents to operate in their own self-interest against the objectives of the principals. Consequently, the principals must demand a strong and effective mechanism to control agent behaviour before entering into a principal-agent relationship.

Applying agency theory in the context of this research, we can conceive of the firm and the management as an agent of the various principals, represented by investors, creditors and owners, who have a vested interest in the firm to do well. The tendency of managers to

withhold bad news can stem from a standard agency problem where managerial disclosure preferences are not aligned with those of shareholders (Kothari et al., 2008). There is a need to avoid information asymmetry and moral hazard which can occur if certain groups in the firm have and conceal important information or work in a manner that is contrary to the interests of the principals. In order to ensure that both the firm and management are working to serve their interests, stakeholders need to ensure that they have all the relevant information about the firm's performance. Audited financial statements are considered to be one of the most effective mechanisms for monitoring the agent's behaviour.

Owusu-Ansah (2000) has argued that audit-related factors are those that are likely to impede (or help) the auditor in carrying out the audit assignment and issuing the audit report promptly. In contrast, company-specific factors are those that either enable management to produce a more timely annual report or reduce costs associated with undue delay in reporting (Owusu-Ansah, (2000)). Following Owusu-Ansah's suggestion, the theoretical framework adopted for this study is based on a combination of relevant audit-related and company-specific characteristics identified from the literature review. The conceptual framework for the study illustrated below conceives of audit delay as the dependent variable. It proposes that audit and audit report delay is a function of the independent variables of audit-related factors and company attributes. These independent variables test the dynamics between the client, the auditor, and/or some interaction between client and auditor during the auditing process. The sub-sections following the outline below of the conceptual framework list the hypotheses developed for each factor identified in the framework and discuss the underlying rationale behind the hypothesized relationship between each independent variable and audit delay.

Figure 4.3 Conceptual framework



4.5.1 Size of Company

The size of a company, which is measured by total assets, is the most popular factor attributed to causing audit delay that has been used in previous studies (Abdulla, 1996; Ashton et al., 1989; Carslaw & Kaplan, 1991; Curtis, 1976; Davies & Whittred, 1980; Gilling, 1977; Newton & Ashton, 1989a). Most of these prior studies found a negative association between audit delay and company size. This is possibly due to the ability of larger companies to engage large auditing firms and to pressure auditors to complete the audit work in a timely manner. In addition, larger companies may have their audit reports completed earlier than smaller ones because larger companies may have stronger internal controls, which give the auditor access to required data from the internal controls and reduce the extent of substantive tests (Almosa & Alabbas, 2008).

In this study, the size of company was determined by three measurements (total assets, number of employees and number of branches). And in the light of the above discussion, the following hypotheses are generated:

H1.1: There is no relationship between the size of the company measured by total assets and audit delay in Libya.

H1.2: There is no relationship between the size of the company measured by number of employees and audit delay in Libya.

H1.3: There is no relationship between the size of the company measured by number of branches and audit delay in Libya.

4.5.2 Nature of Company's Activity or Industry Type

It is generally thought that non-financial firms are more likely to have audit delay compared to financial firms (Ahmad & Kamarudin, 2003 ; Ashton et al., 1987; Bamber et al., 1993). These studies argue that audit delay is expected to be shorter for financial institutions as financial services companies appear to have little or no inventory. As inventories are difficult to audit and prone to material errors, the lower the proportion of inventory in compared other types of assets, the shorter the audit delay (Carslaw & Kaplan, 1991).

The nature of the relationship between industry and audit delay for Libyan companies can be determined by testing the following null hypotheses:

H2.1₀: There is no relationship between being a financial company and audit delay in Libya.

H2.2₀: There is no relationship between being a non-financial sector and audit delay in Libya.

4.5.3 Internal Control System Quality

One of the main factors likely to decide the total input required for an external audit is the quality of internal control systems (Givoly & Palmon, 1982). It has been argued that companies which have stronger internal controls have a reduced propensity for financial statement errors to occur. Stronger internal controls enable auditor(s) to rely on controls more extensively and to perform less interim work, thus resulting in less audit delay (Carslaw & Kaplan, 1991). Moreover, Ashton et al., (1987) state that audit delay is significantly longer

for companies that have poorer internal controls. Accordingly, the third hypothesis of this study is:

H3₀: There is no relationship between poor internal control systems and audit delay in Libya.

4.5.4 Company Yearend

Several studies have used the timing of company yearend as an independent variable to explain audit delay (Ahmad & Kamarudin, 2003 ; Ashton et al., 1989; Ashton et al., 1987; Carslaw & Kaplan, 1991; Newton & Ashton, 1989). A company that has a financial yearend coinciding with other companies is expected to experience longer audit delay (Che-Ahmad & Abidin, 2009). A large number of audits with the same financial yearend date may cause scheduling problems for the auditor thus leading to audit delay (Carslaw & Kaplan, 1991). Ashton et al. (1989) found that audits conducted during the “busy season” had shorter delays than those conducted during other months. In Libya, most companies have a yearend of 31 December and a large number of audits with the same yearend date could possibly generate scheduling problems leading to audit delay (Ahmad & Kamarudin, 2003). Thus, a null hypothesis for company yearend is proposed:

H4₀: There is no relationship between having a yearend of 31 December and audit delay in Libya.

4.5.5 Extraordinary Items

Extraordinary items, by definition, reflect non-recurring events arising from something other than the company’s normal operations (Ashton et al., 1989). Several prior studies have investigated the association of extraordinary items with audit report lag (Ashton et al., 1989; Bamber et al., 1993; Newton & Ashton, 1989). These extraordinary items are expected to require additional time to audit, discuss and negotiate with the management, often leading to audit delay (Leventis et al., 2005). Thus, it is expected that extraordinary items may have a positive relationship with audit delay.

In order to determine the nature of the relationship between extraordinary items and audit delay, the follow null hypothesis was tested:

H5₀: There is no relationship between the presence of extraordinary items and audit delay in Libya.

4.5.6 Profitability

Several researchers have used profitability as an explanatory variable for audit delay (Ahmad & Kamarudin, 2003 ; Almosa & Alabbas, 2008 ; Ashton et al., 1987; Bamber et al., 1993; Carslaw & Kaplan, 1991). They argue that companies reporting a profit for the period are expected to have a shorter audit delay compared to ones reporting a loss. Companies with a profit are expected to invite the auditor to complete the audit engagement as quickly as possible so as to be able to release the good news of their profitability to their stakeholders as soon as possible (Hossain & Taylor, 1998).

Therefore, a negative association is expected between audit delay and companies reporting a profit:

H6₀: There is no relationship between profitability and audit delay in Libya.

4.5.7 Audit Firm Size

Another explanatory variable which will be employed in this study is the size of the audit firm. Several empirical studies have examined the association between the attribute of the audit firm (size of audit firm or international link of the auditing firm) and audit report lag. Gilling (1977) was the first to report a significant positive relationship between audit delay and the size of the auditing firm, and other studies examining the relationship include Almosa & Alabbas (2008), Carslaw & Kaplan (1991), Davies & Whittred (1980), Garsombke (1981), Hossain & Taylor (1998).

It is expected that larger audit firms may be able to complete audits on a timelier basis because they may have more resources and use more qualified audit staff. Accordingly, the seventh null hypothesis of the study is:

H7₀: There is no relationship between audit firm size and audit delay in the Libya.

4.5.8 Type of Audit Opinion

Several authors have identified qualifications or reservations expressed by the auditor as one of the factors that may determine delays observed in auditing (Ahmad & Kamarudin, 2003 ; Ashton et al., 1987; Bonsón-Ponte et al., 2008; Carslaw & Kaplan, 1991; Leventis et al., 2005; Newton & Ashton, 1989; Whittred, 1980). A qualified opinion is usually viewed as representing a negative view of the companies' financial affairs and when this happens the

firm takes longer to approve the release of the audited report and takes more time to confer with the auditor, which then slows down the audit process (Che-Ahmad & Abidin, 2009). Moreover, Bamber et al. (1993) argue that a qualified opinion is not likely to be issued by an auditor in the first place until they have spent considerable time and effort in careful scrutiny to arrive at such an opinion. As Leventis et al., (2005, 49) explain, “auditors are expected to extend tests when they find or suspect irregularities, partly because auditors might wish to take more time to audit transactions as a defence against any potential future litigation”. In order to assess the impact of this variable, the following null hypothesis is posited:

H8₀: There is no relationship between the type of audit opinion (qualified or unqualified) and audit delay in Libya.

4.6 Summary

This chapter has covered some crucial issues underpinning the focus of this thesis on the impact of audit delay on financial statements in Libya. While the usefulness of financial statements has been expounded in terms of the criteria of relevance and reliability in Chapter Three, the current chapter has emphasized the critical importance of the timeliness of financial reporting as financial statements must be available to users at the time of decision-making otherwise they will be of little use. The chapter examined various aspects of timely financial reporting, its impact on investment decisions and share prices, the regulatory frameworks imposed to encourage timely reporting and reporting delays across the world. In particular, the chapter has highlighted how audit delay may contribute to overall delay in financial reporting across the world. A review of empirical studies over the last three decades has been used to identify company-specific and auditor-specific factors that can cause audit delay. From the review, the study found size of company, nature of company activity, internal control system in the company, company yearend, profitability and extraordinary items relevant for company characteristics, and type of audit opinion and size of audit firm relevant for audit factors. Using these variables to construct a theoretical framework, the next chapter will develop hypotheses to investigate the reasons behind audit delay in Libya and propose the methodology to test these hypotheses.

Chapter 5 Research Methodology

5.1 Introduction

The last chapter discussed the current literature on the causes and effects of audit delay in both developing and developed countries in order to develop a conceptual framework and hypotheses that will guide this study's empirical examination of the determinants of audit delay in Libya. This chapter is concerned with developing the appropriate research methodology for collecting and analysing the data for testing the hypotheses of the study. It will begin with a rationale for the broad research philosophy underpinning the quantitative approach taken by this study and justify the use of questionnaires as the main data collection instrument used in the study. After a description of the questionnaire design, its language, pilot testing and sample selection, the chapter will end with a brief overview of the response rate and the statistical methods to be used in the following chapter (chapter 6) to analyse the data.

5.2 Research Philosophy and Methodology

Research methodology can be roughly defined as the scientific approach used to gather information for answering research questions and addressing research objectives (Creswell et al. 2003). The choice of research methodology in social research is a problematic issue around which there has been much debate as the method chosen can determine the outcome of the research. The justification for the research philosophy behind any research must be made by taking into account the nature of the research questions and objectives (Punch & Punch, 2005). The choice of research methodology and philosophy depends on the research questions and objectives of the study, and no method is appropriate or inappropriate in itself until it is applied to a specific problem. According to Easterby-Smith et al. (2002), the choice of the particular methodology and the research philosophy underpinning it is crucial as it can help the researcher to clarify various research designs, recognise which design is suited to the research, and identify, and even create, research designs that may be outside of his or her past experience.

Over the past thirty years, the methodology of social and behavioural research has gone through several dramatic changes. However, most research methodologies can be classified

under the two general categories – quantitative and qualitative (Collis & Hussey, 2003). Throughout the 20th century, social and behavioural research was dominated by quantitative methods which relied heavily on objective measures. During the last two decades, a new research methodology aligned with a qualitative approach has emerged as a reaction against the dominant quantitative methodology. Collis and Hussey (2003) state that while the quantitative paradigm implies a positivist, objective, scientific and experimentalist approach, the qualitative paradigm implies a subjectivist, humanistic and interpretivist approach.

5.2.1 Quantitative Methodology

Quantitative research involves the development of systematized knowledge gained from hypotheses that are formulated to support insights and generalizations about the phenomena under study (Lauer & Asher, 1988). In the most basic terms, quantitative research has been defined as “empirical research in which the researcher explores relationships using numeric data” (Fraenkel et al., 1993). According to Robson (2002), quantitative research attempts to neutralise the researcher or to reduce or eliminate his/her influence on the investigated phenomena as far as possible. Further, Bogdan and Taylor (1975) argue that the quantitative approach seeks the facts or causes of social phenomena with little regard to the subjective state of the individual (cited in Guba, 1978). The quantitative method relies upon instruments that provide a standardized framework that limit data collection to certain predetermined response or analysis categories (Patton, 1990).

Quantitative methodology is based on a positivist perspective of the world in which all phenomena can be analysed scientifically and explained through appropriate scientific analysis and it has been the dominant tradition within the social science research community. According to quantitative thought, reality is independent of human consciousness and objective; it rests on order, is governed by strict natural and unchangeable laws and can be examined (Sarantakos, 1998). In other words, reality can be defined by all members of the society in the same way because they all share the same interpretation.

In his descriptions of quantitative methodology, Sarantakos (1998) mentions some standards that constitute the theoretical principles of the quantitative approach and which clearly summarise the nature of the quantitative approach which:

- Perceives reality as a sum of measured or measurable attributes and its main purpose is to quantify and measure social events.

- Gives more consideration to the methods used for collecting and analysing data.
- Attempts to neutralise the researcher or to reduce or eliminate as much as possible the research's influence on the researched phenomena.
- Endeavours to achieve objectivity which is considered to be one of the most important properties of social research.

Johnson and Onwuegbuzie (2004) explain that a quantitative approach validates already constructed theories about how (and to a lesser degree, why) phenomena occur and tests hypotheses that are constructed before the data are collected. Johnson and Onwuegbuzie (2004) also outline some strengths of quantitative research:

- It can generalize a research finding once it has been replicated on many different populations and subpopulations.
- It is useful for obtaining data that allow quantitative predictions to be made.
- Researchers employing this method are able to construct a situation that eliminates the confounding influence of many variables, allowing one to more credibly assess cause-and-effect relationships.
- Data collection using some quantitative methods is relatively quick compared to other methods.
- It provides precise, quantitative, numerical data.
- Quantitative data analysis is relatively less time consuming.
- It is useful for studying large numbers of people.
- The research results are relatively independent of the researcher.

On the other hand, quantitative research has attracted a fair amount of criticism, principally from supporters of qualitative research (Bryman & Teevan, 2004). For instance, Sarantakos (1998) points out that respondents in quantitative research are turned into "units" or "objectives" and are treated as such. As a result, researchers are removed from the research process, lose contact with the respondents and become alienated from the world they are

supposed to study. Further, Johnson and Onwuegbuzie (2004) outlined some weaknesses of the quantitative research method as follows:

- The researcher's categories and theories that are used may not reflect local constituencies' understandings.
- The researcher may miss out on phenomena occurring because of the focus on theory or hypothesis testing rather than on theory or hypothesis generation.
- Knowledge produced may be too abstract and general for direct application to specific local situations, contexts, and individuals.

5.2.2 Qualitative Methodology

While a quantitative approach involves collecting and analysing numerical data and applying statistical tests, qualitative approach is more subjective in nature and involves examining and reflecting on perceptions in order to gain an understanding of social and human activities (Hussey, 1997). Allan and Skinner (1991) argue that the aim of using a qualitative method is to gather an in-depth understanding of human behaviour and the reasons for such behaviour. Patton (2002) defines qualitative research as the attempt to understand the unique interactions occurring in a particular situation where the purpose of understanding is not necessarily to predict what might occur, but rather to understand the characteristics of the situation and the meaning brought by participants and what is happening to them at the moment.

In a qualitative study, the researcher does not begin with a theory to test or verify, instead he/she uses an inductive model of thinking where a theory may emerge during the data collection and analysis or will be developed relatively late in the research process as a basis for comparison with other theories (Creswell, 1994). The most comprehensive description of quantitative research has been put forward by Denzin and Lincoln (1994) and is worth quoting at some length:

Qualitative research is multi-method in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them. Qualitative research involves the studied use and collection of a variety of empirical materials—case study, personal experience,

introspective, life story, interview, observational, historical, interactional, and visual texts—that describe routine and problematic moments and meanings in individuals' lives. Accordingly, qualitative research deploys a wide range of interconnected methods, hoping always to get a better fix on the subject matter at hand.

The basic principles of the qualitative methodology described by Sarantakos (1998) are as follows:

- It is not predetermined or pre-structured by hypotheses and procedures that might limit its focus, scope or operation.
- It is embedded in a process of communication between the researcher and the respondent. There is no intention to establish the independence of the researcher from the respondents or the data.
- It considers reality as it is created and is explained in interaction.
- It is set to explain clearly and accurately how respondents will be approached.
- Qualitative research methods are flexible in many ways.

It has been argued that qualitative methodology and its associated methods have some strength in their ability to look at how change occurs over time as people develop new meanings to explain a phenomenon to adjust to new issues and ideas. It provides a way of gathering data which is natural rather than artificial. Johnson and Onwuegbuzie (2004) point out the strengths of the qualitative research approach by making the following points:

- The data are based on the participants' own categories of meaning, collected usually in naturalistic settings and lend themselves to exploring how and why phenomena occur.
- The approach is useful for studying a limited number of cases in depth.
- It is useful for describing complex phenomena.
- It can describe, in rich detail, phenomena as they are situated and embedded in local contexts.

- The researcher identifies contextual and setting factors as they relate to the phenomenon of interest.
- The approach is responsive to changes that occur during the conduct of a study and may shift the focus of the study as a result.
- It provides understanding and description of people's personal experiences of phenomena.

On the other hand, qualitative research has some weaknesses in that the process of collecting data can consume a great deal of time and resources and analysing and interpreting collected data is difficult besides there is a problem of low credibility (Easterby-smith et al., 1991). In this regard, Johnson and Onwuegbuzie (2004) have argued that qualitative research has several weaknesses, such as:

- Knowledge produced may not apply to other people or other settings.
- It is difficult to make quantitative predictions and to test hypotheses and theories.
- It may have lower credibility with some administrations and commissioners of programs.
- It generally takes more time to collect and analyse data when compared to quantitative research.
- The results are more easily influenced by the researcher's personal biases and idiosyncrasies.
- Data analysis is often time-consuming.

5.2.3 Justification for Quantitative Approach for this study

As can be seen from the discussion above, there are significant differences between the two methods. Stake (1995) summarises the differences between qualitative and quantitative approaches into three themes:

- Qualitative research is mainly concerned with understanding the complex interrelationships between different variables, while quantitative researchers are interested in explanation and control.
- Qualitative researchers believe that knowledge is constructed rather than discovered, while quantitative researchers generally assume that knowledge is discovered rather than constructed.
- The influence of researchers on the research setting is limited in quantitative research, while it is more recognised in qualitative research.

Having reviewed each methodology and in light of their differences, this study has chosen to adopt a quantitative approach as it is more suited to the purposes of this research. This research is interested in explaining the causes behind audit delay which can be categorised into specific factors. It is not interested in a complex humanistic enquiry into the interaction and behaviour of companies and auditors, but instead is focussed on analysing and measuring how certain company and audit firm attributes may act as determinants of audit delay.

Moreover, it uses the perceptions of the respondents in the study as good indicators of the true situation and hence can then be quantified to arrive at a result which explains the relevant factors of audit delay. Thus, it is premised on the positivist belief that social reality exists “out there” and can be measured by scientific methods. The positivistic paradigm is the most commonly-adopted philosophy in business research. Hussey (1997) advises that a positivistic paradigm should be adopted in business research unless there are explicit requirements of the study that invalidate the positivistic paradigm:

It can be argued that the dominant paradigm in business research is the positivistic paradigm. If this is acceptable in your discipline, and to your supervisor, you will not need to expend much energy in justifying the methodology you adopt for your research (Hussey, 1997, p. 52).

Moreover, Pellissier (2008) argues that the presentation of data in qualitative research is in the form of words, while they are presented in numbers in quantitative research. The data in quantitative research are presented in an objective, numerical form (Hussey, 1997) whereas qualitative research is usually centred on respondent’s spontaneous behaviours and opinions as well as the researcher’s subjective assessment of the situation. This usually has lower

reliability with the possibility of different interpretations. This research is concerned with delivering results that are generalisable to the larger context of auditing processes in Libya, therefore, a quantitative approach is found to be more suitable.

Time available to the researcher is also a determining factor because the deductive approach can be quicker and is a lower-risk strategy than the inductive approach (Creswell 2009). Using a quantitative approach means choosing a theory and then testing the hypotheses derived from there. This is a fairly straightforward and systematic process where the methods and issues of investigation are pre-determined. On the other hand, qualitative research requires a lot of contemplation and revision that may require a lot of time and effort. As Hussey (1977) argues, “the use of a phenomenological approach in business research may require the researcher to spend more time expanding and justifying the methodology”.

5.3 Selection of the Sample

In any research undertaking, one cannot study everyone everywhere doing everything (Miles & Huberman 1984). In survey research, it is not always essential for the researcher to contact every person in the population of his/her study domain and this is where sampling methods come in (Easterby-Smith et al. 2008). In a broad sense, a sample is defined as the set of elements from which data are collected (Thietart, 2001). The validity of a study can be linked to some aspects of the sample such as the nature of the elements it is composed of, the method used in selecting the elements, and the sample size or the number of elements chosen (Royer & Zarlowski, 2001). In any study, the best situation would be to select a representative sample which draws respondents or individuals from the population in such a way that the sample represents the population being studied. If such a sample can be achieved, then the results of a study can be generalised to the overall population.

The populations identified for this study are comprised of two Libyan groups: external auditors and auditors from the IFA.

External auditors are members of the Libyan Accountants and Auditors Association (LAAA) who are legally allowed to practise accounting and auditing. Currently, 1500 members of the LAAA are listed as external auditors, but LAAA officials informed the researcher that only about 1000 external auditors were actually practising at the time of the study. The rest of the 500 external auditors were listed but not practising due to factors such as retirement, death, end of practice, migration etc.

Auditors from the Institute of Financial Auditing are members of the Institute of Financial Auditing (IFA) employed by the government to audit the financial statements of its corporations. Because of the large amount of work before the end of every financial year, the IFA also contracts external auditors to audit some financial statements of state-owned companies. According to the registers of the IFA, the number of auditors working for the IFA is around 400.

The main purpose of including respondents from EA and IFA is to explore whether the explanatory variables are differentially related to the two subsamples and also to ensure that the sample of this study is representative of the entire auditing sector in Libya and both private and public companies. There is no evidence or existing research to suggest that perceptions between vary EA and IFA members in Libya and this present study also does not advance a hypothesis anticipating any such difference. Nevertheless, choosing respondents on the basis of their EA and IFA affiliation is a good measure to ensure the representativeness of the whole target population. It will also allow the study to explore if there are any discernible differences in perceptions between EA and IFA.

