Perceptions and Evaluations of the Internal Audit Function in Libyan Oil and Gas Companies

By

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ABSTRACT

Purpose – To examine the perceptions that the Libyan managerial class presently have regarding the nature and practice of the Internal audit function (IAF) in Libyan oil and gas companies, as well as the degree of reliance placed by top management on the work of IAF to contribute to achieving the company's goals. Agency theory, in this context, provides the basis to explain the existence, and perceive and evaluate the practice of IAF.

Design/ methodology/ approach – The design of research based on mixed methods is in line with existing literature and best practice guidelines. Data was collected by using qualitative and quantitative methods (interview and questionnaire). The questionnaire was used to obtain the perceptions and evaluations of 89 participants from 30 oil and gas companies, regarding the study's factors. Eight further interviews were conducted to understand whether a communication factor is valid in the study model with other factors or not, as well as investigate the reasons behind the existing differences in perceptions and evaluations of participants in