Sekaran (2003) argues that there are two major kinds of sampling designs: probability sampling where every element in the population has an equal chance of being selected as a subject, and non-probability sampling where elements are predetermined for selection. In this method of sampling, non-replacement sampling is used in order to avoid the possibility of choosing a particular element more than once. According to Sekaran (2003), the rationale for using this kind of technique is:

- a) To offer the most generalisability or the most representative sample; and
- b) To minimise bias and enable the estimates of sampling errors to be made.

For the purposes of this study, probability sampling was employed to select subjects from the targeted groups. Because most of the economic, financial and commercial activities in Libya are conducted and performed in major cities such as Tripoli (the capital city of Libya), Benghazi, Ez-Zawia and Misurata, the sampling process of selecting subjects from the two targeted groups was confined to these main cities. It was observed that:

- More than 90 per cent of Libyan audit firms are located in these cities;

- Most economic and business activities are carried out in these cities; and
- The headquarters and their main branches of the commercial and state banks, the Institute of Financial Auditing and the Taxation Board are located in these cities.

Saunders et al. (2009) have argued that a sample size of 30 or more will usually result in a sampling distribution for the mean that is very close to a normal distribution. In addition, they argue that samples of larger absolute size are more likely to be representative of the target population than smaller samples and the mean for the sample is more likely to equal the mean for the population. In contrast, Cohen & Manion (1980) believe that there is no exact number or percentage that can be universally prescribed as the ideal sample size for all studies. However, it has been suggested by some authors that there are a few general considerations that need to be kept in mind when deciding the size of the selected sample. These include the kind of statistical analysis that is planned, the expected variability within the samples and the results, the size of the entire population, the traditions in the particular research area regarding appropriate sample size, and the time and cost of conducting the research (Collis et al. 2003; Remenyi et al. 1998a; Saunders et al., 2009; Sekaran, 2003). After considering all of the above points, the sample sizes of each targeted population in the current study were decided as follows: 300 subjects from the EA group and 150 subjects from the IFA group.

5.4 Research Method: Survey Questionnaire

Data collection methods are considered an integral part of research design and should be selected according to the research objectives, approach and strategy (Sekaran, 2003). Data can be gathered in a variety of ways and from different sources. Primary data refers to information obtained first-hand by the researcher on the variables of interest for the specific purpose of the study, while secondary data refers to all sources of information that are available before a research project is undertaken (Sekaran, 2003). The secondary data in this study comprised of information about Libyan companies and their auditing processes derived from government documents and databases as well as research on auditing drawn from academic sources such as books, dissertations and journal papers. The primary data had to be gathered from the sample identified for the study and an appropriate data collection method was needed for that purpose.

Survey questionnaires are considered the most popular method to collect primary data and it has been estimated that questionnaires are used in over 85 per cent of all quantitative research

projects (McNabb, 2010). Also, questionnaires are the most effective method for getting people's responses to questions on matters of opinion (Mangan et al., 2004). Collis and Hussey (2003) define a questionnaire as "a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample." A questionnaire is a highly structured data collection method where each respondent is required to answer the same set of predictive value-formulated written questions. It has been argued that a questionnaire survey has the advantage of being cheaper and less time consuming than certain other methods (such as interviewing). It also allows completed responses to be collected within a short period, which gives the researcher the opportunity to introduce the research topic and motivate respondents to supply their answers truthfully. A questionnaire must be presented to the respondents with an explanation of the purpose of the inquiry (Oppenheim, 2000).

There are a number of ways of administering a questionnaire. It can be administered personally or mailed via e-mail, the internet or, more normally by post to the respondents.

Personally-administered questionnaire: When a study is applied in local areas and/or the researcher is able to easily contact groups of respondents, personally-administering the questionnaire is the best way of collecting data. Sekaran (2003) outlines the main advantages and disadvantages of the personally administered questionnaires as follows:

1. The researcher has the opportunity to introduce and clarify the importance of the research topic and motivate the respondents towards answering the questions.
2. The researcher can clarify the issue if there is any doubt or ambiguity associated with the questionnaire.
3. A personally-administered questionnaire allows the researcher to collect responses within a relatively short period of time compared with other research methods such as a mailed questionnaire.
4. Using a personally-administered questionnaire does not require the same level of skill compared with other collection methods such as mailed questionnaires.
5. Administering questionnaires to a large numbers of individuals at the same time is less expensive and consumes less time than interviewing.

Moreover, although confidence that the targeted person has responded is low in comparison with online or telephonic questionnaires, this can be checked at collection (Saunders et al., 2009).

Mailed questionnaire: A mailed questionnaire is a method where the questionnaire is mailed to the respondents at their addresses. The rates of return in this sort for questionnaire are not as high as might be desired. Nevertheless, mailed questionnaires are used extensively as they need less effort and time than personally-administered questionnaires and can reach a vast number of potential respondents. The questionnaire is auto-administered by the respondents themselves and can be used to cover a wide geographical area. Such questionnaires require simple questions that can be comprehended solely on the basis of printed instructions and definitions in the absence of the researcher (Frankfort-Nachmias, 1996). There are several advantages of using the mailed questionnaire for conducting a survey (Frankfort-Nachmias, 1996; Sekaran, 2003):

1. It is possible to obtain a large enough sample to reduce sampling error to acceptable levels;
2. Like personally administered-questionnaires, mailed questionnaires are a less costly method of data collection when compared with interview surveys;
3. It does not introduce interviewer bias that is a potential problem for both face-to-face and telephone interviews.

From the above discussion, it is clear that the many data collection methods have their own advantages and disadvantages, and some of them are better than others for collecting a given type of data. A combination of self-administered and mailed questionnaires was used in this study. The researcher chose to use mailed questionnaires as this allows access to large numbers of respondents across a vast geographical area quickly and with ease. But it was combined with personally-distributed questionnaires to counter the low response rate of mailed questionnaires.

5.5 Developing the Questionnaire

The design of questions and the structure of the questionnaire are very important to achieve internal validity and reliability of the collected data and the response rate (Saunders et al., 2009). In this respect, Robson (2002) argues that survey questions should be designed to help

achieve the goals of the research and, in particular, to answer the research questions. Further, Robson points out that questions must be designed so that they are understood by respondents in the way intended by the researcher and answers given by the respondents must be understood by the researcher in the way intended by the respondents. Moreover, Collis and Hussey (2003) state that the responses to research questions may be highly reliable, but the results will be worthless if the questions do not measure what the researcher intended them to measure. For this reason, the researcher must determine the type of information that needs to be collected to help answer the research questions.

5.5.1 Questionnaire Design and Content

Ethics approval of the fieldwork was sought and was granted by the Ethics Committee at Victoria University and the questionnaire was also approved by the Ethics Committee before it was distributed among respondents in Libya. The questionnaire for this study was accompanied by a covering letter followed by a letter from the researcher encouraging the participants to complete it and assuring them of total confidentiality. The full questionnaire, in the form that it was distributed to the respondents, is attached in an Appendix which can be found at the end of this thesis. All the questionnaires were framed and developed by the researcher and not modified or derived from previous studies particularly, as there were no existing studies in the literature using the questionnaire format to investigate perceptions of audit delay. The questionnaire was divided into three main sections and each section included several questions or statements as described below.

Section one: In order to obtain a profile of the respondents participating in this research, the participants were asked in this section to provide information about their background by answering some personal questions using nominal scales. This information included the following:

- Position: respondents were asked to indicate their position as: partner/owner, senior auditor, employee, or other.
- Gender: respondents were asked to indicate whether they were male or female
- Age: respondents were asked to indicate the age group to which they belong.
- Level of education: respondents were asked to indicate their highest education level achieved: first university degree, master degree, PhD and others.

- Country of study: respondents were asked to indicate where they achieved the highest level of their education: Libya, UK, USA, Australia and others.
- Occupation: respondents were asked to identify their occupation classified as: external auditors or auditors from the Institute of Financial Auditing.
- Working experience: respondents were asked to indicate the length of their working experience under four categories ranging from under 5 years to 15 years and over.
- Average number of companies audited: respondents were asked to indicate how many companies they audit every financial year, ranging from 1-5 companies to more than 10 companies.

This personal information could be used when analysing the data to examine whether these personal characteristics had any effects on the participants' answers to the statements included in the questionnaire.

Section two: The second part of the questionnaire was designed to examine the perceptions of participants on the impact of company-specific factors on audit delay in Libya. Respondents were asked in this part to indicate their agreement or disagreement with a number of statements related to the company attributes of size, profitability, industry type, yearend, internal control system and extraordinary items.

Section three: This section was about the respondents' perceptions as to the effect of some audit-related factors on audit delay. These factors are audit firm size and type of audit opinion. In the first part of this section, the respondents were given six statements related to audit firm size and its effect on audit delay and in the second part the participants were given four statements that dealt with the effect of audit opinion on audit delay.

Another important factor in writing questions is the distinction between question type and the format of the intended response. Sekaran (2003) argues that the type of question refers to the way in which the questions are presented in the questionnaire, and these are of two types, factual and attitudinal. Factual questions ask for information about characteristics, events and experiences, while attitudinal questions ask about attitude, beliefs and feelings. The first part of the questionnaire in this study focused on eliciting demographic data about the respondents and can be considered as involving factual questions. On the other hand, the other sections

where the respondents were asked to indicate how strongly they agreed or disagreed with the research statements can be considered as attitudinal in nature.

With regard to the format of responses there are two types, the open and closed response. In closed response questions, respondents are offered a choice of alternative replies and asked to tick or underline their chosen answer, whereas open-ended questions allow the respondents to state the answer in their own words. All questions using a nominal or ratio scale are considered closed. The most common approach for such questions is the Likert rating scale in which the researcher asks the respondents to rate their answer (Sekaran, 2003). Open-ended questions can be useful in questionnaires if the researcher is unsure of the response. It is also useful in exploratory research when the researcher requires a detailed answer or when the researcher seeks to find out what is uppermost in the respondent's mind (Remenyi et al., 1998).

Each type of question (open-ended and closed) comes with its own advantages and disadvantages (Sekaran, 2003). The main advantage of open-ended questions is that they give freedom to respondents in answering questions and allows them to express their ideas spontaneously in their own words (Oppenheim, 2000). In addition, they allow the researcher to obtain new information where there is very little existing information available about the research topic (Teresa & Auriat, 2005). However, from an analytical point of view, open-ended questions may be difficult to answer and even more difficult to analyse (Kothari, 2008). Easterby-Smith et al. (2002) argue that while much valuable information could be obtained by using open-ended questions, there may also be much useless and irrelevant data which could be difficult and time-consuming to analyse.

The advantages of closed-ended questions are that they are easy and quick to answer. This often means that more questions can be asked within a given length of time (Oppenheim, 2000). Closed-ended questions are very convenient for collecting factual data. The main disadvantage of closed-ended questions is a loss of spontaneity and expressiveness because they do not allow respondents to create or express their ideas (Teresa & Auriat, 2005). Further, Oppenheim (2000) contends that closed-ended questions may introduce bias by forcing respondents to choose between given alternatives or by making them focus on alternatives that might not have occurred to them. Given this weakness, Moore (2006) advises that the researcher should include choices representing all the likely answers to a

question and ensure that the choices are completely exclusive so that there is no ambiguity or overlap between them.

In this study, closed-ended questions were used as they are quick and easy to answer and more suited to quantitative research. In the first section, the demographic profile, respondents were asked to tick a particular classification or characteristic such as gender, age, level of education etc. In the other sections relating to perceptions about audit delay, the questionnaire used statements with a 5-point Likert scale where 1 referred to “strongly disagree” and 5 to “strongly agree”. According to Collis and Hussey (2003), the Likert scale is one of the most frequently used types of scales. It turns the question into a statement and asks the participants to indicate their level of agreement with the statement. In addition, a space for additional views and comments was provided at the end of the questionnaire.

5.5.2 Language, Wording and Translation of the Questionnaire

Writing a good questionnaire appropriate to a study’s objectives is not an easy task but it is very important as low response rates have been associated with badly written and designed questionnaires. Kervin (1992) argues that good question wording accomplishes the following objectives:

- It ensures measurement validity: the question must measure what you want it to measure.
- It minimises measurement errors: bias and unreliability.
- It minimises item non-response.

Further, Sekaran (2003) states that it is essential to word the questions in a way that can be understood by the respondent, and if some questions are either not understood or are interpreted in different ways by the respondents, the researcher will obtain wrong answers. According to Tull and Hawkins (1990), the golden rules of good questionnaire design dictate that:

- it has to be clear,
- it has to be unambiguous,

- it has to encourage and motivate respondents to participate and provide the information being sought.

The following suggestions have been made by (Robson, 2002) to help avoid the most obvious problems in the wording and language used in questionnaires:

1. Simple language: keep the language simple by avoiding jargon and technical terms as much as possible.
2. Short questions: keep questions short because long and complex questions are difficult to understand.
3. Double-barrelled questions: questions having sub parts (that ask two questions at once) should be eliminated.
4. Leading questions: questions that encourage a particular answer should be avoided.
5. Negative questions: attempt to avoid negative questions because negatively-framed questions are difficult to understand, particularly when asking respondents to agree or disagree with a particular statement.
6. Ambiguous questions: avoid ambiguous questions to ensure the questions are understood by all respondents in the same way.

As can be seen from the above discussion, several recommendations regarding the choice of questionnaire layout and the wording of questions have been offered by many researchers. All these recommendations were carefully taken into account in the design of this study's questionnaire.

Since most of the relevant writings were in English language, the questionnaire of current study was originally written in English. Then, the original version was translated into the Arabic language since the respondents for the study are Libyans who speak and think in Arabic. Oppenheim (2000) points out that the translation of a questionnaire from one language to another is akin to entering a minefield, since a word or phrase may have more than one meaning, or not have a synonym, in a different language. Therefore, additional care was taken to prevent any mistranslation of words and expressions in the questionnaire and to ensure that the concepts used in the construction of the questions retained their original

meaning. The Arabic translation of the questionnaire was discussed with postgraduate colleagues whose native language was Arabic during the course of translation, and was again tested with prospective respondents during the pilot study conducted to test the preliminary questionnaire. Both the English version of the questionnaire and the Arabic version were given to an expert translator for comments and amendments if necessary. After taking into account all the necessary procedures, the researcher was satisfied with the accuracy of the Arabic translation.

5.6 Pilot Testing

Once a questionnaire has been developed, each question in the questionnaire and the questionnaire as a whole must be evaluated. One of the main objectives of the pilot testing of the questionnaire was to make sure that the translation would not lead to any misunderstanding of the questionnaire. It is also useful in refining the wording and order of the questions, and controlling the questionnaire length and layout. Further, a pilot study helps the researcher to obtain some assessment of the validity and reliability of the collected data (Saunders et al., 2009).

A pilot study was thus conducted with the aid of a random selection of fourteen Libyan auditors and by personal administration of the questionnaire. Seven of them were external auditors and seven were Auditors from the Institute of Financial Auditing to ensure that the sample represented both EA and IFA equally. The questionnaire was presented to them and they were asked to:

1. Provide constructive criticism of all aspects of the questionnaire, including question wording, question order, redundant and missing questions, and any ambiguous questions, inappropriate or inadequate questions, and poor scale items.
2. Give comments about whether the English and the Arabic versions mirror each other and report any translation problems between the two versions.
3. Give comments on any other aspect regarding the questionnaire, such as its length, the type of paper, type of printing etc.
4. Give views on the questionnaire format and the covering letter.

The main points emerging from the pilot test were as follows:

1. There were no complaints about the length of the questionnaire and the clarity and layout of the questions, and the use of the 5-point Likert scale.
2. The average time the participants took to complete the questionnaire was 25 minutes.
3. Most of the participants were interested in the study and acknowledged its importance.

After the pilot test, however, some changes were made to the questionnaire, most of them relating to accurate translation of an English term into Arabic, especially in regard to technical or business-related words which do not have equivalents in Arabic. To overcome this problem, each term was explained in detail in Arabic in different ways and analysts were asked to review which definition in translation was the most appropriate and the majority view was accepted.

5.7 Questionnaire Distribution and Collection

Although a mailed questionnaire is more economical and convenient, it generally has a poor response rate. So, in addition to the mailed questionnaire, the researcher personally distributed some questionnaires and also constantly follow-up on respondents to encourage them to return the completed questionnaires. Distribution and collection of the questionnaires was undertaken by the researcher in person in most cases (134 questionnaires out of a total of 188 usable questionnaires). Those who returned the completed questionnaire by mail numbered 54 respondents. The distribution and collection of questionnaires was conducted with the assistance of the Institute of Financial Auditing, the LAAA and private accounting/audit firms. During the research's visits, the respondents were given a brief idea as to be the nature of the study and its aims. The researcher also encouraged them to complete the questionnaire, made sure that he had the right contact telephone number was obtained for each respondent, and arranged a suitable time and method for collecting completed questionnaires (e.g. what would be a convenient time to collect the questionnaire(s); or whether they would prefer to send the questionnaire(s) by mail instead of personally collecting them). A stamped, self-addressed envelope was given to respondents who were willing to send the completed questionnaires by mail. Around three weeks after distribution of the questionnaires, a call was made to most respondents to check whether they had completed the questionnaire and the completed questionnaires were collected from those who had. Other calls were made from time to time, depending on individual circumstances, to

respondents who did not complete the questionnaire by the agreed time, to arrange for a new collection date and to check if they needed another copy of the questionnaire.

The researcher also faced some problems during the process of collecting the study data. These obstacles might be worth mentioning here. Firstly, the list of the external auditors' names, addresses and phone numbers issued by the LAAA was not accurate as a number of auditors had changed their addresses and their phone numbers without notifying the LAAA. Therefore, a big effort had to be made by the researcher to find their new addresses which took up a lot of time. Secondly, collecting the distributed questionnaires personally required a lot of follow-up visits. This was because of different reasons such as the absence of some of the participants and no specific working time, especially for participants from the external auditor group who travelled to other places and cities on business. Thirdly, the revolution in Libya started around the time the researcher was collecting the study data, i.e. 17 February 2011. However, the revolution did not have any impact on the data as all questionnaire used in this thesis were collected before 17 February 2011. Despite these problems every effort was made to contact most of the subjects of the samples from the two targeted population groups.

After all of the above procedures, 188 usable questionnaires out of the 450 personally distributed questionnaires were collected achieving a response rate of 41.8 per cent. A summary of the number of the distributed and collected questionnaires for each group of the targeted population is illustrated in Table 5.1. This response rate is considered reasonable for a mailed questionnaire. According to Nachmias and Nachmias (2008) the typical response rate for a mailed questionnaire is between 20 to 40 per cent.

Table 5.1 Summary of the number of the distributed and collected questionnaires for each group of respondents

Description	EA	IFA	TOTAL
Distributed questionnaires	300	150	450
Usable questionnaires	120	68	188
Percentage	40%	45%	41.8%
Note:			
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.			

5.8 Data Analyses

Reliability analysis is one of the first steps a researcher has to undertake for quality control when conducting research involving primary sources of data such as the survey questionnaire. Along with checking the collected data, reliability analysis also studies the properties of the measurement scales and the items that make them up. Sekaran (2003) states that “the reliability of a measure indicates the extent to which it is without bias (error free) and hence ensures consistent measurement across time and across the various items in the instrument.” In other words, reliability refers to the likelihood of producing the same results if the research is replicated by another researcher following the same procedures. The analysis procedures for reliability calculate a number of commonly used measures of scale reliability and also provide information about the relationships between individual items in the scale. Items that might create problems can be identified and excluded. In this study, Cronbach’s Alpha was used for the reliability test as it is accepted as a highly relevant test to analyse questionnaires based on five-point a Likert scale and it measures the internal consistency of the questionnaire based on the average inter-item correlation of the items.

Table 5.2 below provides the results of the reliability analysis of the items that were included in the questionnaire. Sekaran (2003) argues that values less than 0.60 can be considered as showing poor reliability while those in the range of 0.70 are acceptable. As can be seen, Cronbach’s Alpha Coefficient for the measures in this survey is 0.783, so it can be assumed that there is internal reliability of the measures used in the current study.

Figure 5.2 Results of reliability analysis

Cronbach's Alpha	Number of items
0.783	28

In general, there are many statistical techniques and methods for analysing quantitative data. For the purposes of achieving the objectives and answering the questions of the current study, several techniques were adopted. The researcher used the SPSS (Software Package for Social Science) to analyse the survey data. The next chapter will explain and report the results of the statistical analysis conducted on the data collected through the survey, but this section will briefly touch upon the methods of statistical tests in the overall research methodology.

Descriptive Statistics Sekaran (2003) argues that descriptive statistic initiates the transformation of raw data into a form that will provide information to describe a set of factors in a situation. The effective use of descriptive statistics helps to express the analysis results as percentages and to present the frequency distribution in percentage form (Pallant 2010). Therefore, descriptive statistics such as frequencies, percentages, means and standard deviation were used in this study. Frequencies and percentages are used to describe the study sample and to assist in answering the research questions relating to the hypotheses for all the variables of company and audit firm characteristics.

Statistical Tests Thietart (2001) argues that, “conclusions or generalisations often have to be established on the basis of observations or results, and in some cases statistics can add to their precision.” So, along with the descriptive statistics, statistical analysis has been used to help to generalise the study findings to the wider population from which the sample was drawn. Chi-square analysis for the sample was conducted to test the significant difference in respondents’ choice of answers on a given variable. In other words, it has been used to determine whether any one choice of answer is favoured significantly more than another for the whole sample. Further, a Chi-square test also was employed to investigate if there are any statistically significant differences in the mean scores of the two sample groups of EA and IFA in relation to their perceptions about each statement regarding audit delay in Libya. Moreover, one sample t-test was used to determine whether the mean of the sample perceptions regarding a number of statements is the same as the hypothesised mean, in this case equal to 3 (as the study employed a 5-point Likert scale, 3 is the middle point). If the mean value is significantly greater than 3, this indicates that respondents have a significantly

higher consensus on that particular statement, and vice versa. In assessing the relationship between factors (company size, industry type, etc.) and audit delay, a binomial test will be employed to classify the responses into two groups: “there is effect versus no effect” and “strong effect versus weak effect”. If the binomial test shows that the proportion of respondents voting for “there is effect” is significantly ($p < 0.05$) greater than proportion chosen “there is no effect”, then it can be concluded that the particular factor exerts an influence on audit delay, and vice versa.

5.9 Summary

This chapter has outlined the research methodology adopted in this study. It has justified the positivistic research paradigm with quantitative methodology being chosen as the most suitable approach for the conduct of this study as it seeks to generate quantifiable data about the determinants of audit delay in Libya. Furthermore, it was decided that a survey questionnaire would be used as the main method for collecting data. Every effort was made to ensure that the questionnaire used in the survey was well-designed with questions touching on all the important issues and categorised on a 5-point scale. In designing the questionnaire, several other issues, including the language and wording, question order and accuracy of translated versions, were examined and tested through a pilot study with selected respondents in the field. The data collected from the surveys were coded and processed through the computer and analysed using the SPSS. The methods of descriptive statistics or the statistical analysis used for data analysis were briefly explained in this chapter. The next chapter presents the findings of the statistical analyses of the data collected from the questionnaire surveys.

Chapter 6 Survey Findings

6.1 Introduction

This chapter presents the results from the analyses of the survey. It examines and discusses the survey participants' perceptions relating to the effect of nine selected factors (identified in Chapter 4) on the timeliness of the auditing of financial statements in Libya. The first section presents descriptive statistics of the demographic attributes of the participants. The second section (6.3) reports the results for factors influencing audit delay: (1) company attributes and (2) audit firm attributes. It reports the responses of the participants, collected in part two of the questionnaire, to delineate their perceptions with regard to the impact of the selected factors on audit delay. Finally, the last section of the chapter will present the major findings of the analyses and summarise the significance of these results in relation to the research problem.

6.2 Demographic Attributes

The first part of the questionnaire is concerned with capturing some general information about the participants in the study. It collected information on demographic attributes such as gender, age, level of education and subject of study and experience to compile a demographic profile of each participant in order to ascertain whether there are significant differences among the participants in relation to their personal background. It is useful to collect such information in studies involving human subjects (Pallant, 2007). As it can clarify the context in which the research data was drawn, such as the number of participants in the sample, the number and percentage of males and females in the sample, the range and mean of ages, education level and any other relevant background information. The following analysis outlines the background information of the participants in the study.

6.2.1 Job Position

Respondents were asked to select one of four occupational groups: partner/owner, senior auditor, employee auditor, and others. Table 6.1 shows that the majority of the respondents (86.7%) described themselves as employee auditors (n=163) and approximately (8.5%) described themselves as owners/partners (n=16), while only a small minority (4.8%) were

senior auditors (n=9). Pearson's Chi-square statistic of 12.938 with p-value 0.002 (< 0.05) suggests that the distribution of job positions is significantly different between EA and IFA. It shows that there are some EAs holding partner/owner positions while none of the IFAs are in such senior positions.

Table 6.1 Participants' job position

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Position	Partner/owner	16	13.3	0	0	16	8.5
	Senior auditor	3	2.5	6	8.8	9	4.8
	Employee auditor	101	84.2	62	91.2	163	86.7
	Other	0	0	0	0	0	0
	Total	120	100	68	100	188	100
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.							
Chi-Square = 12.93, df. = 2, p = 0.002							

6.2.3 Gender

Table 6.2 shows that almost all (96.30%) of the participants (n = 188) are males while only a small proportion (3.7 %) are females (n = 7). This finding indicates the high level of gender disparity in workplaces in Libya, as males occupy almost all positions in professions like accounting and auditing. As the table shows, the Chi-square value for gender difference between EA and IFA was at 1.385 with p-value 0.239 (> 0.05), which implies that male employees still dominate the auditing profession in both the EA and IFA sector.

Table 6.2 Participants' gender

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Gender	Male	117	97.5	64	94.1	181	96.3
	Female	3	2.5	4	5.9	7	3.7
	Total	120	100	68	100	188	100

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.

Chi-Square = 1.385, df. = 1, p = 0.239

6.2.4 Age

As can be seen in Table 6.3, the age of the participants ranged from under 30 years to 50 years of age and above. The highest number of participants was recorded in the age group 30 to 39 years (n = 72, 38.3%). In general, the majority of the participants were 30 years old and above (n = 157) with a cumulative percentage of 83.5%. In addition, the Chi-square of 0.140 with p-value 0.987 suggests that the distribution of participants throughout the age groups is virtually identical regardless of whether the auditor is an EA or IFA. The majority of participants in both EA and IFA are in the age groups 30-39 years old and 40-49 years old.

Table 6.3 Participants' age

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Age	under 30 years	19	15.8	12	17.6	31	16.5
	30 to 39 years	46	38.3	26	38.2	72	38.3
	40 to 49 years	43	35.8	23	33.8	66	35.1
	50 years and over	12	10	7	10.3	19	10.1
	Total	120	100	68	100	188	100

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.

Chi-Square = 0.140, df. = 3, p = 0.987

6.2.5 Level of Education

Table 6.4 shows the education level of the participants. It was noticed that the majority (84%) of the participants hold a first university degree (n = 158) and approximately 10.6% of them hold a masters degree (n = 20), while only a small proportion of them (5.3%) hold a PhD (n = 10). In addition, the table shows that none of the participants selected “other” level of education, which means that all of them possessed either a first university degree, masters degree or PhD. This also means that all the participants hold a graduate degree as a minimum and there is none without a university education. Furthermore, the Chi-square value of 0.227 and p-value of 0.893 (>0.05) strongly suggests that the level of education distribution of participants within EA and IFA is similar. The majority of participants in EA (85%) and IFA (82.4%) hold a first university degree.

Table 6.4 Participants' level of education

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
level of education	First university degree	102	85	56	82.4	158	84
	Master degree	12	10	8	11.8	20	10.6
	PhD	61	5	4	5.9	10	5.3
	other	0	0	0	0	0	0
	total	120	100	68	100	188	100
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.							
Chi-Square = 0.227, df. = 2, p = 0.893							

The finding is consistent with an empirical survey conducted by Porter & Yergin (2006) who stated that the documented literacy level in the Libyan education system is significantly high. In fact it is among the highest in the MENA countries, with an average literacy rate of 82 per cent, with youth literacy reaching 100 per cent and female literacy considerably better than in many other MENA countries.¹⁰

¹⁰ The term MENA, meaning "Middle East and North Africa", is an acronym often used in academic, military planning and business writing.

6.2.6 Place of Education for Last Degree

With regard to the place of education for last degree, Table 6.5 shows that the majority of participants (86.7%) received their last degree in Libya (n=163), 9.6% obtained their last degree in the United States and the United Kingdom (n=18), and 3.7% received it in Australia (n=7). In addition, the Chi-square of 1.554 and p-value of 0.670 shows that there is a similar pattern between EA and IFA in relation to distributions for the respondents' place of education for last degree. The statistics show that the majority of participants took their last degree from Libya, followed by the UK, the USA and Australia.

Table 6.5 Participants' place of last degree

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
place of the last degree	Libya	105	87.5	58	85.3	136	86.7
	UK	9	7.5	4	5.9	13	6.9
	USA	3	2.5	2	2.9	5	2.7
	Australia	3	2.5	4	5.9	7	3.7
	Total	120	100	68	100	188	100

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.
Chi-Square = 1.554, df. = 3, p = 0.67

6.2.7 Type of Firm

As far as type of working place is concerned, Table 6.6 indicates that approximately one third (36.2%) of all the participants belonged to the Institute of Financial Auditing (IFA) (n=68), while 120 respondents were external auditors accounting for 63.8% of the total respondents.

Table 6.6 Participants' job

Description		No	%	Total	
				No	%
Job	External auditors	120	63.8	120	63.8
	Auditors from the Institute of Financial Auditing	68	36.2	68	36.2
	Total	188	100	188	100

6.2.8 Work Experience

This item examined the years of experience which the respondents have had as auditors and the results are presented in Table 6.7. It can be seen from Table 6.7 that the majority of the respondents (75.5%) had been working for five years or more as auditors (n=142) and around one third (31.9%) of all the participants had more than ten years' experience. This result demonstrates that more than three-quarters of the participants had a reasonable length of work experience which could prove to be a valuable source of opinion and feedback with regard to this study. Further, the Chi-square test revealed that the distributions of the population sample according to participants' work experience were different ($p\text{-value} = 0.058 < 0.10$) at the 0.10% significance level across EA and IFA, the IFA group had a higher proportion of respondents with work experience of 5 to 9 years, while the EA group had a higher proportion of respondents with experience of less than 5 years and more than 15 years.

Table 6.7 Participants' years of work experience

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Working experience	Under 5 years	35	29.2	11	16.2	46	24.5
	5 to 9 years	44	36.7	38	55.9	82	43.6
	10 to 14 years	25	20.8	13	19.1	38	20.2
	15 years and over	16	13.3	6	8.8	22	11.7
	total	120	100	68	100	188	100
<p>EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.</p> <p>Chi-Square = 7.485, df. = 3, p = 0.058</p>							

6.2.9 Number of Companies audited

The participants were asked to state the average number of companies they audited every financial year. Table 6.8 illustrates that 18.6% of the participants audited more than ten companies every financial year (n=35), on average. Further, 125 participants audited more than five companies every financial year, while 33.5% of respondents audited five companies or less. This means that there is insufficient evidence to support the assumption that the

workloads (number of companies audited) of the EA and IFA groups are significantly different ($p = 0.137 > 0.05$) at 0.05% significance level.

Table 6.8 Number of companies audited every financial year

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Number of companies	1-5	46	38.3	17	25	63	33.5
	6-10	55	45.8	35	51.5	90	47.9
	More than 10	19	15.8	16	23.5	35	18.6
	Total	120	100	68	100	188	100

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.

Chi-Square = 3.972, df. = 2, p = 0.137

Overall, the findings shown in the tables above provide a concise demographic profile of the respondents and the characteristics of the EA and IFA groups and present a clear picture of the context within which the research survey was conducted . From these findings, it can be inferred that most of the participants in the study are male, aged 30 years and over, possess a graduate degree as a minimum, and have sufficient work experience in that 70 per cent of them have at least five years' experience.

6.3 Factors Influencing Audit Delay from Company Audited

This section presents the results from the analysis of data gathered in Part two of the questionnaire which is main part of the questionnaire comprising questions that were devoted to eliciting the perceptions of the respondents from both the EA and IFA groups on the research problem of audit delay. The responses collected from participants on the determinants of the timeliness of auditing financial statements were then quantified and analysed. The perceived effect of the different factors of company characteristics, namely, size of company, company's activities, internal control systems, company yearend, extraordinary items and profitability on audit delay (AD) occurring in Libya were tested with binomial test.

6.3.1 Company Size

As mentioned in Chapter five, size of company is the most commonly-used factor attributed to audit delay in extant studies. Size of company in this study was measured by three different proxies:

- Total assets;
- Number of employees, and
- Number of branches.

Respondents in this study were asked to indicate their perceptions on a three-point and five-point Likert scale about the influence that the size of a company might have on audit delay. Also, respondents were instructed to indicate their degree of agreement with some statements regarding the relationship between AD and size of company using a five-point Likert scale.

i. Size of company measured by total assets

When measured by total assets, the results for the impact of size of company on audit delay revealed that 87.8% (n=165) of auditors agreed that company size has an effect on audit delay, whereas 12.2% believed that company size has no effect on audit delay. Results further uncovered that no significant difference was found in the patterns of responses (No effect vs. There is effect) between EA and IFA (Chi-square = 0.373, df. = 1, p = 0.541) as the majority of participants, 86.7% and 89.7% for EA and IFA respectively, agreed that there is effect.

Table 6.9 General effect of SIZE measured by total assets on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	No effect	16	13.3	7	10.3	23	12.2
	There is effect	104	86.7	61	89.7	165	87.8
	total	120	100	68	100	188	100
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.							
Chi-Square = 0.373, df. = 1, p = 0.541							

The Binomial test was applied to test the first null hypothesis of the study:

H1.1 (null): *There is no relationship between the size of the company measured by total assets and audit delay in Libya.*

This hypothesis, however could not be examined or interpreted directly, and therefore an indirect hypothesis was developed to suit the binomial test.

H1.1 (null): *The proportion of participants who stated that there is an effect is equal to or less than the proportion of participants who claimed that there is no effect.*

H1.1 (alternative): *The proportion of participant who stated that there is an effect is greater than the proportion of participants who claimed that there is no effect.*

This Binomial test was used to prove that there is a significantly greater proportion of participants who agreed that there is an effect of company size on audit delay. If this is proved, the study can reject the initial null hypothesis that there is no relationship between the size of the company measured by total assets and audit delay.

As presented in Table 6.10, the result of the Binomial test reported a statistically significant higher proportion in the “There is an effect” group (0.88) compared to the “No effect” group (0.12) at the 0.05% significance level. This result implies that the size of company measured by total assets does affect the timeliness of the audit report.

Table 6.10 Binomial Test

Description		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
THERE IS AN EFFECT OR THERE IS NOT AN EFFECT	Group 1	there is an effect	165	.88	> 0.50	.000
	Group 2	there is no effect	23	.12		
	Total		188	1.00		

More detailed analysis was conducted to explore the nature of the relationship between company size measured by total assets and audit delay to determine the direction of the relationship between the two variables and test whether it was positive or negative. Moreover, the strength of the effect was tested by asking participants to rate it on a Likert scale which ranged from (1=very little effect) to (5= very great effect).

As Table 6.11 shows, 94.5% (n=156) of participants believed that there is a positive relationship between company size, measured by total assets, and audit delay, meaning that the larger the companies, the longer their AD period. The data for those agreeing with the

effect of company size on audit delay were analysed, and the mean value for the strength of effect was measured at 3.6282. On the other hand, the minority of participants (5.5%) who believed that company size had a negative effect on audit delay exhibited weak effect with a mean value of 2.3333. This means that the support for the positive effect of company size on audit delay is stronger than for the negative effect, meaning that there was greater support for the argument that large companies took more time to be audited. Further, the Chi-square 0.1411 ($p = 0.235$) suggested that there was a similar pattern in the responses from EA and IFA, in that the majority of participants in both groups supported the positive effect of company size on audit delay.

Table 6.11 Relationship between SIZE (total assets) and AD

Description		EA		IFA		TOTAL		Mean effect
		No	%	No	%	No	%	
the relationship	Positive	100	96.2	56	91.8	156	94.5	3.6282
	Negative	4	3.8	5	8.2	9	5.5	2.3333
	Total	104	100	61	100	165	100	

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.
Chi-Square = 1.411, df. = 1, p = 0.235

A Binomial test was conducted and is reported in the Table 6.12 with p-value < 0.001 and 95% of respondents choosing to answer “longer audit delay”. Therefore, the larger the size of the company measured by total assets, the longer the time needed to audit the company causing longer audit delay.

Table 6.12 Binomial Test

Description		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
LONGER OR SHORTER DELAY	Group 1	longer audit delay	156	.95	> 0.50	.000
	Group 2	shorter audit delay	9	.05		
	Total		165	1.00		

ii. size of company measured by number of employees

With respect to the effect of company size measured by number of employees, the descriptive statistics shown in Table 6.13 indicate that a large number i.e. 130 auditors (69.1%) believed that there is no relationship between company size measured by number of employees and audit delay, whereas 58 auditors (30.9%) believed that a company's size measured by number of employees had an effect on audit delay. The Chi-square test then revealed that there was a similar pattern in the responses between EA and IFA groups where the majority of respondents in both groups voted no effect (Chi-square = 0.958, df. = 1, p = 0.328) with 66.7% and 73.5%, respectively.

Table 6.13 General effect of SIZE, measured by number of employees, on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	No effect	80	66.7	50	73.5	130	69.1
	There is an effect	40	33.3	18	26.5	58	30.9
	total	120	100	68	100	188	100
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.							
Chi-Square = 0.958, df. = 1, p = 0.328							

Following this, the Binomial test was applied to find out if there was a significantly higher proportion of responses in the “There is effect” group compared to the “No effect” group. The p-value approximated to unity (one) in Table 6.14 shows that analysis failed to reject the null hypothesis that the “There is an effect” group contains a significantly higher proportion of respondents compared to the “No effect group”. Therefore, the study claims that there is no significant effect of company size measured by number of employees on audit delay in the Libyan context.

Table 6.14 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
THERE IS EFFECT or THERE IS NOT AN EFFECT	Group 1	Effect	58	0.31	> 0.50	1
	Group 2	No effect	130	0.69		
	Total		188	1.00		

iii. Size of company measured by number of branches

Number of branches was also used as one of the indirect measurements of a company's size in this study. As demonstrated in Table 6.15 below, more than three-quarters (85.6%) of total participants believed that having more than one branch is a factor that has an impact on audit delay in Libya, while only 14.4% (27) of the auditors as a whole believed that no association existed between company size measured by number of branches and audit delay. In addition, there was also a similar pattern of agreement found in the separate, EA and IFA groups, as the majority of respondents in both groups rated that there was a positive effect (Chi-Square = 0.584, df. = 1, p = 0.445).

Table 6.15 General effect of SIZE, measured by number of branches, on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	No effect	19	15.8	8	11.8	27	14.4
	There is effect	101	84.2	60	88.2	161	85.6
	total	120	100	68	100	188	100

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.

Chi-Square = 0.584, df. = 1, p = 0.445

Regarding the differences in the perceptions of the two groups,¹¹ results from the Binomial test (Table 6.16) indicated that there is a statistically higher proportion of respondents in the “There is an effect” group (0.86) compared to the “No effect” group (0.14). Accordingly, the study rejected the null hypothesis and deduced that there is a significant influence of a company's size, measured by number of branches, on audit delay in Libya.

¹¹ Group one = auditors who believe there is no effect, group two = auditors who believe there is an effect.

Table 6.16 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
THERE IS AN EFFECT or THERE IS NOT AN EFFECT	Group 1	Effect	161	.86	> 0.50	.000
	Group 2	no effect	27	.14		
	Total		188	1.00		

In an effort to gain more insight as to the type of effect that company size (number of branches) has on audit delay, more in-depth analysis was conducted. The mean value for a positive effect of company size represented by the number of branches was measured at 3.6026. On the other hand, there was a relatively low mean effect of 2.6666 for the minority of participants (3.1%) who supported a negative effect, suggesting that if by chance such a negative effect exists, it will most likely have a weak effect. Moreover, it was further discovered that both the EA and IFA groups have a similar pattern in terms of their responses, with the majority of respondents in each group voting for the positive relationship at 98% and 95%, respectively (Chi-square = 1.141, df. = 1, p = 0.286)

Table 6.17 Relationship between SIZE (number of branches) and AD

Description		EA		IFA		TOTAL		Mean effect
		No	%	No	%	No	%	
the relationship	positive	99	98	57	95	156	96.9	3.6026
	negative	2	2	3	5	5	3.1	2.6666
	Total	101	100	61	100	165	100	
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.								
Chi-Square = 1.141, df. = 1, p = 0.286								

The Binomial test presented in Table 6.18 shows that the p-value is less than 0.001 which means that the study has sufficient evidence to reject the null hypothesis. As a result, it concludes that in Libya those companies with several branches are more likely to be subjected to longer audit delays.

Table 6.18 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
LONGER OR SHORTER DELAY	Group 1	positive	156	.97	> 0.50	.000
	Group 2	negative	5	.03		
	Total		161	1.00		

Tables 6.19, 6.20 and 6.21 demonstrate the difference in participants' perceptions with regard to the relationship between audit delay and size of company across the EA and IFA groups. Respondents were instructed to express their level of agreement on each item related to company size on a 5-point Likert scale ranging from 1 to 5 (strongly disagree to strongly agree). This measurement scale was employed to elicit respondents' agreement or disagreement as to particular statements.

Table 6.19 Statistics for relationship between SIZE and AD

No	Items	Mean			T-test
		Total	EA	IFA	p-value
1	Large companies in Libya have incentives to reduce audit delay.	1.97	2.05	1.84	0.123
2	Large companies in Libya have more accounting staff and sophisticated accounting information systems that result in more timely annual reports.	2.09	2.07	2.13	0.634
3	Libyan external auditors face greater pressure from large companies to report earlier.	2.12	2.11	2.15	0.755

Table 6.19 above shows that p-values for the independent t-test are all greater than 0.05, suggesting that the study has failed to reject the null hypothesis and thus concludes that there is no significant difference in respondents' perceptions pertaining to the relationship between company size and audit delay across the two groups of EA and IFA.

Following this, the study examines the finding based on the overall results given that no significant difference was revealed during the t-test. In Table 6.19, the first item measures the respondents' agreement to the statement "large companies in Libya have incentives to reduce audit delay". As a matter of fact, in developed countries, larger companies are monitored more closely and frequently by investors, unions, and regulatory agencies. Therefore such

greater external pressure has encouraged the earlier submission of reports by the auditors of the larger companies in countries. In Libya, large companies, however, are facing longer audit delays, unlike the case in developed countries.

Table 6.20 Response frequencies of the participants with regard to the relationship between AD and SIZE

Statement		EA					IFA				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-A-4	Large companies in Libya have incentives to reduce audit delay.	37	47	31	3	2	30	22	13	3	-
B-A-5	Large companies in Libya have more accounting staff and sophisticated accounting information systems that result in more timely annual reports.	30	60	24	4	2	17	35	8	6	2
B-A-6	Libyan external auditors face greater pressure from large companies to report earlier.	26	63	25	4	2	14	32	20	2	0
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.											
SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree.											
The responses were reported on a 5 point Likert scale ranging from 1 to 5.											

Table 6.21 Response percentage of the participants with regard to the relationship between AD and SIZE

Statement		EA (%)					IFA (%)				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-A-4	Large companies in Libya have incentives to reduce audit delay.	19.7	25	16.5	1.6	1.1	16	11.7	6.9	1.6	0
B-A-5	Large companies in Libya have more accounting staff and sophisticated accounting information systems that result in more timely annual reports.	16	31.9	12.8	2.1	1.1	9	18.6	4.3	3.2	1.1
B-A-6	Libyan external auditors face greater pressure from large companies to report earlier.	13.8	33.5	13.3	2.1	1.1	7.4	17	10.6	1.1	0
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.											
SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree.											
The responses were reported on a 5 point Likert scale ranging from 1 to 5.											

Looking at Table 6.22, it is important to note that one sample t-test and p-value < 0.001 suggest that the mean value is significantly less than 3 (note that 3 is the middle point in the Likert scale employed in study). This gives definite evidence for the lack of incentive in large companies to improve the timeliness of their auditing and shorten their audit delay. A similar response was given by respondents regarding item 2 which sought to find out whether more accounting staff and sophisticated accounting information systems in larger companies reduced audit delay when compared with smaller companies which do not have such resources ($\mu=2.09$). In addition, Table 6.22 reported a p-value less than 0.001 for item 2, with a mean value that was significantly less than 3, thus implying that respondents believe that more accounting staff and sophisticated accounting information systems do not really assist in producing more timely annual reports. Further, the result for item 3 shows that the majority of the respondents (93%) disagree or strongly disagree with the statement that external auditors in Libya face greater pressure from large companies to submit reports earlier ($\mu=2.12$). The P-value is less than 0.001, which indicates that the mean value is significantly lower than 3, suggesting that external auditors in Libya do face greater pressure from large companies to report earlier.

Table 6.22 SIZE, item one's sample t-test

No	Items	t	D.F.	P-value
1	Large companies in Libya have incentives to reduce audit delay.	-15.57	187	0.00
2	Large companies in Libya have more accounting staff and sophisticated accounting information systems that result in more timely annual reports.	-13.77	187	0.00
3	Libyan external auditors face greater pressure from large companies to report earlier.	-14.77	187	0.00

6.3.2 Industry Type

In this study, industry type was used as an explanatory variable for audit delay. Companies were divided into two industry types to examine the impact of industry membership on AD. The two industries types were the financial,(FIN) and non-financial,(N-FIN) sectors. Respondents were asked to express their perceptions on either a three-point or five-point Likert scale with regard to the influence of industry types on audit delay. Also, respondents were asked to indicate their level of agreement with some statements regarding the

relationship between audit and industry type using a five-point Likert scale, where 5 reflects ‘strongly agree’ and 1 reflects ‘strongly disagree’.

i. Financial companies

The results in Table 6.23 reveal that 86.7% (n=163) of auditors indicated that belonging to the financial sector has an effect on audit delay in Libya, whereas 13.3% believed it has no effect. Furthermore, the Chi-square test with p-value 0.985 implied that EA and IFA have similar patterns of agreement in that, the majority of the respondents in both groups claimed that belonging to the financial sector as an industry type has an impact on the company’s audit delay.

Table 6.23 General effect of belonging to FIN on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	No effect	16	13.3	9	13.2	25	13.3
	There is effect	104	86.7	59	86.8	163	86.7
	total	120	100	68	100	188	100

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.
Chi-Square = 0.000, df. = 1, p = 0.985

Regarding the differences in the perceptions of the two groups,¹² Table 6.24 shows that there is statistically a significant difference between the two groups of responses.

Table 6.24 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
THERE IS AN EFFECT or THERE IS NOT AN EFFECT	Group 1	Effect	163	.87	> 0.50	.000
	Group 2	no effect	25	.13		
	Total		188	1.00		

¹² Group one = auditors who believe there is no effect, group two = auditors who believe there is an effect.

This finding led to the rejection of the null hypothesis H2.1: *There is no relationship between belonging to the financial sector and audit delay in Libya*. This led the study to conclude that there is a significant effect of industry type for companies in the financial sector on audit delay in Libya.

To examine the nature of this relationship, more detailed analysis was conducted to determine the direction of the relationship, whether it was positive or negative. As can be seen from Table 6.25, 89.6% of participants believe that if a company belongs to the financial sector it has a negative effect with a mean strength of 4.2123 (strong) on audit delay (n=146), which means that companies which belong to the financial sector have a shorter delay. Only a small proportion of participants (10.4%) contradict this statement and state that companies from the financial sector took more time to audit, but the mean value for this positive effect (2.5294) is relatively weak. Further, the Chi-square test showed an interesting finding by reporting a significant difference in perception between the EA and IFA groups regarding the types of relationship (Chi-square = 4.208, df. = 1, p = 0.04). Table 6.25 shows that EA group have a higher proportion of participants (93.3%) who perceive a negative effect compared to the IFA group where 89.6% of participants perceive a negative effect.

Table 6.25 Relationship between FIN and audit delay

Description		EA		IFA		TOTAL		Mean effect
		No	%	No	%	No	%	
Relationship	positive	7	6.7	10	16.9	17	10.4	2.5294
	negative	97	93.3	49	83.1	146	89.6	4.2123
	total	104	100	61	100	163	100	
<p>EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.</p> <p>Chi-Square = 4.208, df. = 1, p = 0.04</p>								

A Binomial test was conducted to test whether such a negative effect is statistically significant or not. Table 6.26 shows that the p-value is less than 0.001, so the study has sufficient evidence to reject the null hypothesis (no relationship or a positive relationship) and concludes that there is a statistically significant negative effect when the company belongs to the financial sector on audit delay. Companies in the financial sector are more likely to be audited for a shorter time period than companies in the non-financial sector.

Table 6.26 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
LONGER OR SHORTER DELAY	Group 1	negative	146	.90	> 0.50	.000
	Group 2	Positive	17	.10		
	Total		163	1.00		

ii. non-financial companies

This section analyses perceptions with regard to the effect of industry type for companies belonging to the non-financial sector on audit delay. Table 6.27 shows that approximately 80% of all the participants believe that belonging to the non-financial sector in Libya has an effect on audit delay, whereas 39 respondents (20.7%) believe it has no effect. Looking more closely, the majority of IFA members, and almost three-quarters of EA members, indicated that there is a relationship between companies from the non-financial sector and audit delay in Libya. The Chi-square test, however, shows that there is an insignificant difference in the perceptions of EA and IFA respondents in that most respondents in both groups claimed that there is an effect (Chi-square = 1.352, df. = 1, p = 0.245).

Table 6.27 General effect of belonging to NON-FIN on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	No effect	28	23.3	11	16.2	39	20.7
	There is effect	92	76.7	57	83.8	149	79.3
	total	120	100	68	100	188	100

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.

Chi-Square = 1.352, df. = 1, p = 0.245

The results of the Binomial test presented in Table 6.28 reveal that there is a statistically significant higher proportion of the “There is an effect” group compared to the “no effect” group. Therefore, the study rejects the null hypothesis H2.2 and concludes that there is a

significant effect of industry type for companies belonging to the non-financial sector on audit delay in Libya.

Table 6.28 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
THERE IS AN EFFECT or THERE IS NOT EFFECT	Group 1	There is effect	149	.79	> 0.50	.000
	Group 2	No effect	39	.21		
	Total		188	1.00		

More specific analysis was conducted on the nature of the affirmed relationship between AD and N-FIN to determine whether it was positive or negative. As demonstrated in Table 6.29, the majority of participants (82.6%) believed that belonging to N-FIN caused longer audit delay, with a reported mean of 4.2764 (high) for the strength of the effect. Only a minority of respondents indicated that companies belong to N-FIN took less time to be audited. The Chi-square test showed that there is no significant difference in the responses between EA and IFA members and, in fact, the majority of respondents in both groups claimed that the relationship is positive (Chi-square = 0.177, df. = 1, p = 0.674).

Table 6.29 Relationship between NON-FIN and AD

Description		EA		IFA		TOTAL		Mean effect
		No	%	No	%	No	%	
Nature of relationship	Positive	75	81.5	48	84.2	123	82.6	4.2764
	Negative	17	18.5	9	15.8	26	17.4	2.6538
	Total	92	100	57	100	149	100	
<p>EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.</p> <p>Chi-Square = 0.177, df. = 1, p = 0.674</p>								

A Binomial test was conducted to examine the alternative hypothesis which posited that there will be a significantly higher proportion of participants in the positive group than in the negative group. The results, as presented in Table 6.30, revealed that N-FIN companies are

more likely to engage in longer audit delay as a significantly higher proportion of participants, as high as 83% with a p-value of less than 0.001, supported the statement.

Table 6.30 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
LONGER OR SHORTER DELAY	Group 1	positive	123	.83	> 0.50	.000
	Group 2	negative	26	.17		
	Total		149	1.00		

Tables 6.31, 6.32 and 6.33 present the response frequencies, percentages and mean values as well as the differences in the participants' perceptions (EA vs IFA), with regard to the relationship between industry (INDUS) and AD. In addition, a 5-point Likert scale was employed in the study to capture the respondents' level of agreement on items related to INDUS ranging from 1 to 5 (strongly disagree to strongly agree). This measurement was used to obtain respondents' views about particular statements.

Scrutiny of Table 6.31 below shows that both the p-values for the independent t-test are greater than 0.05, indicating that the study has failed to reject the null hypothesis. This means that there is no significant difference in respondents' perceptions with regard to the relationship between industry and audit delay across EA and IFA. Consequently, there was a need to examine the finding based on the overall results given the lack of evidence for a significant difference in the t-test.

Table 6.31 Statistics for relationship between INDUS and AD

No	Items	Mean			T test
		Total	EA	IFA	p-value
1	Companies which have little or no inventory are more likely to have shorter audit delay.	4.36	4.11	4.79	0.241
2	Inventories are difficult to audit and represent an area where material errors frequently occur	4.08	4.07	4.10	0.793

In the first item in table 6.31, respondents were asked to indicate their agreement with the statement that the time to perform the audit work may be shortened for clients with less or no

inventory compared to other clients. The results presented in Tables 6.31, 6.32 and 6.33 show that approximately three-quarters of respondents (74.5%) agree or strongly agree with the statement ($\mu=4.36$). This finding also upholds the negative relationship between being in the financial sector and audit delay since having less or no inventory is deemed to be a similar characteristic to financial sector.

With regard to the second statement, respondents were asked whether inventories are difficult to audit and represent an area where material errors frequently occur, or not. The results related to this item show that the majority (72.9%) of respondents agreed with the statement. Further analysis was conducted by applying a one sample t-test to ascertain whether the mean values are significantly greater than 3 (Neutral) and the results are reported in Table 6.33. The results support the above findings with p-value < 0.001 , suggesting that both mean values were significantly greater than 3. It is important to note that both items have an average perception score of 4.36 and 4.08 which provides definite evidence that the respondents have a high level of agreement with these statements.

Table 6.32 Response frequencies of the participants with regard to the relationship between INDUS and AD

Statement		EA					IFA				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-B-3	Companies which have little or no inventory are more likely to have shorter audit delay.	1	6	21	43	49	1	9	9	15	33
B-B-4	Inventories are difficult to audit and represent an area where material errors frequently occur	0	5	30	37	48	1	2	13	25	27

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.
SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree.
The responses were reported on a 5 point Likert scale ranging from 1 to 5.

Table 6.33 Response percentage of the participants with regard to the relationship between INDUS and AD

Statement		EA (%)					IFA (%)				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-B-3	Companies which have little or no inventory are more likely to have shorter audit delay.	0.5	3.2	11.2	22.9	26.1	0.5	4.8	4.8	8.0	17.6
B-B-4	Inventories are difficult to audit and represent an area where material errors frequently occur	0	2.7	16	19.7	25.5	0.5	1.1	6.9	13.3	14.4

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.
SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree.
The responses were reported on a 5 point Likert scale ranging from 1 to 5.

Table 6.34 INDUS items one sample t-test

No	Items	Mean	T	D.F.	P-value
1	Companies which have little or no inventory are more likely to have shorter audit delay.	4.36	4.835	187	0.00
2	Inventories are difficult to audit and represent an area where material errors frequently occur	4.08	16.325	187	0.00

6.3.3 Internal Control System Quality

In Question 3 of Part two of the questionnaire, respondents were asked to express their opinion on the relationship between internal control system quality (ICSQ) and audit delay in Libya using a 3-point Likert scale. In addition, they were instructed to indicate their degree of agreement or disagreement with five statements regarding the ICSQ employing 5-point Likert scale, ranging from 1 ‘strongly disagree’ to 5 ‘strongly agree’.

Table 6.35 General effect of poor ICSQ on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	No effect	16	13.3	15	22.1	31	16.5
	There is effect	104	86.7	53	77.9	157	83.5
	Total	120	100	68	100	188	100
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.							
Chi-Square = 2.400, df. = 1, p = 0.121							

The results in Table 6.35 above reveal that 83.5% of the respondents believe that there is a relationship between a poor internal control system and audit delay, whereas 16.5% of them believe poor ICSQ has no impact. Moreover, a Chi-square test was conducted to examine the difference in response patterns between EA and IFA. a P-value 0.121 (> 0.05) indicates that there is basically no significant difference in the perceptions of EA and IFA, with the majority of respondents (86.7% and 77.9% for EA and IFA, respectively), voting for “There is an effect”.

A Binomial test was applied in order to indirectly test hypothesis H3. Based on the Binomial test results in Table 6.36, the study found that there is a significantly higher proportion of participants claiming that there is an effect of having a poor internal control system on audit

delay. Therefore, the study found adequate evidence to reject the null hypothesis H_{30} and to confirm that there is a significant effect of having a poor internal control system on audit delay in Libya.

Table 6.36 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
THERE IS AN EFFECT or THERE IS NOT EFFECT	Group 1	Effect	157	.84	> 0.50	.000
	Group 2	no effect	31	.16		
	Total		188	1.00		

Further analysis was done to explore the nature of the relationship between the internal control system and audit delay in two aspects, i.e. the direction (positive or negative) and strength of the effect. For this purpose, respondents were asked to state their opinions with regard to the strength of the impact by using a 5-point Likert scale which ranged from 1 'very little effect' to 5 'very great effect'. As can be seen from Table 6.37, the vast majority of respondents (98.1%) argued that they spent more time auditing companies with poor ICSQ with this positive relationship being supported by a high mean strength of 4.3766. This finding shows that companies with poor internal control systems are more likely to create more work and longer audit delay for auditors. Although a small proportion of participants (1.9%) supported the negative relationship, the relatively low mean for the strength of effect (2.00) meant that they only believed in a slight negative effect of poor internal control quality on audit delay. Meanwhile, a Chi-square test showed Chi-square = 0.000, df. = 1, and $p = 0.987$, suggesting that there was a similar pattern of responses between EA and IFA. In fact, exactly 98.1% of respondents from both groups supported the positive effect of a poor internal control system on audit delay.

Table 6.37 Relationship between ICSQ and AD

Description		EA		IFA		TOTAL		Mean effect
		No	%	No	%	No	%	
Nature of relationship	positive	102	98.1	52	98.1	154	98.1	4.3766
	negative	2	1.9	1	1.9	3	1.9	2.000
	total	104	100	53	100	104	100	
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing								
Chi-Square = 0.000, df. = 1, p = 0.987								

This result of the Binomial test presented in Table 6.38 indicates that the study has rejected the null hypothesis at the 0.05% significance level. The conclusion is that there is a significant positive influence of poor quality internal control systems on audit delay in Libya.

Table 6.38 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
LONGER OR SHORTER DELAY	Group 1	positive	154	.98	> 0.50	.000
	Group 2	negative	3	.02		
	Total		157	1.00		

Tables 6.39, 6.40 and 6.41 below present the frequencies, percentages and mean values as well as the differences in the participants' perceptions (EA vs IFA), with regard to the relationship between poor internal control system quality and audit delay. And it is important to state that a 5-point Likert scale was employed in the study to elicit responses on items related to ISCQ ranging from 1 to 5 (strongly disagree to strongly agree).

Table 6.39 Statistics for relationship between ISCQ and AD

No	Items	Mean			T test
		Total	EA	IFA	p-value
1	Companies having stronger internal controls are more likely to reduce the propensity for financial statement errors to occur	4.14	4.18	4.07	0.394
2	Strong internal controls enable auditor(s) to rely on internal control systems more extensively.	4.25	4.30	4.16	0.359

3	Reliance on the work of the internal auditors reduces audit hours.	4.23	4.24	4.21	0.811
4	Auditors perform less interim work if the companies have stronger internal controls.	4.17	4.25	4.03	0.077
5	The work of internal auditors is useful to external auditors in assisting them to determine the extent of their audit work.	4.23	4.31	4.10	0.115

Table 6.39 shows that basically all p-values for the independent t-test are higher than 0.05, indicating that the study has failed to reject the null hypothesis. This means that there is no significant difference in respondents' perceptions across EA and IFA. Subsequently, it is more appropriate to evaluate the finding based on the overall results given the lack of evidence for significant difference during the t-test.

In the first item in table 6.39, respondents were asked to indicate their agreement with the statement which reflects the impact of strong internal controls in reducing financial statement errors. The results presented in Tables 6.39, 6.40 and 6.41 reveal that more than three-quarters of the respondents (mean=4.14) indicated that a strong internal control system plays a vital role in reducing the possibility of frauds and errors occurring in the financial statements. This type of control, in turn, will lead to a reduction in the time required by auditors to complete the audit process. Further, the results for the second item showed that more than 80% of auditors in Libya believe that a system of strong internal controls enables them to rely heavily on it (mean=4.25). In the third item, 79.9% of respondents indicated that reliance on the work of the internal auditors allows them to reduce their audit hours (mean=4.23). Furthermore, 74.5% of the respondents with a mean score of 4.17 agree or strongly agree with the statement in item four that companies with stronger internal controls will most likely have less interim work for auditors, thus reducing the auditing period. For the fifth item, the results revealed that 77.7% of respondents agree or strongly agree with the statement that internal auditing work is useful for the external auditors in Libya in determining the nature, timing and extent of their audit procedures (mean=4.23).

Table 6.40 Response frequencies of the participants with regard to the relationship between AD and ICSQ

Statement		EA					IFA				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-C-2	Companies having stronger internal controls are more likely to reduce the propensity for financial statement errors to occur	-	2	19	55	44	-	1	18	24	25
B-C-3	Strong internal controls enable auditor(s) to rely on internal control systems more extensively.	2	9	8	33	68	-	5	12	18	33
B-C-4	Reliance on the work of the internal auditors reduces audit hours.	2	8	14	31	65	-	5	9	21	33
B-C-5	Auditors perform less interim work if the companies have stronger internal controls.	-	-	27	36	57	-	1	20	23	24
B-C-6	The work of internal auditors is useful to external auditors in assisting them to determine the extent of their audit work.	-	2	22	33	63	-	3	15	22	28

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.
SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree.
The responses were reported on a 5 point Likert scale ranging from 1 to 5.

Table 6.41 Response percentage of the participants with regard to the relationship between AD and ICSQ

Statement		EA (%)					IFA (%)				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-C-2	Companies having stronger internal controls are more likely to reduce the propensity for financial statement errors.	-	1.1	10.1	29.3	23.4	-	0.5	9.6	12.8	13.3
B-C-3	Strong internal controls enable auditor(s) to rely on internal control systems more extensively.	1.1	4.8	4.3	17.6	36.2	-	2.7	6.4	9.6	17.6
B-C-4	Reliance on the work of the internal auditors reduces audit hours.	1.1	4.3	7.4	16.5	34.6	-	2.7	4.8	11.2	17.6
B-C-5	Auditors perform less interim work if the companies have stronger internal controls.	-	-	14.4	19.1	30.3	-	0.5	10.6	12.2	12.8
B-C-6	The work of internal auditors is useful to external auditors in assisting them in to determine the extent of their audit work.	-	1.1	11.7	17.6	33.5	-	1.6	8	11.7	14.9

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.
SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree.
The responses were reported on a 5 point Likert scale ranging from 1 to 5.

Further, one sample t-test was carried out with a mean value for each item to provide a clearer picture of the consensus reached by the respondents. Results reported in Table 6.42 show all p-values are basically lower than 0.001, suggesting that the study has sufficient evidence to reject the null hypothesis that the mean value is 3. The mean values for all statements were indeed posited at a high level of agreement on the study's scale of 1-5. Thus, each statement had achieved a higher level of agreement from the participants.

Table 6.42 ICSQ items one sample t-test

No	Items	Mean	T	D.F.	P-value
1	Companies having stronger internal controls are more likely to reduce the propensity for financial statement errors to occur.	4.14	72.544	187	0.00
2	Strong internal controls enable auditor(s) to rely on internal control systems more extensively.	4.25	58.866	187	0.00
3	Reliance on the work of the internal auditors reduces the audit hours.	4.23	58.908	187	0.00
4	Auditors perform less interim work if the companies have stronger internal controls.	4.17	69.506	187	0.00
5	The work of internal auditors is useful to external auditors in assisting them to determine the extent of their audit work.	4.23	67.653	187	0.00

6.3.4 Company Yearend

The next test was to determine the influence of company fiscal yearend (YE) on audit delay. The results in Table 6.43 revealed that the majority (76.6%) of Libyan auditors (N=144) indicated that having a company yearend of 31 December has an impact on audit delay, whereas 23.4% of the respondents believed that there is no relation between audit delay and company yearend. Next, a Chi-square test was employed to detect any significant difference in the perceptions of the EA and IFA groups. The results show that the study failed to reject the null hypothesis, so there is basically no difference in perceptions with regard to the impact of yearend on audit delay between EA and IFA (Chi-Square = 0.108, df. = 1, p = 0.743).

Table 6.43 General effect of YE on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	No effect	29	24.2	15	22.1	44	23.4
	There is effect	91	75.8	53	77.9	144	76.6
	Total	120	100	68	100	188	100

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.

Chi-Square = 0.108, df. = 1, p = 0.743

Meanwhile, a Binomial test was utilised to examine the hypothesis that there is a significant relationship between having a yearend of 31 December and audit delay. Results of the Binomial test shown in Table 6.44 indicate that there is a significantly higher proportion of respondents (77% of total respondents ($p < 0.001$)) who agreed that companies with a yearend on 31 December are prone to encounter longer AD compared to companies with a different yearend.

Table 6.44 Binomial Test

Description		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
THERE IS AN EFFECT or THERE IS NOT AN EFFECT	Group 1	effect	144	.77	> 0.50	.000
	Group 2	no effect	44	.23		
	Total		188	1.00		

Moreover, the characteristics of the relationship and the nature and strength of the relationship between yearend and audit delay were examined. The results presented in Table 6.44 reveal that the majority of auditors believe there is a positive relationship in that companies with a yearend of 31 December are more likely to have a longer audit delay. As far as the distinction in perceptions between EA and IFA is concerned, the study concluded that there is an insignificant difference as the majority of respondents agreed with the

statement of a positive effect (95.6% and 98.1% in EA and IFA, respectively), (Chi-square = 0.629, df. = 1, p = 0.428).

Table 6.45 Nature of relationship between YE and AD

Description		EA		IFA		TOTAL		Mean effect
		No	%	No	%	No	%	
Nature of relationship	Longer AD	87	95.6	52	98.1	139	96.5	3.8058
	Shorter AD	4	4.4	1	1.9	5	3.5	1
	Total	91	100	53	100	144	100	
<p>EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.</p> <p>Chi-Square = 0.629, df. = 1, p = 0.428</p>								

Result of the Binomial test as presented in Table 6.46 indicates that the study must reject the null hypothesis at the 0.05% level of significance leading to the conclusion that company yearend has a significant impact on audit delay in Libya.

Table 6.46 Binomial Test

Description		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
LONGER OR SHORTER DELAY	Group 1	positive	139	.97	> 0.50	.000
	Group 2	negative	5	.03		
	Total		144	1.00		

Tables 6.47, 6.48 and 6.49 illustrate the response frequencies, percentages and mean score of participants' perceptions regarding the effect of yearend on audit delay as well as the differences in perceptions between auditors from the EA and IFA groups with regard to the statements as illustrated in Table 6.47.

Table 6.47 Statistics for relationship between YE and AD

No	Items	Mean			T-test
		Total	EA	IFA	p-value
1	A large number of audits with the same financial yearend date may cause scheduling problems for the auditors in Libya.	4.05	3.97	4.21	0.070
2	External auditors in Libya do more interim audits for companies having a yearend of 31 December.	2.93	2.96	2.88	0.647
3	Companies with a yearend of 31 December cause peak demands on the resources of auditing firms.	3.83	3.76	3.96	0.193

Table 6.47 shows that basically all p-values for the independent t-test are greater than 0.05, indicating that the study has failed to reject the null hypothesis, leading to the conclusion that there is no significant difference in respondents' perceptions across the EA and IFA groups with regard to the relationship between a yearend of 31 December and longer audit delay. Consequently, it is more appropriate to evaluate the finding based on the overall results as no significant difference was exposed during the t-test.

Response to the first statement showed that more than two-thirds of the participants (n=133) believe that a large number of audits with 31 a December financial yearend date causes problems in their schedules and accordingly leads to longer audit delay, whereas only a small minority (3.2%) of participants disagree with the statement, resulting in mean value of 4.05. Therefore, it appears that a large number of audits with a 31 December financial yearend date will certainly lead to longer audit delay.

The second statement aimed to examine whether auditors in Libya do more interim audits for clients that have a yearend of 31 December. Looking at the results presented in the tables, nearly 35% of all respondents indicate that they do not preform extra interim audits for such clients while only 27.5% of the participants agreed or strongly agreed with the statement. With regard to the calculated mean of the two groups, Table 6.46 revealed that the mean was 2.93.

Examining the third statement, the results presented in the tables reveal that a large proportion (61.2%) of the participants believe that there is a peak demand on the resource of auditing firms at the end of the fiscal year (31 December) causing a shortage in audit

personnel and resulting in longer audit delay. Only around 11.7% of participants, however, expressed their disagreement or strong disagreement towards this statement, but the mean, as can be seen in Table 6.46, was 3.83 and shows that their belief was weaker. Further, the above findings are also consistent with the one sample t-test presented in Table 6.49 with statement 2 not being significantly different from statement3 as they both have an approximately equal number of respondents on both sides (agree vs. disagree).

Table 6.48 Response frequencies of the participants with regard to the relationship between AD and YE

Statement		EA					IFA				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-D-2	A large number of audits with the same financial yearend date may cause scheduling problems for auditors in Libya.	-	6	32	42	40	-	-	16	22	30
B-D-3	External auditors in Libya do more interim audits for companies having a yearend of 31 December.	12	27	47	22	12	6	19	26	11	6
B-D-4	Companies with a yearend of 31 December cause peak demands on the resources of auditing firms.	3	17	29	28	43	-	2	22	21	23
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing. SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree. The responses were reported on a 5 point Likert scale ranging from 1 to 5.											

Table 6.49 Response percentage of the participants with regard to the relationship between AD and YE

Statement		EA (%)					IFA (%)				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-D-2	A large number of audits with the same financial yearend date may cause scheduling problems for auditors in Libya.	-	3.2	17	22.3	21.3	-	-	8.5	11.7	16
B-D-3	External auditors in Libya do more interim audits for companies having a yearend of 31 December.	6.4	14.4	25	11.7	6.4	3.2	10.1	13.8	5.9	3.2
B-D-4	Companies with a yearend of 31 December cause peak demands on the resources of auditing firms.	1.6	9	15.4	14.9	22.9	-	1.1	11.7	11.2	12.2
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing. SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree. The responses were reported on a 5 point Likert scale ranging from 1 to 5.											

Table 6.50 YE items one sample t-test

No	Items	Mean	T	D.F.	P-value
1	A large number of audits with the same financial yearend date may cause scheduling problems for the auditors in Libya.	4.05	16.603	187	0.000
2	External auditors in Libya do more interim audits for companies having a year-end of 31 December.	2.93	-0.870	187	0.385
3	Companies with a yearend of 31 December cause peak demands on the resources of auditing firms.	3.83	10.622	187	0.000

6.3.5 Extraordinary Items

This section illustrates the perceptions of auditors in Libya regarding the effect of extraordinary items (EXTRA) in the company’s financial and operational records for the year on audit delay. As can be seen from Table 6.51, approximately 80% of all participants believe that audit delay is affected by extraordinary items while only 19.7% of participants believe that there is no relationship. A Chi-square test further shows that there is a significant difference in the perceptions of EA and IFA members ($p = 0.012$), in that the EA group has a higher number of respondents who support the relationship ($n=103, 85.8\%$) compared to the IFA group ($n=48, 70.6\%$).

Table 6.51 General effect of EXTRA on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	There is no effect	17	14.2	20	29.4	37	19.7
	There is effect	103	85.8	48	70.6	151	80.3
	total	120	100	68	100	188	188
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing. Chi-Square = 6.382, df. = 1, p = 0.012							

Moreover, a Binomial test was employed to evaluate the significance of the relationship between extraordinary items and audit delay in Libya. Recall that the null hypothesis was:

H₀: there is no relationship between the presence of extraordinary items and AD in the Libyan auditing context.

The Binomial test results in Table 6.52 show a p-value lower than 0.001, so the study rejects the null hypothesis, H_{50} , and concludes that there is a significant relationship between the presence of extraordinary items and audit delay in Libya.

Table 6.52 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
THERE IS AN EFFECT or THERE IS NOT AN	Group 1	effect	151	.80	> 0.50	.000
	Group 2	no effect	37	.20		
	Total		188	1.00		

Table 6.53 presents the relevant statistics to shed light on the nature of the relationship. The majority of the respondents (94.7%) believe that companies reporting extraordinary items are more likely to have longer audit delays with the mean of this positive effect measured at 4.2937. As for the minority group (5.3%) that disagreed, the mean perception score for the strength of effect was 2.75.

Table 6.53 Nature of relationship between EXTRA and AD

Description		EA		IFA		TOTAL		Mean effect
		No	%	No	%	No	%	
Nature of relationship	Longer AD	99	96.1	44	91.7	143	94.7	4.2937
	Shorter AD	4	3.9	4	8.3	8	5.3	2.7500
	Total	103	100	48	100	151	100	
<p>EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.</p> <p>Chi-Square = 1.292, df. = 1, p = 0.256</p>								

A Binomial test was applied to determine the nature of the relationship between the two variables. As can be seen from Table 6.54 below, the p-value is higher than 0.05, thus indicating that the presence of extraordinary items leads to longer audit delay.

Table 6.54 Binomial Test

Description		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
LONGER OR SHORTER DELAY	Group 1	positive	143	.95	> 0.50	.000
	Group 2	negative	8	.05		
	Total		151	1.00		

Respondents were also asked to express the level of their agreement on four statements about the effect of extraordinary items on audit delay. The response frequencies, percentages and mean score of the respondents' perceptions are presented in Tables 6.55, 6.56 and 6.57. Table 6.55 shows that basically all p-values for the independent t-test are greater than 0.05, except for item 3 ($p < 0.001$). Therefore, the study rejects the null hypothesis for item 3 and concludes that there is a significant difference in the respondents' perceptions that the existence of extraordinary items increases the audit hours spent on the audit. It seems that EAs show a higher level of agreement (4.18) compared to IFAs (3.59).

Table 6.55 Statistics for relationship between EXTRA and AD

No	Items	Mean			T-test
		Total	EA	IFA	p-value
1	The existence of extraordinary items warrants additional consideration in the audit programme.	4.09	4.16	3.96	0.122
2	The existence of extraordinary items warrants careful consideration in the audit programme.	3.97	4.07	3.79	0.059
3	The existence of extraordinary items increases the audit hours that need to be spent on the audit.	3.97	4.18	3.59	0.000
4	The existence of extraordinary items extends negotiations between the auditor and the company.	3.84	3.94	3.65	0.053

The first statement is: *The existence of extraordinary items warrants additional consideration in the audit programme.* The results reveal that approximately three-quarters of all respondents agree with the statement as 76.1% chose to agree or strongly agree, while only

3.7% chose to disagree or strongly disagree and 20.2% stood neutral. Further, the mean for the responses as shown in Table 6.54 was 4.085, reflecting a high level of agreement among respondents regarding the statement. In addition, this result was supported by the one sample t-test in Table 6.57, which basically has a p-value less than 0.05 with a mean value significantly greater than 3.

The second statement is: *The existence of extraordinary items warrants careful consideration in the audit programme.* The results demonstrate that respondents indicate a high level of agreement with the statement as 69.7% of respondents chose to agree or strongly agree, 5.9% chose to disagree or strongly disagree and the remaining 24.5% stood neutral. Further, one sample t-test was employed and results reveal that the mean value of agreement is, in fact, significantly different from 3. Thus, the study may conclude that auditors tend to agree that the presence of extraordinary items warrants careful consideration in the audit programme. With regard to the calculated mean of the two groups, Table 6.59 reveals that the mean is 3.968.

The third statement is *The existence of extraordinary items increases the audit hours that need to be spent on the audit.* The results, presented in Table 6.60, show that respondents had a high level of agreement with this statement. 72.3% of respondents chose to agree or strongly agree, while just 9% chose to disagree or strongly disagree and 18.6% stood neutral. Further, the mean as shown in Table 6.59 was 4.085. The above finding reflects a high level of agreement among respondents which means that most believe that the presence of extraordinary items leads to an increase in the audit hours that need to be spent on the audit. This result is supported by the one sample t-test presented in Table 6.62.

The fourth statement is *The existence of extraordinary items extends negotiations between the auditor and the company.* Table 6.56 reveals that approximately two-thirds of the respondents (64.4%) agreed or strongly agreed, while only 8% disagreed or strongly disagreed and 27.6% stood. This result means that the majority of respondents agree that the existence of extraordinary items will extend negotiations between the auditor and the company. Further, the results from the one sample t-test in Table 6.57 with all p-values lower than 0.05 suggests that the agreement level of respondents was significantly higher than 3 for all items.

Table 6.56 Response frequencies of the participants with regard to the relationship between AD and EXTRA

Statement		EA					IFA				
		SD	DI	NE	AG	SA	SD	DI	NE	A G	SA
B-E-2	The existence of extraordinary items warrants additional consideration in the audit programme.	1	4	19	47	49	-	2	19	27	20
B-E-3	The existence of extraordinary items warrants careful consideration in the audit programme.	1	3	26	41	46	2	5	17	25	19
B-E-4	The existence of extraordinary items increases the audit hours that need to be spent on the audit.	1	4	19	44	52	2	10	16	26	14
B-E-5	The existence of extraordinary items extends negotiations between the auditor and the company.	3	6	28	41	42	2	4	24	24	14

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.
SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree.
The responses were reported on a 5 point Likert scale ranging from 1 to 5.

Table 6.57 Response percentage of the participants with regard to the relationship between AD and EXTRA

Statement		EA (%)					IFA (%)				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-E-2	The existence of extraordinary items warrants additional consideration in the audit programme.	0.5	2.1	10.1	25	26.1	-	1.1	10.1	14.4	10.6
B-E-3	The existence of extraordinary items warrants careful consideration in the audit programme.	.5	1.6	15.4	21.8	24.5	1.1	2.7	9	13.3	10.1
B-E-4	The existence of extraordinary items increases the audit hours that need to be spent on the audit.	.5	2.1	10.1	23.4	27.7	1.1	5.3	8.5	13.8	7.4
B-E-5	The existence of extraordinary items extends negotiations between the auditor and the company.	1.6	3.2	14.9	21.8	22.3	1.1	2.1	12.8	12.8	7.4

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.
SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree.
The responses were reported on a 5 point Likert scale ranging from 1 to 5.

Table 6.58 EXTRA items, one sample t-test

NO	Items	Mean	T	D.F.	P-value
1	The existence of extraordinary items warrants additional consideration in the audit programme.	4.09	17.279	187	.000
2	The existence of extraordinary items warrants careful consideration in the audit programme.	3.97	13.929	187	.000
3	The existence of extraordinary items increases the audit hours that need to be spent on the audit.	3.97	13.388	187	.000
4	The existence of extraordinary items extends negotiations between the auditor and the company.	3.84	11.423	187	.000

6.3.6 Profitability

This section sheds light on the perceptions of the EA and IFA groups about the effect of profitability (PROFIT) on audit delay. Table 6.59 shows that approximately 80% of respondents believe that there is no association between the two, and only 37 (19.7%) participants perceived audit delay to be affected by profitability. A Chi-square test with p-value 0.032 (< 0.05) suggests that there is a significant difference in responses between EA and IFA in that the EA group has a higher proportion of respondents who state that there is no effect (85%) compared to the IFA group where 72.1% of respondents state this.

Table 6.59 General effect of PROFIT on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	There is no effect	102	85	49	72.1	151	80.3
	There is effect	18	15	19	27.9	37	19.7
	total	120	100	68	100	188	100

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.

Chi-Square = 4.599, df. = 1, p = 0.032

Moreover, a Binomial test was applied to test the null hypothesis for H6.

H6₀: there is no relationship between profitability and AD in the Libyan auditing context.

As can be seen from Table 6.60, the result shows that the p-value is approximate to unity (> 0.05), implying that the study has failed to reject the null hypothesis, thus leading to the conclusion that profitability does not have a significant impact on audit delay in Libya.

Table 6.60 Binomial Test

Description		Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
THERE IS AN EFFECT or IS NOT AN EFFECT	Group 1	Effect	37	.20	> 0.50	1
	Group 2	No effect	151	.80		
	Total		188	1.00		

An independent t-test was employed to examine any difference in perceptions between the participants groups (EA and IFA) regarding the relationship between AD and PROFIT. The results presented in Table 6.61 reveal that only statement 1 was found to exhibit a p-value less than 0.05, suggesting that there is a significant difference in the two groups' perceptions with regard to item 1. The EA group tends to have a higher level of disagreement (1.96) compared to the IFA group (2.38) meaning that EA are more likely to disagree that Libyan companies with losses request their auditors to schedule the start of the audit later than usual.

Table 6.61 Statistics for relationship between PROFIT and AD

No	Items	Mean			T-test
		Total	EA	IFA	p-value
1	Libyan companies with losses request their external auditors to schedule the start of the audit later than usual.	2.11	1.96	2.38	0.008
2	Companies with increased profitability exert great pressure on the auditor to complete the audit engagement as quickly as possible.	1.89	1.82	2.03	0.127
3	External auditors of companies reporting losses do more audit inspection.	2.19	2.26	2.07	0.188

Furthermore, participants were instructed to express their agreement level regarding three statements on the relationship between PROFIT and AD. The response frequencies, mean

value and percentages of the respondents' perceptions are presented in Tables 6.61, 6.62 and 6.63.

The first statement is: *Libyan companies with losses request their external auditors to schedule the start of the audit later than usual.* The results reveal that approximately three-quarters (72.9%) of the respondents disagreed with the statement, whereas only 9.6% agreed or strongly agreed and 17.6% stood neutral. Further, the mean of 2.11 definitely reflects a high level of disagreement among respondents regarding the statement. This result was supported by the one sample t-test presented in Table 6.63 in which the first statement has a p-value < 0.001, implying that the mean value is significantly different from 3 and is posited at 2.11. Therefore, in general, Libyan companies with losses do not request their external auditors to schedule the start of the audit later than usual.

The second statement is : *“Companies with increased profitability exert great pressure on the auditor to complete the audit engagement as quickly as possible”.* Table 6.62 shows that 74.4% of the respondents disagreed or strongly disagreed with the statement, while only a minority (5.9%) of respondents agreed and the remaining respondents (19.7%) stood neutral. The above result reflects that the participants generally disagree with the statement (mean value of 1.89), implying that companies with increased profitability do not exert great pressure on auditors to complete the audit engagement as quickly as possible.

The third statement is: *External auditors of companies reporting losses do more audit inspection.* The results show a high level of disagreement from respondents towards the statement with 63.8% of respondents choosing disagree or strongly disagree, 7.9% choosing agree or strongly agreed and the remaining 28.2% standing neutral. In addition, the mean value of 2.19 strengthens the claim that auditors are not involved in more extensive audit examinations for those companies reporting losses.

Table 6.62 Response frequencies of the participants with regard to the relationship between AD and PROFIT

Statement		EA					IFA				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-F-2	Libyan companies with losses request their external auditors to schedule the start of the audit later than usual.	45	50	15	5	5	13	29	18	3	5
B-F-3	Companies with increased profitability exert great pressure on the auditor to complete the audit engagement as quickly as possible.	53	42	19	6	-	26	19	18	5	-
B-F-4	External auditors of companies reporting losses do more audit examinations.	29	42	38	11	-	19	30	15	3	1
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing. SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree. The responses were reported on a 5 point Likert scale ranging from 1 to 5.											

Table 6.63 Response percentage of the participants with regard to the relationship between AD and PROFIT

Statement		EA					IFA				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
B-F-2	Libyan companies with losses request their external auditors to schedule the start of the audit later than usual.	23.9	26.6	8	2.7	2.7	6.9	15.4	9.6	1.6	2.7
B-F-3	Companies with increased profitability exert great pressure on the auditor to complete the audit engagement as quickly as possible.	28.2	22.3	10.1	3.2	-	13.8	10.1	9.6	2.7	-
B-F-4	External auditors of companies reporting losses do more audit examinations.	15.4	22.3	20.2	5.9	-	10.1	16	8	1.6	1.5
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing. SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree. The responses were reported on a 5 point Likert scale ranging from 1 to 5.											

The above findings are statistically supported by a one sample t-test presented in Table 6.64 in which all statements have a p-value less than 0.001 in conjunction with mean values of less than 3.

Table 6.64 PROFIT items, one sample t-test

NO	Items	Mean	t	D.F.	P-value
1	Libyan companies with losses request their external auditors to schedule the start of the audit later than usual.	2.11	-11.476	187	.000
2	Companies with increased profitability exert great pressure on the auditor to complete the audit engagement as quickly as possible.	1.89	-16.510	187	.000
3	External auditors of companies reporting losses do more audit examinations.	2.19	-12.018	187	.000

6.4 Factors Influencing Audit Delay from Audit Firm

This section presents the results of the analysis from Part three of the questionnaire which sought to uncover respondents' perceptions regarding the effect of audit firm characteristics themselves (audit firm size and type of audit opinion) on audit delay in Libya.

6.4.1 Audit Firm Size

This section examines the perceptions of the survey respondents on the effect of audit firm size (FSIZE) on audit delay. Table 6.65 shows that approximately 65% of all participants believe that there is a relationship between audit firm size and audit delay. Next, a Chi-square test shows that there is no significant difference in the perceptions of respondents from the two groups, as 62.5% and 64.7% of respondents from EA and IFA, respectively, have chosen "There is effect".

Table 6.65 General effect of FSIZE on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	There is no effect	45	37.5	24	35.3	69	36.7
	There is effect	75	62.5	44	64.7	119	63.3
	Total	120	100	68	100	188	100

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.

Chi-Square = 0.091, df. = 1, p = 0.763

A Binomial test was employed (Table 6.66) to determine the nature of the relationship between the two variables. As the table shows, the p-value is less than 0.001, which suggests that the study has sufficient evidence to reject the null hypothesis and so must conclude that there is a significant relationship between audit firm size and audit delay.

Table 6.66 Binomial Test

Description		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
THERE IS AN EFFECT or THERE IS NOT AN EFFECT	Group 1	Effect	119	.63	> 0.50	.000
	Group 2	no effect	69	.37		
	Total		188	1.00		

To determine the nature of the relationship, descriptive statistics reported in Table 6.67 show that the majority of respondents (88.2%) believe that such a relationship is, in fact, negative. This means that most respondents believe that firms that engage large audit firms are likely to complete the audit of their accounts sooner than those firms that engage smaller audit firms. Also, it is important to note that both EA and IFA exhibited similar perceptions with a p-value of 0.917, and the majority of respondents, 88% and 88.2% in EA and IFA respectively, supported the presence of a negative effect.

Table 6.67 Nature of relationship between FSIZE and AD

Description		EA		IFA		TOTAL		Mean effect
		No	%	No	%	No	%	
Nature of relationship	Positive	9	12	5	11.4	14	11.8	2.6429
	negative	66	88	39	88.6	105	88.2	4.0190
	Total	75	100	44	100	119	100	

EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.

Chi-Square = 0.011, df. = 1, p = 0.917

A Binomial test was employed to ascertain whether a significantly higher proportion of respondents believed there is a negative effect. In Table 6.68, a p-value of less than 0.001 definitely shows that a significantly higher number of respondents supported negative relationship, so the study concludes that there is a significant negative effect of audit firm size on audit delay.

Table 6.68 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
LONGER OR SHORTER DELAY	Group 1	negative	105	.88	> 0.50	.000
	Group 2	positive	14	0.12		
	Total		119	1.00		

Tables 6.69, 6.70 and 6.71 show the response frequencies, mean value as well as percentages of participants' perceptions with regard to the relationship between audit firm size and audit delay. The results presented in Table 6.69 reveal that only statement 1 was found to exhibit a p-value of less than 0.05, suggesting that there is a significant difference between the EA and IFA groups in respondents' perceptions with regard to item 1. The IFA group tends to have a higher level of agreement (4.21) compared to the EA group (3.86). Thus, IFA are more

inclined to agree that large audit firms have a stronger incentive to finish their audit work more quickly than smaller audit firms.

Table 6.69 Statistics for relationship between FSIZE and AD

No	Items	Mean			T-test
		Total	EA	IFA	p-value
1	Large audit firms have a stronger incentive to finish their audit work more quickly than smaller audit firms.	3.98	3.86	4.21	0.029
2	Large audit firms in Libya tend to have more human resources.	4.39	4.46	4.26	0.085
3	Large audit firms in Libya have a great flexibility in scheduling to complete audits in time.	4.30	4.33	4.25	0.508
4	Large audit firms will complete audits on a timelier basis because of their experience.	3.81	3.76	3.90	0.332
5	Large audit firms in Libya are more efficient because they can count on superior audit technology.	3.03	2.94	3.19	0.135

The first statement is: *Large audit firms have a stronger incentive to finish their audit work more quickly than smaller audit firms.* Table 6.69 shows that approximately two-thirds of the respondents agreed with the statement, as 63.3% chose agree or strongly agree, while only 6.3% chose disagree or strongly disagree and 30.3% were neutral. Further, the mean value as shown in Table 6.69 was 3.984 indicating that, in general, respondents have a high level of agreement. This result was further supported by the one sample t-test presented in Table 6.71, which shows a p-value of less than 0.001.

The second statement is: *Large audit firms in Libya tend to have more human resources.* Here, 86.7% of respondents chose agree or strongly agree, while only a few respondents (1.1%) disagreed and 12.2% were neutral. This result was supported by the one sample t-test presented in Table 6.72. As can be seen from the table, the p-value was less than 0.05 with a positive t-value (25.692), indicating that the larger the audit firms, the more human resources they will possess, which might lead to shorter audit delay.

The third statement is: *Large audit firms in Libya have a great flexibility in scheduling to complete audits in time.* Table 6.71 below shows that none of respondents chose 'strongly disagree'. Furthermore, the majority of the respondents (86.2%) believed that large audit firms have more flexible schedules which allow them to complete audits on time, while only 12.2% stood neutral on the issue. Table 6.72 shows that the p-value was lower than 0.05, suggesting that a significantly higher number of respondents agreed that large audit firms in Libya have greater flexibility in scheduling to complete audits in time.

The fourth statement is: *Large audit firms will complete audits on a timely basis because of their experience.* It can be seen from Table 6.71 that nearly two-thirds of respondents chose agree or strongly agree, while only 10.1% chose disagree and the remaining respondents (25%) stood neutral. The above finding reflects the respondents' high level of agreement with the statement that the more extensive experience of large audit firms will have an effect on audit delay. In addition, Table 6.72 shows that the p-value is definitely lower than the 0.05 significance level, which means that the proportion of respondents who agreed with the statement is significantly higher than those who did not agree.

The fifth statement is: *Large audit firms in Libya are more efficient because they can count on superior audit technology.* The result shown in Table 6.71 reveals that the respondents' answers were divided nearly equally between agreement and disagreement as 28.7% of them chose agree or strongly agree, while nearly the same percentage (29.2%) chose disagree or strongly disagree. The rest of the respondents (42%) chose a neutral response. This result shows a lack of agreement among respondents about whether advanced audit technology enables large audit firms to improve audit efficiency. This result is in fact supported by the one sample t-test in which the p-value in Table 6.72 is greater than the .05 significance level.

Table 6.70 Response frequencies of the participants with regard to the relationship between AD and FSIZE

Statement		EA					IFA				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
C-A-2	Large audit firms have a stronger incentive to finish their audit work more quickly than smaller audit firms.	4	5	41	24	46	-	3	16	13	36
C-A-3	Large audit firms in Libya tend to have more human resources.	-	1	12	38	69	-	1	11	25	31
C-A-4	Large audit firms in Libya have a great flexibility in scheduling to complete audits in time.	-	2	13	49	56	-	1	10	28	29
C-A-5	Large audit firms will complete audits on a timelier basis because of their experience.	-	14	31	45	30	-	5	16	28	19
C-A-6	Large audit firms in Libya are more efficient because they can count on superior audit technology.	12	27	51	16	14	4	12	28	15	9
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing. SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree. The responses were reported on a 5 point Likert scale ranging from 1 to 5.											

Table 6.71 response percentage of the participants with regard to the relationship between AD and FSIZE

Statement		EA (%)					IFA (%)				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
C-A-2	Large audit firms have a stronger incentive to finish their audit work more quickly than smaller audit firms.	2.1	2.7	21.8	12.8	24.5	-	1.6	8.5	6.9	19.1
C-A-3	Large audit firms in Libya tend to have more human resources.	-	.5	6.4	20.2	36.7	-	.5	5.9	13.3	16.5
C-A-4	Large audit firms in Libya have a great flexibility in scheduling to complete audits in time.	-	1.1	6.9	26.1	29.8	-	.5	5.3	14.9	15.4
C-A-5	Large audit firms will complete audits on a more timely basis because of their experience.	-	7.4	16.5	23.9	16	-	2.7	8.5	14.9	10.1
C-A-6	Large audit firms in Libya are more efficient because they can count on superior audit technology.	6.4	14.4	27.1	8.5	7.4	2.1	6.4	14.9	8	4.8
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing. SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree. The responses were reported on a 5 point Likert scale ranging from 1 to 5.											

Table 6.72 FSIZE items, one sample t-test

NO	Items	Mean	t	D.F.	P- value
1	Large audit firms have a stronger incentive to finish their audit work more quickly than smaller audit firms.	3.98	12.826	187	.000
2	Large audit firms in Libya tend to have more human resources.	4.39	25.692	187	.000
3	Large audit firms in Libya have a great flexibility in scheduling to complete audits in time.	4.30	23.941	187	.000
4	Large audit firms will complete audits on a more timely basis because of their experience.	3.81	11.798	187	.000
5	Large audit firms in Libya are more efficient because they can count on superior audit technology,	3.03	.398	187	.691

6.4.2 Type of Audit Opinion

The impact of qualified audit opinion (QOPIN) on audit delay is examined through four survey questions. As can be seen from Table 6.73, three-quarters (73.3%) of all respondents believe that audit delay is affected by a qualified audit opinion, while 25% of respondents indicate that there is no relationship between the two variables. Further, the Chi-square test with a p-value of 0.483 shows that there is no significant difference in perceptions between the EA and IFA groups, with the majority of respondents in both groups believing that there is an effect.

Table 6.73 General effect of QOPIN on AD

Description		EA		IFA		TOTAL	
		No	%	No	%	No	%
Effect on audit delay	There is no effect	32	26.7	15	22.1	141	75
	There is effect	88	73.3	53	77.9	47	25
	Total	120	100	68	100	188	100
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing Chi-Square = 0.492, df. = 1, p = 0.483							

A Binomial t-test was employed to ascertain the null hypothesis H_{80} : *there is no relationship between the type of audit opinion (qualified) and AD in the Libyan auditing context*. Table 6.74 below reveals that the p-value is lower than 0.05, suggesting that the study must reject

the null hypothesis and concludes that there is a significant effect of qualified audit opinion on audit delay.

Table 6.74 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
THERE IS AN EFFECT or THERE IS NOT AN EFFECT	Group 1	Effect	141	.75	> 0.50	.000
	Group 2	no effect	47	.25		
	Total		188	1.00		

Furthermore, Table 6.75 highlights the nature of the relationship between the two variables. The majority of participants (93.6%) believe companies with qualified audit opinion have longer audit delay, with the mean of the effect measured at 3.8939. A small percentage of participants (6.4%) believe companies receiving a qualification have a shorter audit delay but the mean of this negative relationship measured at 1.4444 meant that they believe this effect is weak. The Chi-square test further shows that there is no significant difference in perceptions between the EA and IFA groups, as the majority of respondents in both groups concur that qualified audit opinion has a positive effect on audit delay or leads to a longer audit delay.

Table 6.75 Nature of relationship between QOPIN and AD

Description		EA		IFA		TOTAL		Mean effect
		No	%	No	%	No	%	
Effect on AD	longer	85	96.6	47	88.7	132	93.6	3.8939
	shorter	3	3.4	6	11.3	9	6.4	1.4444
	total	88	100	53	100	141	100	
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing.								
Chi-Square = 3.465, df. = 1, p = 0.063								

The above results are supported by a Binomial test presented in Table 6.76. The finding shows that p-value is less than 0.05, suggesting that the study has sufficient evidence to reject

the null hypothesis and conclude that there is a positive effect of qualified audit opinion on audit delay.

Table 6.76 Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (1-tailed)
LONGER OR SHORTER DELAY	Group 1	Positive	132	.94	> 0.50	.000
	Group 2	Negative	9	.06		
	Total		141	1.00		

Participants were also asked to express the level of their agreement regarding three statements on the relationship between QOPIN and AD. The response frequencies and percentages of respondents' perceptions are presented in Tables 6.77, 6.78 and 6.79. The results presented in Table 6.77 reveal that all statements have p-values larger than 0.05, suggesting that there is no significant difference in perceptions between respondents in the EA and IFA groups.

Table 6.77 Descriptive statistics of QOPIN items

No	Items	Mean			T-test
		Total	EA	IFA	p-value
1	External auditors in Libya are expected to extend tests when they find or suspect irregularities.	3.83	3.78	3.91	0.372
2	A qualified report opinion is viewed as representing a negative view of the companies' financial affairs.	3.89	3.90	3.88	0.913
3	Audit delay increases when there is conflict between the auditor and the company.	3.81	3.85	3.74	0.478

The first statement is: *External auditors in Libya are expected to extend tests when they find or suspect irregularities.* Table 6.79 shows that more than half of the respondents agreed with the statement, as 61.2% chose agree or strongly agree, while only 8.5% chose disagree or strongly disagree and 30.3% were neutral. Further, the mean as shown in Table 6.77 was 3.825. The above finding reflects a high level of agreement among respondents regarding the

statement which was then supported by the one sample t-test presented in Table 6.80, where a p-value of less than 0.05 was reported.

The second statement is: *A qualified report opinion is viewed as representing a negative view of the companies' financial affairs.* Table 6.78 reveals that the respondents show a high level of agreement regarding this statement. 68.8% of respondents agreed or strongly agreed, while just 12.2% strongly disagreed or disagreed and 19.1% were neutral. This result was supported by the one sample t-test which is presented in Table 6.80. As can be seen in the table, the p-value was less than .05 with a positive t-value (25.692). Therefore, it can be said that a qualified report opinion is viewed as representing a negative view of the companies' financial affairs.

The third statement is: *Audit delay increases when there is conflict between the auditor and the company.* Table 6.79 shows a high level of agreement with the statement as nearly two-thirds (62.8%) of respondents agreed or strongly agreed, while only 14.3% strongly disagreed or disagreed and the rest (22.9 %) were neutral. The results of the one sample t-test presented in Table 6.80 reveal that there is agreement among the respondents regarding all the statements, which is supported by p-values greater than 0.05 for all statements.

Table 6.78 Response frequencies of the participants with regard to the relationship between AD and QOPIN

Statement		EA					IFA				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
C-B-2	External auditors in Libya are expected to extend tests when they find or suspect irregularities.	2	9	38	36	35	1	4	19	20	23
C-B-3	A qualified report opinion is viewed as representing a negative view of the companies' financial affairs.	2	13	21	43	41	2	6	15	20	25
C-B-4	Audit delay increases when there is conflict between the auditor and the company.	1	12	31	36	40	-	14	12	20	22
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing. SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree. The responses were reported on a 5 point Likert scale ranging from 1 to 5.											

Table 6.79 Response percentage of the participants with regard to the relationship between AD and QOPIN

Statement		EA					IFA				
		SD	DI	NE	AG	SA	SD	DI	NE	AG	SA
C-B-2	External auditors in Libya are expected to extend tests when they find or suspect irregularities.	1.1	4.8	20.2	19.1	18.6	.5	2.1	10.1	10.6	12.2
C-B-3	A qualified report opinion is viewed as representing a negative view of the companies' financial affairs.	1.1	6.9	11.2	22.9	21.8	1.1	3.2	8	10.6	13.3
C-B-4	Audit delay increases when there is conflict between the auditor and the company.	0.5	6.4	16.5	19.1	21.3	-	7.4	6.4	10.6	11.7
EA =External auditors, IFA =Auditors from the Institute of Financial Auditing. SD= strongly disagree, DI= disagree, NE= natural, AG= agree, SA= strongly agree. The responses were reported on a 5 point Likert scale ranging from 1 to 5.											

Table 6.80 FSIZE items, one sample t-test

NO	Items	Mean	t	D.F.	P-value
1	External auditors in Libya are expected to extend tests when they find or suspect irregularities.	3.83	11.238	187	.000
2	A qualified report opinion is viewed as representing a negative view of the companies' financial affairs.	3.89	11.511	187	.000
3	Audit delay increases when there is conflict between the auditor and the company.	3.81	10.434	187	.000

6.5 Summary and conclusion

The main objective of this chapter was to present the results from the various tests conducted in this study to examine the extent of audit delay in Libya and investigate whether audit delay is associated with the effect of some company and audit firm characteristics (size of company, company's activities, internal control systems, company year-end, extraordinary items, profitability, audit firm size and audit opinion). The results of the descriptive statistics revealed that the mean audit delay for listed companies in Libya is 169.21 days. The audit delay in Libya was far too long compared to the audit delay reported in other countries or even the level of audit delay reported by studies conducted twenty or thirty years ago in other countries.

The results of the Chi-square test and one sample t-test show that audit delay is significantly associated with company size (measured by total assets and number of branches), industry type, quality of internal control system, company yearend, extraordinary items, audit firm size and type of audit opinion. Further, the only two insignificant variables are size of company (when measured by number of employees) and profitability. Moreover, the results indicated also that there is no significant difference in perceptions between the EA and IFA groups regarding the effect of explanatory variables on audit delay. The next chapter forms the final part of this thesis, where the implications of the findings are discussed with some other concluding notes on the research process, its contribution and some limitations of the study.

Chapter 7 Discussion and Conclusion

7.1 Introduction

This study was conducted to investigate the determinants of audit report delay for Libyan companies currently operating in the country following economic changes in Libya. With this purpose in mind, the study identified a matrix of company characteristics and audit factors and measured the impact of these particular determinants on audit report delay in the Libyan context. This involved an exploration of the effect of company-specific characteristics on audit delay in Libya and investigating the effect of audit-related factors on audit delay in Libya.

Being the final chapter of the thesis, Chapter 7 aims to tie together the different issues covered in the study by discussing the main findings of the data collected from the survey questionnaire and the conclusions that emerge from the research. The chapter is divided into five sections. The first section discusses the results of the study derived from the data collected in the survey. The second section revisits the work undertaken in this study through a summary of the research process. The next section draws from these findings to presents some recommendations that can improve the timeliness of the auditing process in Libya. Finally, in the fourth section the chapter highlights the contribution of the study to the literatures, followed by a discussion of the limitations of the study and suggestions for further research in this area.

7.2 Discussion of Results

The first part of the survey questionnaire and the first question of the interview guide were concerned with obtaining general information about the participants in the study such as gender, age, level of education, field of study and experience. Based on an analysis of data gathered from the distributed questionnaires, it was found that the vast majority of participants in the study were 30 years old and over, possessed high levels of education, specialised in accounting and were experienced enough to understand the purpose of the study and were able to participate in it in a responsible manner. Accordingly, the study concluded that the responses of participants from the two groups (EA and IFA) would present be authoritative and knowledgeable opinions on the subject of audit delay in Libya.

According to data obtained from the Libyan Stock Market, the mean audit delay for the period 2008 to 2010 was 169.214 days. This figure relates to 28 companies registered in the Libyan Stock Market and, not being available online, was obtained by the researcher from a person responsible for registering companies in the Libyan Stock Market as the data is not available online. The mean audit delay was 169.214 days with a minimum delay of 34 days while the longest delay was reported as 268 days. Accordingly, it is clear that, on average, Libyan companies take more than five months from their balance sheet dates to release their audited financial statements. This suggests that timeliness is not an important concern for Libyan companies in their financial reporting policy. Moreover, the mean audit delay in Libya seems to be much longer compared with delays in both developed and developing countries, such as, the USA 62.5 days (Ashton et al., 1987), Canada 54 days (Newton & Ashton, 1989a), New Zealand 87.7 days (Carlsaw & Kaplan, 1991), Malaysia 122 days (Che-Ahmad & Abidin, 2009), Zimbabwe 61.7 days (Owusu-Ansah, 2000), Hong Kong 105 days (Ng & Tai, 1994), Greece 113 days (Owusu-Ansah & Leventis, 2006), Saudi 46 days (Almosa & Alabbas, 2008), Egypt 67.21 days (Afify, 2009) and Nigeria 60 days (Modugu et al., 2012).

The issue of audit delay in Libya is a complex issue and it is not clear why audit delay in Libya is much longer than in other countries. It is thought that a whole complex of economic and institutional factors is implicated in audit delay in Libya, and the situation will only improve with better government enforcement and corporate responsibility. However, such moves will only occur with the evolution of the current political-economic climate in Libya towards greater transparency, efficiency and accountability. This study has therefore sought to identify the immediate factors that may be at play in causing audit delay in Libya which can then be addressed by companies and auditors in their individual capacity. The study has also established the contours of the research problem of audit delay within the broader social, economic and political context in which the Libyan economy and Libyan external auditors work.

Company size The association between company size and audit delay is probably the most widely investigated in the accounting literature. The survey results of this study indicated that large companies in Libya are more likely to face longer audit delays. This result is consistent with previous empirical research which indicated that there is a positive relationship between audit delay and company size (Almosa & Alabbas, 2008; Heidhues & Patel, 2012; Henderson &

Kaplan, 2000). The result might be attributed to the fact that the majority of large companies in Libya are owned by the state and they do not have the incentive to reduce audit delay as do most private companies. In addition, survey respondents have noted that the structure of large public companies is more complex and large companies also tend to have a greater number of transactions which further complicates the audit process.

Nature of Company's Activity The second company-related factor tested in this study is the client's industry category and the nature of its main operations. The results of this research indicated that audit delay is shorter for financial services companies. These results are consistent with previous empirical studies that investigated the influence of the type of industry on audit delay (Almosa & Alabbas, 2008; Ashton et al., 1987; Ashton et al., 1989; Bamber et al., 1993; Carslaw & Kaplan, 1991; Heidhues & Patel, 2012; Owusu-Ansah & Leventis, 2006). As was shown in Chapter 6, the majority of respondents stated that they spend more time auditing companies which do not track their inventory properly as inventories are difficult to audit and represent an area where material errors can frequently occur. On the other hand, financial services companies do not have inventories and this may lower audit delay potential for financial services companies in Libya. Moreover, the results may also be attributed to the complex transactions in non-financial companies many of which may not be recorded on file and this may require more time for the auditor to check and verify.

Internal Control System in the Company The effect of the internal control system in the company on audit delay is largely unstudied. Only three previous studies have tested the relationship between the quality of internal control systems and audit delay (Ashton et al., 1987; Kinney & McDaniel, 1993). The results of the present study showed that there is a negative relationship between the quality of internal control systems and audit delay and this is consistent with these previous studies. These results could be justified by the fact that material weakness in the internal control system requires auditors to extend their scope of work and perform additional substantive tests to compensate for the control weakness. The majority of respondents pointed this out and stated that clients who have stronger internal controls are more likely to reduce the propensity for financial statement errors to occur and this leads to less interim work on behalf of the auditors and accordingly shorter audit delay.

Company Yearend The results of this study revealed that companies which have a yearend of 31 December (peak season in Libya) are more likely to have a longer audit delay. This result is compatible with many previous empirical studies that have established the effect of company yearend on audit delay (Ahmad & Kamarudin, 2003; Ashton et al., 1989; Ashton et al., 1987; Davies & Whittred, 1980; Dyer & McHugh, 1975; Garsombke, 1981; Heidhues & Patel, 2012; Knechel & Payne, 2001; Newton & Ashton, 1989a; Ng & Tai, 1994; Simnett et al., 1995). There are peak demands on the resources of auditing firms in Libya in December and January. A large number of audits with the same financial yearend date may cause scheduling problems for the auditors and increase the time to complete audits on a timely basis in Libya.

Extraordinary Items Many previous studies have investigated the relationship between the existence of extraordinary items and audit delay. The result of this study showed that companies reporting extraordinary items in Libya are more likely to have a longer audit delay. This result is consistent with the findings of previous studies (Almosa & Alabbas, 2008; Ashton et al., 1989; Bamber et al., 1993; Carslaw & Kaplan, 1991; Davies & Whittred, 1980; Heidhues & Patel, 2012; Leventis et al., 2005; Newton & Ashton, 1989a; Ng & Tai, 1994). The presence of extraordinary items in a company's records for the year warrants additional and careful consideration in auditing. The auditors increase the audit hours they spend on the report and they extend negotiations with companies that report extraordinary items, which in turn leads to audit delay.

Profitability The study also investigated the relationship between profitability and audit delay in Libya. This variable has been broadly tested in previous research and most studies found an inverse relationship between profitability and audit delay. In other words, companies reporting profits are more likely to have shorter audit delays as the management of a company having higher profitability is keener to complete the audit of its accounts as early as possible so that it can release its audited financial statements quickly to convey the 'good news'. However, the results of the present study contradicted this hypothesis as it revealed that there was an insignificant relationship between the two variables. This result is consistent with findings reported by (Ahmad & Kamarudin, 2003; Ashton et al., 1987; Davies & Whittred, 1980; Dyer & McHugh, 1975; Heidhues & Patel, 2012; Shukeri & Nelson, 2011) who also found profitability to be an insignificant variable. Although these studies gave their own rationale for the

insignificance of profitability, in the context of this study the result could be explained by the fact that the vast majority of Libyan companies are owned by the state, so there is less pressure on management to prepare and release annual reports on time regardless of profits.

Audit Firm Size The size of the audit firm is one of the most important audit-specific characteristics linked to audit delay in the accounting and auditing literature. Most prior studies have found that there is an inverse relationship between audit firm size and audit delay (Ahmad & Kamarudin, 2003; Ahmed, 2003; Ashton et al., 1989; Che-Ahmad & Abidin, 2009; Davies & Whittred, 1980; Gilling, 1977; Henderson & Kaplan, 2000; Leventis et al., 2005; Owusu-Ansah & Leventis, 2006; Shukeri & Nelson, 2011). In other words, the bigger the audit firm size, the shorter the audit delay is. This study also found that Libyan companies audited by large audit firms were more likely to have shorter audit delays. Although no research has been conducted to identify any difference in their capacities, it became evident during the fieldwork for this study that large audit firms tend to have more human resources and people with more experience and this allows them to finish their audit work more quickly. It can also be safely assumed that large firms tend to have advanced technology that helps them to perform their work more efficiently and gives them greater flexibility in scheduling their audit engagements (Lee et al., 2008).

Type of Audit Opinion The results of this study indicated that the type of audit opinion is another audit-specific characteristic that is relevant to the timelines of the audit report in Libya. This result is consistent with the finding in many previous studies (Ashton et al., 1987; Ashton et al., 1989; Bamber et al., 1993; Carslaw & Kaplan, 1991; Che-Ahmad & Abidin, 2009; Heidhues & Patel, 2012; Leventis et al., 2005; Owusu-Ansah & Leventis, 2006; Shukeri & Nelson, 2011; Simnett et al., 1995; Soltani, 2002; Whittred, 1980a). External auditors need to do more tests when they find or suspect irregularities and this will delay the publication of the audit report. Such a qualified audit report causes delay in releasing the audit report on other counts too. Management will try to delay the audit process while they seek an explanation for the discrepancy as a qualified opinion from the auditor will reflect an image of uncertainty about the company to the public. They also engage in extensive negotiations with auditors to try and persuade them to have an unqualified report, and this may take up extra time.

Finally, the results indicated that there is no significant difference in perception between EA and IFA regarding the effect of explanatory variables on audit delay. The results from the two subsample of private and public auditing firms were similar

7.3 Summary of Research Process

The primary aim of the study was to examine how some company-specific characteristics (size of company, company's activities, internal control systems, company yearend, extraordinary items and profitability) and some audit-specific characteristics (audit firm size and type of audit opinion) can act as determinants of audit delay in Libya. The first task was to contextualise the study and provide an historical perspective on the Libyan nation, the evolution of its economy and the state of the accounting and auditing professions in Libya. This is important because the academic literature strongly suggests that socio-economic, demographic and cultural factors have an influence on the manner in which accounting and auditing is practiced as a profession in different contexts. Accordingly, Chapter 2 provided an essentially descriptive background to the Libyan economy and its accounting and auditing professions in order to give an insight into the country's social, political and economic context. An understanding of these factors may be helpful in understanding and explaining the causes of audit delay and the views held by the Libyan auditors participating in this study.

Since the external audit is an evaluation of the financial reporting of companies, it is important to understand the usefulness of the annual report. Chapter 3, therefore, provided a discussion of the objectives of financial reporting and also presented the conclusions of some authoritative bodies regarding the objectives of the annual report. In the literature the usefulness of financial reporting and the annual statement is said to be characterised by four features, namely, relevance, reliability, understandability and comparability. All four of characteristics were discussed and presented in detail in Chapter 3 to explain how the usefulness of a particular financial statement is evaluated in the sense of under each attribute.

While formal discussions in the literature of the usefulness of financial reporting are often restricted to the four characteristics identified, there is also an acknowledgment of timeliness of financial reporting as a significant attribute of usefulness. In fact, both regulatory bodies and scholars have recognised the importance of the timeliness as a crucial attribute of useful financial

reporting, especially as markets become more connected and more information-dependent. Being concerned with the impact of audit delay in Libya, this study also recognises the critical importance of time in financial reporting. Chapter 4 defined timeliness as a concept and explained its importance to financial reporting, especially for investment decision-making and share pricing. A review of empirical studies on the timeliness of corporate reporting revealed the role of the audit in the timeliness of financial reporting and elaborated on the patterns of audit delay prevailing in markets across the world. Relevant variables of company characteristics and audit factors affecting audit delay were identified from a broad literature review of empirical studies undertaken in the last four decades. In a way, Chapter 4 can be considered as the theoretical background to the study as it provides a theoretical discussion highlighting the importance of audit delay in financial reporting and the conceptual framework within which to examine the for examining factors behind audit delay in Libya.

The first four chapters of the thesis have been concerned with clarifying the premise and objectives of the study. Chapter 5 then explains the methodology to be used in the study to address the aims and objectives of the research. This chapter synthesises the relevant factors of audit delay identified in the previous chapter into a coherent conceptual model and develops hypotheses for each of the variables and their relationship to audit delay. After a review of the research paradigm and methodology, a quantitative, positivist research approach, which is also the dominant methodology used in business/accounting research, was deemed to be most appropriate for the study, although the advantages and disadvantages associated with alternative research methods were also presented. The study adopted a questionnaire as the research instrument for the quantitative survey, and a sample of appropriate respondents was selected and a pilot test conducted to validate the questionnaire. In line with sound research method practices, the questionnaire was subjected to different processes to maximise the response rate, and reduce ambiguity and response bias. Distribution and collection of the questionnaire was completed by the researcher, in person, in most cases. 188 usable questionnaires out of the 450 distributed questionnaires were returned, achieving a response rate of 41.8 per cent.

With the data collection process completed, the research process now shifts to the methods of analysing the data using frequency analysis, means statistical ranking and other tests. The collected data were largely quantifiable as the questions were based on a 5-point Likert scale.

The data were coded and processed in the computer and analysed using the SPSS. Data analysis was carried out for the overall sample and for the various sub-groups. Data analysis for the overall sample assisted with investigation the perceptions of the whole sample, while analysis for the two different groupings enabled the researcher to investigate differences between the two groups. After the analysis of the data in Chapter 5, Chapter 6 proceeded to the findings relating to Parts one, two and three of the questionnaire. In part one, participants were asked to provide some information about their background such as gender, age, and occupation. Part two was designed to investigate the perceptions of participants as to the impact of company-specific factors on audit delay in Libya. The last part of the questionnaire dealt with the respondents' perceptions as to the effect of some audit-related factors on audit delay.

While Chapter 6 directly reported the findings to the questions posed in the survey, these findings were further explained to initiate a critical discussion in this chapter with the aim of highlighting their implications for the research problem at hand. This incorporated a broad discussion on the main findings of the study relating to the perceptions of auditors from the two targeted groups with respect to the effect of the eight selected factors on audit delay. Although some specific contextual factors were identified and differences were found with respect to the current literature, overall, the results of this study are generally in line with those of prior research.

7.4 Recommendations

Libya is a developing country where economic development is a central focus of governance and the government tries to expend a large proportion of its income on economic programmes and activities for the purpose of building a strong economy. It is clear that a delay in the publication of financial statements, especially in, an emerging market such as Libya, will have numerous negative effects on those who deal with these reports (Errunza & Losq, 1985). Since there may be a limited availability of financial information beyond the financial statements, users in developing markets rely significantly on the publication of the annual reports of companies to gain relevant financial information to make their investment decisions.

In the light of the findings of the study and the critical discussion of the factors that impede the timeliness of the audit report, it is possible to make the following recommendations to reduce audit delay in Libya:

1. Audit delay in Libya seems to be longer than that found in studies of other countries. The reduction of audit delay requires strong enforcement of laws and deadlines by the regulatory bodies in Libya. The Libyan regulatory bodies at present specify a time limit of up to a maximum of six months following the end of the financial year for the submission of annual reports at the annual general meeting. It is recommended that this deadline should be reduced to a maximum of three months and provisions should be made to impose large financial penalties on companies that don't comply.
2. More effort is urgently needed on the part of the Libyan companies to complete their financial statements on a timely basis. In particular, in terms of the size and nature of the company, this study has identified that audit delay is particularly significant for large companies and non-financial companies. Although a longer delay is inevitable for large companies due to the extensive auditing work generated, many of these large companies also depend on capital from external investors; and so must realise that there is a great incentive to publish their reports early to maintain the positive interest of stakeholders. Large companies must perform more interim recording work, engage large auditing firms and pressure auditors to complete the audit work in a timely manner. On the other hand, as stock-taking and inventory for non-financial companies was identified to be a task that delayed auditing at the end of the year, these companies must make more effort to ensure efficient stock management and recording so that auditors have easy access to the requisite information also having. Moreover, companies having stronger internal controls can reduce the propensity for financial statement issues to occur and enable auditors to rely on controls more extensively.
3. In addition, it was found that companies reporting extraordinary items and companies with a 31 December yearend also experienced significantly longer audit delays. Whenever a company anticipates extraordinary items in its annual report for the fiscal year, it must make a concerted attempt to expedite its reporting process and hand its

report to the auditors shortly after the end of the fiscal year. Companies are also advised to shift their fiscal year-end from 31 December to a date outside the peak season, assuming their functioning or prospects are not hindered in any way by this change.

4. Maintaining a system of accountability and reporting throughout the year within the company can help reduce the amount of audit hours needed at the end of the financial year and assist auditors to do their final audit work. Moreover, companies should evaluate and improve the internal control systems by designing a system in accordance with scale and complexity and the risk content of lending, trading, investing and other activities.
5. Audit firm size was accepted by the participants in this study as a significant determinant of audit delay as large audit firms were perceived by them to be more efficient in their work than small audit firms. Even if smaller firms cannot match their large counterparts in terms of technology or resources, they must take steps to improve efficiencies within their work practices. Qualified audit opinion is a significant factor behind audit delay that often cannot be avoided though some precautionary measures can be taken to reduce its impact on timeliness. Firstly, firms must be honest in their reports and not conceal or misrepresent information which can lead to a qualified opinion. Secondly, a formal process and channel communication between firm and auditor must be put in place to speed up negotiations, so that both parties can immediately consult with one another to resolve the issue in cases of qualified audit opinion. Although company yearend is a company attribute, audit firms can also take some steps to ameliorate the long audit delays faced by companies with a 31 December yearend. Audit firms should plan their schedules to accommodate the deluge of work around the peak season and employ more staff, perhaps on a casual basis to deal with the extra workload.
6. Another point not directly related to the findings of the research but to the personal experience of the researcher during fieldwork relates to the information support structure for research. There is a lack of high-quality data available on companies listed on the Libyan Stock Market which makes it very hard for researchers or investors to get the information they need. Thus, there is a need to develop comprehensive databases as more

data becomes available and auditing regulations are formalised in the future. Moreover, annual reports and audit summaries for all companies must be made available on such databases.

7.5 Research Contribution

According to Nachmias & Nachmias (2008), there are various ways to demonstrate the originality of a research, this can relate to the development of new methodologies, tools and/or techniques, new areas of research, new interpretations of existing material, new applications of existing theories to new areas or a new blend of ideas. In terms of the present study, its contributions mainly pertain to its investigation and application of existing theory to a new research area which has not been examined so far, i.e. audit delay in Libya. The following points outline some contributions made by the study:

1. As far as the researcher is aware, this is the first empirical study to examine audit delay in Libya. Thus, this study makes a significant contribution to the existing literature on the timeliness of the audit report as well as auditing procedures in Libya. Moreover, the analysis in this study will provide a broad base for other researchers, in Libya especially, to build their studies upon.
2. The findings of this study could be compared with other Arabic or developing countries who share similar socio-economic environments as well as with other developed countries.
3. To the best knowledge of the researcher, this is the first study to investigate audit delay from the auditors' perspective using primary data to investigate the problem and arrive at conclusions.
4. The results of this study should help researchers or other parties interested in the timeliness of the audit report since they highlight the most significant factors that may cause audit delay in the Libyan context.
5. The empirical evidence presented in this study on the timeliness of the audit report may help regulators to take some urgent action to improve the timeliness of financial

statements in Libya, for example, reducing the deadline for the release of financial statements to three months instead of the present six months.

7.6 Limitations of the Study and Further Research

Despite the fact that this study was conducted in a systematic manner under the supervision of a number of qualified supervisors and with every attempt being made by the researcher to meet the objectives of the study and address any perceived loopholes, the study, like any other research project, is subjected to limitations. When interpreting the results and findings of this study the following limitations have to be taken into consideration:

1. Based on the objectives of the study, the empirical study investigated the relationship between audit delay and eight variables that were thought to be the most relevant based on previous empirical studies in such field. As such, this study restricts itself to company and audit-related characteristics and the broader economic or institutional factors of law enforcement, governance and commerce that can significantly influence auditing processes are not considered.
2. This research is based on the perceptions of respondents in relation to issues that were pre-conceptualised and formed the basis of the survey questionnaire. Perceptions are highly subjective, and there is also a possibility of response bias in this form of data. Further restriction of the survey to closed questions may have stymied the respondents' actual perceptions with regard to the issues as they could only choose from a range of pre-determined answers and thus could not freely express their own ideas.
3. There is a lack of high quality databases providing information on companies listed on Libyan Stock Market. Consequently, data on audit reports was difficult to collect from the Libyan Stock Market website and the researcher had to approach the companies and The Libyan Stock Market individually to obtain for their data. There is thus the possibility of error, omission or inconsistency in the data supplied by them.
4. Due to differences in institutions, culture, accounting and auditing environments, the findings of this study may only apply to the Libyan context and not to other Arab or developing countries.

5. The researcher faced many challenges during the data collection process as the Libyan crisis unfolded during this time. This was reflected in the small number of questionnaires returned from the survey.

There are also a number of questions arising from, or directly related to, the current study which seem worthy of further research.

1. One possible option for future research is to investigate the relationship between the timeliness of financial reporting and stock market behaviour surrounding their release in Libya. The main purpose of financial reporting is to communicate relevant information about a company's financial health and stock market reactions can either depreciate or appreciate the value of the company depending on whether the information is positive or negative. Financial reporting and the stock market should ideally function in a cause-effect form, where the release of financial statements immediately provokes stakeholders to make decisions upgrading or downgrading their level of investment, that is then directly reflected in the value of the firm on the stock market. Research needs to be done on this issue in the Libyan context to examine the sensitivity of stock market indices to financial reporting. The sensitivity of the Libyan stock market will show whether stakeholders and investors in the market actually use financial information to make investment decisions.
2. Also, since this study only investigated the factors affecting the timeliness of audit delay, further research needs to be conducted on other types of financial report delays in Libya. As explained in Chapter 4, previous research has identified a range of time-lags which can contribute to the total delay in the release of financial statements. More research is needed to determine the extent of these other forms of time-lags and their sources.
3. This study was based on the self-reported perceptions of survey respondents and, discussed earlier in this section, this is a subjective form of information where response bias as well as validity is often a problem. Future studies may need to adopt an approach based on hard data, where audit delay for different companies is compared in relation to actual statistics on aspects of company size, level of internal control systems, extraordinary items etc. This will help to strengthen the results of the study and also

provide a comparative basis to test if the perceptions of auditors reported here match with the hard data.

4. Moreover, an extension to the study might be carried out to examine the effect of some other variables on audit delay not studied here. Specifically, a similar study on a smaller scale using the same methodology could be conducted by examining the associations between audit delay and variables such as audit fees, audit structure, corporate governance, non-audit services and audit technology.
5. A study dedicated to understanding any significant variation in the perceptions of EA and IFA would also help extend the findings of this research. The statistical tests pointed out some differences between the sample groups in relation to statements on some variables, but as they were not significant in the final result they were not fully examined in detail to posit any sort of further generalisation about differences in the opinions of the EA and IFA respondents.
6. Finally, the Libyan Stock Market was introduced in 2006, and further research needs to be conducted to investigate whether audit delay in Libyan listed companies has changed significantly after they being listed on the stock market.

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Appendix



**VICTORIA
UNIVERSITY**

**A NEW
SCHOOL OF
THOUGHT**

مدرسة المحاسبة والتمويل
كلية التجارة والقانون
جامعة فيكتوريا- ملبورن - استراليا

دراسة تحليلية لمحددات توقيت اصدار تقرير المراجع الخارجي فى ليبيا

استبيان

Questionnaire (Arabic)

معلومات للمشاركين في الاستبيان

دعوة للمشاركة:

انت مدعو للمشاركة في هذه الدراسة التي تحمل عنوان "دراسة تحليلية لمحددات توقيت اصدار تقرير المراجع الخارجي في ليبيا" من قبل الباحث سالم محمد اغليو كجزء من متطلبات الحصول علي شهادة الدكتوراة من جامعه فيكتوريا تحت اشراف الدكتورة ستيليا.

معلومات عن البحث:

يعتبر التوقيت احد الخصائص الهامة التي يجب ان تتوفر في المعلومات التي يتم استخدامها في اتخاذ القرارات من قبل المستثمرين والمقرضين وغيرهم من الاطراف التي لها علاقة بالشركة . هذه الدراسة تهدف الي محاولة الوصول الي تحديد دقيق للعوامل التي تؤثر علي توقيت اصدار تقرير المراجع الخارجي في الشركات المدرجة وغير المدرجة في سوق الاوراق المالية.

ماهي طبيعة الاسئلة؟

الاسئلة الموجهة للمشاركين في الاستبيان تتعلق ببعض المعلومات العامة عن المشاركين اضافة الي اسئلة تتعلق ببعض خصائص الشركات ومكاتب المراجعة ومدى علاقتها بتوقيت اصدار تقرير المراجع الخارجي.

ماهي الفائدة من المشاركة في هذا البحث؟

المشاركة في هذا البحث ستكون مهمة للمستثمرين وصناع القرار لفهم للاسباب الكامنة وراء التأخير في اصدار تقرير المراجع الخارجي في ليبيا.

كيف سيتم استخدام هذه المعلومات؟

المعلومات الواردة في الاستبيان سيتم استخدامها لاغراض التحليل الاحصائي وسيتم معالجتها بسرية تامة.

هل هناك اي مخاطر علي المشتركين في الاستبيان؟

لا توجد اي مخاطر علي المشتركين في هذا الاستبيان.

كيف سيتم اجراء هذه الدراسة؟

البيانات الخاصة بهذه الدراسة سيتم تجميعها من المراجعين الخارجيين العاملين لحساب انفسهم والمراجعين التابعين لجهاز المراجعة المالية. وسيتم تحليل البيانات المتحصل عليها لتحديد اسباب تأخر عملية المراجعة الخارجية في ليبيا. من يقوم باجراء هذه الدراسة؟

تجري هذه الدراسة من قبل جامعه فيكتوريا وتحت اشراف الدكتورة ستيليا والتي يمكن مراسلتها علي العنوان الاتي:

Stells.sofocleous@vu.edu.au

لاي معلومات تتعلق بهذا البحث او شكوي تتعلق بطريقة التعامل معك يمكنكم الاتصال باللجنة الخاصة بالاشراف علي البحوث بجامعه فيكتوريا علي العنوان التالي:

جامعه فيكتوريا. ص.ب 14428 ملبورن. فيكتوريا, الرمز البريدي 8001,

هاتف 0061399194148

المصطلحات:

تاخر عملية المراجعة: يقصد بتاخر عملية المراجعة المدة الزمنية الممتدة من تاريخ نهاية السنة المالية للشركة والي غاية التاريخ المدون في تقرير المراجع الخارجي .

حجم الشركة: حيث تصنف الشركة علي انها ذات حجم كبير اذا توافر فيها الاتي:

1- الشركات التي يبلغ عدد موظفيها 50 موظف او اكثر.

2- الشركات التي تمتلك اكثر من فرع.

3- الشركات التي يبلغ حجم اصولها 1,000,000

طبيعة نشاط الشركة: يقصد بها انتماء الشركة للقطاع المالي او للقطاع الغير المالي .

حجم مكتب المراجعة : مكاتب المراجعة الكبيرة هي التي تحتوي علي اكثر من 5 شركاء او توظف اكثر من 10 مراجعين.

الاحداث الغير العادية: ويقصد بها الاحداث الغير متكررة الناجمة عن نشاطات غير اعتيادية للشركة.

شرح لكيفية تعبئة الاستبيان:

1- حاول اجابة جميع الاسئلة بحسب قدرتك.

2- جميع العبارات في هذا الاستبيان تأخذ القيمة من 1 (لا وافق بشدة) الي 5 (وافق بشدة) وتتم الاجابة علي جميع العبارات بوضع دائرة حول الرقم الذي يتوافق مع رائك.

3- اكتب ماتريد اضافته في المكان المخصص في اخر الاستبيان, واذا كنت ترغب في الحصول علي ملخص لهذه الدراسة ارجو كتابة عنوانك او بريدك الالكتروني في اخر الاستبيان.

شكرا علي مشاركتك ودعمك لمشروع البحث

الجزء الأول : معلومات شخصية عن المشاركين

المعلومات المعطاة في هذا الجزء سوف يتم استخدامها كإطار نظري للإجابات المعطاة في الأجزاء الأخرى من هذا الاستبيان.

يرجى الإجابة على الأسئلة التالية وذلك باختيار أو كتابة الإجابة المناسبة :

1-1 الوضع الوظيفي

<input type="checkbox"/>	مالك او شريك	ا
<input type="checkbox"/>	مراجع اول	ب
<input type="checkbox"/>	مراجع	ج
<input type="checkbox"/>	اخرى	د

إذا كانت الإجابة (د) الرجاء التوضيح

2-1 الجنس

<input type="checkbox"/>	ذكر	ا
<input type="checkbox"/>	انثى	ب

3-1 العمر

<input type="checkbox"/>	تحت 30 سنة	ا
<input type="checkbox"/>	بين 30-39 سنة	ب
<input type="checkbox"/>	بين 40-49 سنة	ج
<input type="checkbox"/>	50 سنة فما فوق	د

4-1 المستوى التعليمي

<input type="checkbox"/>	بكالوريوس	ا
<input type="checkbox"/>	ماجستير	ب
<input type="checkbox"/>	دكتوراة	ج
<input type="checkbox"/>	اخرى	د

إذا كانت إجابتك (د) الرجاء التوضيح

5-1 من اي بلد تحصلت علي درجتك العلمية

<input type="checkbox"/>	ليبيا	ا
<input type="checkbox"/>	بريطانيا	ب
<input type="checkbox"/>	امريكا	ج
<input type="checkbox"/>	استراليا	د
<input type="checkbox"/>	اخرى	هـ

اذا كانت اجابتك (هـ) الرجاء التوضيح.....

6-1 اي العبارات التالية توضح طبيعة وظيفتك

<input type="checkbox"/>	مراجع خارجي خاص	ا
<input type="checkbox"/>	مراجع خارجي تابع لجهاز المراجعة المالية	ب

7-1 ما هي عدد سنوات الخبرة التي تملكها في مجال المراجعة

<input type="checkbox"/>	اقل من 5 سنوات	ا
<input type="checkbox"/>	من 5 سنوات الي 9 سنوات	ب
<input type="checkbox"/>	من 10 سنوات الي 14 سنة	ج
<input type="checkbox"/>	15 سنة فما فوق	د

8 -1 ما هو متوسط عدد الشركات التي تقوم بمراجعتها خلال كل سنة مالية

<input type="checkbox"/>	5-1 شركات	ا
<input type="checkbox"/>	10-6 شركات	ب
<input type="checkbox"/>	اكثر من 10 شركات	ج

الجزء الثاني : العوامل المرتبطة بالشركة

1-2 حجم الشركة:

الرجاء اختيار الاجابة المناسبة

قوة التأثير					التأثير علي تاخر عملية المراجعة			العامل
محدود جدا	محدود	متوسط	قوي	قوي جدا	لا تؤثر	اقصر	اطول	
								1-1-2 الشركات الكبيرة مقاسة بحجم الاصول
								2-1-2 الشركات الكبيرة مقاسة بعدد الموظفين
								3-1-2 الشركات التي تمتلك اكثر من فرع

الرجاء الاجابة علي الاسئلة التالية وفقا لرانكم الشخصي وللمعلومات التي تملكونها . ضع دائرة حول الرقم الذي يتفق مع رانك.

البيان					او اوافق بشدة او اوافق
لا اوافق بشدة	لا اوافق	محايد	اوافق	اوافق بشدة	
1	2	3	4	5	4-1-2 الشركات الكبيرة في ليبيا لديها الحافز لتخفيض الوقت المستغرق في عملية المراجعة.
1	2	3	4	5	5-1-2 الشركات الكبيرة في ليبيا تمارس ضغوطا علي المراجعين الخارجيين لاتمام عملية المراجعة في الوقت المناسب.
1	2	3	4	5	6-1-2 الشركات الكبيرة في ليبيا تملك محاسبين ومراجعين مؤهلين وانظمة محاسبية متطورة مما يساعدها علي اصدار تقاريرها المالية دونما اي تاخير.

2-2 طبيعة نشاط الشركة

الرجاء اختيار الاجابة المناسبة

قوة التأثير					التاثير علي تاخر عملية المراجعته			العامل
محدود جدا	محدود	متوسط	قوي	قوي جدا	لا تؤثر	اقصر	اطول	
								1-2-2 الشركات المنتمية للقطاع المالي
								2-2-2 الشركات المنتمية للقطاع الغير المالي

الرجاء الاجابة علي الاسئلة التالية وفقا لرانكم الشخصي وللمعلومات التي تملكونها . ضع دائرة حول الرقم الذي يتفق مع رانك.

البيان					البيان
اوافق بشدة	اوافق	محايد	لا اوافق بشدة	لا اوافق	
5	4	3	2	1	3-2-2 الشركات التي لا يوجد عندها مخزون او يوجد بها مخزون قليل تتم مراجعتها بشكل اسرع.
5	4	3	2	1	4-2-2 يعتبر المخزون من العناصر الصعب مراجعتها والتي غالبا ما تقع فيها اخطاء اثناء عملية المراجعته

3-2 نظام المراجعة الداخلية في الشركة

الرجاء اختيار الاجابة المناسبة

قوة التأثير					التاثير علي تاخر عملية المراجعته			العامل
محدود جدا	محدود	متوسط	قوي	قوي جدا	لا تؤثر	اقصر	اطول	
								1-3-2 ضعف نظام المراجعته الداخلية بالشركة

الرجاء الاجابة علي الاسئلة التالية وفقا لرائكم الشخصي وللمعلومات التي تملكونها . ضع دائرة حول الرقم الذي يتفق مع رايك.

البيان					
لاوافق بشدة	لاوافق	محايد	وافق	وافق بشدة	
1	2	3	4	5	2-3-2 نظام المراجعة الداخلية القوي يساعد الشركة علي تقليل الاخطاء في تقاريرها المالية
1	2	3	4	5	3-3-2 وجود نظام مراجعه داخلي قوي في الشركة يمكن المراجع الخارجي من الاعتماد بشكل كبير عليه اثناء قيامه بعملية المراجعة
1	2	3	4	5	4-3-2 ثقة المراجع الخارجي في عمل المراجع الداخلي تساعد علي تخفيض الوقت الذي يستغرقه المراجع الخارجي في عملية المراجعة.
1	2	3	4	5	5-3-2 تساعد المراجعة الداخلية المراجع الخارجي في تحديد طبيعه عمل المراجعة الخارجية.
1	2	3	4	5	6-3-2 تساعد المراجعة الداخلية المراجع الخارجي في تحديد نطاق عمل المراجعة الخارجية.

4-2 تاريخ نهاية السنة المالية للشركة

الرجاء اختيار الاجابة المناسبة

قوة التأثير					التاثير علي تاخر عملية المراجعة			العامل
محدود جدا	محدود	متوسط	قوي	قوي جدا	لا تؤثر	اقصر	اطول	
								1-4-2 الشركات التي تاريخ نهاية سننها المالية 31 ديسمبر

الرجاء الاجابة علي الاسئلة التالية وفقا لرائكم الشخصي وللمعلومات التي تملكونها . ضع دائرة حول الرقم الذي يتفق مع رايك.

البيان					
لاوافق بشدة	لاوافق	محايد	وافق	وافق بشدة	
1	2	3	4	5	2-4-2 ارتفاع عدد الشركات التي تتوافق نهاية سننها المالية مع بعض يؤدي الي ارباك في جدولة اعمال المراجعين الخارجيين.

5	4	3	2	1	يقوم المراجعون الخارجيون في ليبيا بمزيد من المراجعة المؤقتة للشركات التي تنتهي سنتها المالية في 31 ديسمبر	3-4-2
5	4	3	2	1	ارتفاع عدد الشركات التي توافق نهاية نهاية سنتها مع بعض يؤدي الي زيادة الطلب علي خدمات المراجعة.	4-4-2

5-2 الاحداث الغير عادية

الرجاء اختيار الاجابة المناسبة

قوة التأثير					التاثير علي تاخر عملية المراجعة			العامل
محدود جدا	محدود	متوسط	قوي	قوي جدا	لا تؤثر	اقصر	اطول	
								1-5-2 وجود احداث غير عادية

الرجاء الاجابة علي الاسئلة التالية وفقا لرائكم الشخصي وللمعلومات التي تملكونها . ضع دائرة حول الرقم الذي يتفق مع رائك.

البيان					البيان	
او اقل بشدة	او اقل	محايد	لا او اقل بشدة	لا او اقل بشدة		
5	4	3	2	1	وجود الاحداث الغير العادية يؤثر علي زيادة عمليات الفحص التي يقوم بها المراجع الخارجي .	2-5-2
5	4	3	2	1	وجود الاحداث الغير عادية يؤدي الي الي مزيد من الحيطه في برنامج المراجعة.	3-5-2
5	4	3	2	1	يؤدي وجود الاحداث الغير عادية الي زيادة الساعات التي يقضيها المراجع لانتهاه من عملية المراجعة	4-5-2
5	4	3	2	1	وجود الاحداث الغير عادية يؤدي الي نقاشات مطولة بين المراجع الخارجي والشركة	5-5-2

6-2 الربحية

الرجاء اختيار الاجابة المناسبة

قوة التأثير					التأثير علي تاخر عملية المراجعة			العامل
محدود جدا	محدود	متوسط	قوي	قوي جدا	لا تؤثر	اقصر	اطول	
								1-5-2 تحقيق الشركة لارباح

الرجاء الاجابة علي الاسئلة التالية وفقا لرائكم الشخصي وللمعلومات التي تملكونها . ضع دائرة حول الرقم الذي يتفق مع رائك.

البيان					البيان	
او اقل بشدة	واضع	محايد	لا و اضع بشدة	او اضع بشدة		
5	4	3	2	1	الشركات التي تتعرض لخسائر تطلب من مراجعيها الخارجيين التأخر في بدء عملية المراجعة	2-6-2
5	4	3	2	1	الشركات التي تحقق مؤشرات ربحية جيدة عادة تضغط علي مراجعيها الخارجيين لانتهاؤ من عملية المراجعة في اسرع وقت ممكن.	3-6-2
5	4	3	2	1	المراجع الخارجي في ليبيا يقوم بمزيد من الاختبارات اثناء مراجعة الشركات التي تحقق خسائر.	4-6-2

الجزء الثالث العوامل المتعلقة بمكتب المراجعة

1-3 حجم مكتب المراجعة

الرجاء اختيار الاجابة المناسبة

قوة التأثير					التاثير علي تاخر عملية المراجعة			العامل
محدود جدا	محدود	متوسط	قوي	قوي جدا	لا تؤثر	اقصر	اطول	
								1-1-3 عندما يصنف مكتب المراجعة علي انه كبير

الرجاء الاجابة علي الاسئلة التالية وفقا لرائكم الشخصي وللمعلومات التي تملكونها . ضع دائرة حول الرقم الذي يتفق مع رانك.

البيان					البيان
لاوافق بشدة	لاوافق	محايد	وافق	وافق بشدة	
5	4	3	2	1	مكاتب المراجعة الكبيرة لديها حافظ اقوي لانتهاء من عملية المراجعة بشكل اسرع من المكاتب الاصغر.
5	4	3	2	1	مكاتب المراجعة الكبيرة لديها موارد بشرية اكثر مقارنة بالمكاتب الصغيرة
5	4	3	2	1	مكاتب الشركات الكبيرة لديها قدر كبير من المرونة في نظام عملها مما يساعدها علي الانتهاء من عملية المراجعة في التوقيت المناسب.
5	4	3	2	1	مكاتب المراجعة الكبيرة لديها من الخبرة ممايمكنها من لانتهاء من عملية المراجعة بشكل اسرع.
5	4	3	2	1	مكاتب المراجعة الكبيرة عادة تستخدم نظم محاسبية متطورة ممايساعدها علي الانتهاء من عملية المراجعة في التوقيت المناسب.

2-3 رأي المراجع

الرجاء اختيار الاجابة المناسبة

قوة التأثير					التاثير علي تاخر عملية المراجع			العامل
محدود جدا	محدود	متوسط	قوي	قوي جدا	لا تؤثر	اقصر	اطول	
								1-2-3 تقرير المراجعة المقيد

الرجاء الاجابة علي الاسئلة التالية وفقا لرانكم الشخصي وللمعلومات التي تملكونها . ضع دائرة حول الرقم الذي يتفق مع رانك.

البيان					البيان	
او افق بشدة	او افق	محايد	لا او افق	لا او افق بشدة		
5	4	3	2	1	المراجع الخارجي يقوم بتوسيع نطاق المراجعة عندما يشك في وجود مخالفات..	2-2-3
5	4	3	2	1	حود تقرير مراجعة مقيد يدل علي وجود خلل في اوضاع الشركة المالية والذي من بدوره يؤدي الي التاخر في الانتهاء من عملية المراجعة.	3-2-2
5	4	3	2	1	يؤدي وجود تقرير مراجعة مقيد الي وجود تعارض بين المراجع الخارجي والشركة والذي من شأنه يؤدي الي التأخير في الانتهاء من عملية المراجعة.	4-2-2

اذا كانت لديك اي ملاحظات الرجاء التفضل بذكرها :

إذا كنت ترغب في الحصول علي نسخة من نتائج الدراسة الرجاء التفضل بتعبئة البيانات الموضحة ادناه

الاسم :-

العنوان :-

رقم الهاتف :-

شكرا علي تكرمك بالاجابة علي اسئلة الاستبيان



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Footscray Park Campus
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Victoria University, Melbourne
Victoria 8001, Australia

**An Empirical Examination of the Determinants of Audit
Report Delay in Libya**

Questionnaire



Dear

Reference number (.....)

My name is Salem, PhD candidate at The school of Accounting and Finance, Victoria University, Melbourne, Australia. The title of the thesis is “An Empirical Examination of the Determinants of Audit Report Delay in Libya”. The main aim of my research is to determine the variables that are linked with timeliness of external auditors’ reports in developing countries, Libya. This survey is a very important part of the study, and you have been randomly selected to participate in this project.

Below is important information related to the questionnaire attached.

- I. The questions consists of two parts:
 - Part one: Personal information.
 - Part two: Company-specific factors.
 - Part there: Audit-related factors.
 - Part four: Other factors.

- II. Completion of the questionnaire should take around 20 minutes.

- III. All information is only for research purposes and will be treated as private and confidential, hence it will not be revealed under any circumstances.

If you have any questions or queries, contact me at salem.eghlaow@live.vu.edu.au, Tel:+61425550014 or my supervisors, Dr Stella Sofocleous and Dr Guneratne Wickremasinghe, School of Accounting, Victoria University, Australia at Stella.Sofocleous@vu.edu.au and guneratne.wickremasinghe@vu.edu.au Tel:+61399195321 and +61 3 9919 1477 for verification.

Thank you for your kind cooperation in providing assistance.

Yours truly,

Salem Eghlaow
PhD student
School of Accounting and Finance
Victoria

DEFINITIONS:

AUDIT DELAY: Audit delay is the length of time from a company's fiscal year end to the date of the auditor report.

LARGE COMPANIES:

- a) Companies having 50 employees or more, or
- b) Companies having more than one branch, or
- c) Companies having total assets more than 1,000,000 Dr.

NATURE OF COMPANY'S ACTIVITY: Financial and non financial companies.

AUDIT FIRM SIZE: Big audit firm (more than five partners over 10 auditors).

EXTRAORDINARY ITEM: Extraordinary items reflect non-recurring events arising from something other than the company's normal operations.

INSTRUCTIONS FOR COMPLETING THIS SURVEY:

- 1) Please answer all the survey questions to the best of your ability.
- 2) All of the statements in this survey are scaled using a number from 1 to 5 as 1 represent "strongly disagree" and 5 represent "strongly agree".
- 3) Please complete the survey by CIRCLING the number that you think is most appropriate for each statement.
- 4) Please write what you would like to add to this survey in the space provided at the end of the survey and advise us if you wish to receive a summary of the findings of the study.

Thank you for supporting this research project

SECTION A: PERSONAL INFORMATION.

The information given in this part will only be used as a background to the answers given in other parts of the questionnaire. Please provide the following information:

Please answer by filling in or ticking as appropriate:

A-1 Your position:

a)	Partner/Owner	<input type="checkbox"/>
b)	Senior auditor	<input type="checkbox"/>
c)	Employee auditor	<input type="checkbox"/>
d)	Other	<input type="checkbox"/>

If your answer is (d) Please specify:

A-2- Gender:

a)	Male	<input type="checkbox"/>
b)	Female	<input type="checkbox"/>

A-3- Age:

a)	Under 30 years	<input type="checkbox"/>
b)	30 to 39 years	<input type="checkbox"/>
c)	40 to 49 years	<input type="checkbox"/>
d)	50 years and over	<input type="checkbox"/>

A-4- Please tick one answer to indicate your highest education level achieved:

a)	First university degree	<input type="checkbox"/>
b)	Masters Degree	<input type="checkbox"/>
c)	PhD	<input type="checkbox"/>
d)	Other	<input type="checkbox"/>

If your answer is (d) Please specify:

A-5- Where did you achieve the highest level of your education?

a)	Libya	<input type="checkbox"/>
b)	UK	<input type="checkbox"/>
c)	USA	<input type="checkbox"/>
d)	Australia	<input type="checkbox"/>
e)	Other	<input type="checkbox"/>

If your answer is (e) Please specify:

A-6- Which of the following statements describe your job?

a)	External auditor	<input type="checkbox"/>
b)	Auditor from the Institute of Financial Auditing	<input type="checkbox"/>

A-7- What audit experience do you have:

a)	Under 5 years	<input type="checkbox"/>
b)	5 to 9 years	<input type="checkbox"/>
c)	10 to 14 years	<input type="checkbox"/>
d)	15 years and over	<input type="checkbox"/>

A-8- Please state the average number of companies you audit every financial year:

a)	1-5	<input type="checkbox"/>
b)	6-10	<input type="checkbox"/>
c)	More than 10	<input type="checkbox"/>

PART B: COMPANY-SPECIFIC FACTORS:

B-A SIZE OF COMPANY:

Please indicate by ticking the appropriate box:

The factors	The impact on audit delay			the strength of the impact				
	Longer audit delay	Shorter audit delay	No impact	Very little	little	Moderate	great	Very great
B-A-1- Large companies measured by total assets								
B-A-2 Large companies measured by number of employees								
B-A-3 companies having more than branch								

Please respond to the questions based on your personal opinion and knowledge. Mark your response by circling the number that you think is most appropriate for each statement

	STATEMENTS	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
B-A-4	Large companies in Libya have incentives to reduce audit delay.	1	2	3	4	5
B-A-5	Large companies in Libya have more accounting staffs and sophisticated accounting information systems that result in more timely annual reports.	1	2	3	4	5
B-A-6	Libyan external auditors face greater pressure from large companies rather than smaller companies to report earlier.	1	2	3	4	5

B-B- NATURE OF COMPANY'S ACTIVITY:

Please indicate by ticking the appropriate box:

The factors	The impact on audit delay			the strength of the impact				
	Longer audit delay	Shorter audit delay	No impact	Very little	little	Moderate	great	Very great
B-B-1 Companies belonging to financial sector								
B-B-2 companies belonging to non-financial sector								

*** Please respond to the questions based on your personal opinion and knowledge. Mark your response by circling the number that you think is most appropriate for each statement

	STATEMENTS	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
B-B-3	Companies which have little or no inventory are more likely to have shorter audit delay.	1	2	3	4	5
B-B-4	Inventories are difficult to audit and represent an area where material errors frequently occur	1	2	3	4	5

B-C- INTERNAL CONTROL SYSTEM IN THE COMPANY

Please indicate by ticking the appropriate box:

The factors	The impact on audit delay			the strength of the impact				
	Longer audit delay	Shorter audit delay	No impact	Very little	little	Moderate	great	Very great
B-C-1 The poor quality of internal control system								

*** Please respond to the questions based on your personal opinion and knowledge. Mark your response by circling the number that you think is most appropriate for each statement

	STATEMENTS	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
B-C-2	Companies having stronger internal controls are more likely to reduce the propensity for financial statements errors to occur	1	2	3	4	5
B-C-3	Strong internal controls enable auditor(s) to rely on internal control systems more extensively.	1	2	3	4	5
B-C-4	Reliance on the work of the internal auditors reduces the audit hours.	1	2	3	4	5
B-C-5	Auditors perform less interim work if the companies have stronger internal controls.	1	2	3	4	5
B-C-6	The work of internal auditors is useful to external auditors in assisting them in determining the extent of their audit work.	1	2	3	4	5

B-D- COMPANY YEAR-END

Please indicate by ticking the appropriate box:

The factors	The impact on audit delay			the strength of the impact				
	Longer audit delay	Shorter audit delay	No impact	Very little	little	Moderate	great	Very great
B-D-1 The date of company's year end (31 December).								

*** Please respond to the questions based on your personal opinion and knowledge. Mark your response by circling the number that you think is most appropriate for each statement

	STATEMENTS	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
B-D-2	A large number of audits with the same financial year-end date may cause scheduling problems for the auditors in Libya.	1	2	3	4	5
B-D-3	External auditors in Libya do more interim audits for companies having a year-end of 31 December.	1	2	3	4	5
B-D-4	Companies with a year end of 31 December cause peak demands on the resources of auditing firms.	1	2	3	4	5

B-E - EXTRAORDINARY ITEMS

Please indicate by ticking the appropriate box:

The factors	The impact on audit delay			the strength of the impact				
	Longer audit delay	Shorter audit delay	No impact	Very little	little	Moderate	great	Very great
B-E-1 presence of extraordinary items								

*** Please respond to the questions based on your personal opinion and knowledge. Mark your response by circling the number that you think is most appropriate for each statement

	STATEMENTS	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
B-E-2	The existence of extraordinary items warrants additional consideration in the audit programme.	1	2	3	4	5

B-E-3	The existence of extraordinary items warrants careful consideration in the audit programme.	1	2	3	4	5
B-E-4	The existence of extraordinary items increases the audit hours that need to be spent on the audit.	1	2	3	4	5
B-E-5	The existence of extraordinary items extends negotiations between the auditor and the company.	1	2	3	4	5

B-F- PROFITABILITY

Please indicate by ticking the appropriate box:

The factors	The impact on audit delay			the strength of the impact				
	Longer audit delay	Shorter audit delay	No impact	Very little	little	Moderate	great	Very great
B-F-1 Companies reporting a profit								

*** Please respond to the questions based on your personal opinion and knowledge. Mark your response by circling the number that you think is most appropriate for each statement

	STATEMENTS	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
B-F-2	Libyan companies with losses request their external auditors to schedule the start of the audit later than usual.	1	2	3	4	5
B-F-3	Companies with increased profitability exert great pressure on the auditor to complete the audit engagement as quickly as possible.	1	2	3	4	5
B-F-4	External auditors of companies reported losses do more audit examination.	1	2	3	4	5

PART C: AUDIT-RELATED FACTORS:

C-A- AUDIT FIRM SIZE

Please indicate by ticking the appropriate box:

The factors	The impact on audit delay			the strength of the impact				
	Longer audit delay	Shorter audit delay	No impact	Very little	little	Moderate	great	Very great
C-A-1 Big audit firms								

Please respond to the questions based on your personal opinion and knowledge. Mark your response by circling the number that you think is most appropriate for each statement

	STATEMENTS	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
C-A-2	Large audit firms have a stronger incentive to finish their audit work more quickly than smaller audit firms.	1	2	3	4	5
C-A-3	Large audit firms in Libya tend to have more human resources.	1	2	3	4	5
C-A-4	Large audit firms in Libya have a great flexibility in scheduling to complete audits in time.	1	2	3	4	5
C-A-5	Large audit firms would complete audits on a more timely basis because of their experience.	1	2	3	4	5
C-A-6	Large audit firms in Libya are more efficient because they can count on superior audit technology.	1	2	3	4	5

C-B TYPE OF AUDIT OPINION

Please indicate by ticking the appropriate box:

The factors	The impact on audit delay			the strength of the impact				
	Longer audit delay	Shorter audit delay	No impact	Very little	little	Moderate	great	Very great
C-B-1 companies with qualified audit opinion								

Please respond to the questions based on your personal opinion and knowledge. Mark your response by circling the number that you think is most appropriate for each statement

	STATEMENTS	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
C-B-2	External auditors in Libya are expected to extend tests when they find or suspect irregularities.	1	2	3	4	5
C-B-3	A qualified report opinion is viewed as representing a negative view of the companies' financial affairs.	1	2	3	4	5
C-B-4	Audit delay increases when there is conflict between the auditor and the company.	1	2	3	4	5

If you have any further comments about any subject covered in the questionnaire please note them below:

If you would like a copy of the results of this survey please provide the following contact information:

Name: -----

Address: -----

Telephone: -----

Thank you for your help in completing this questionnaire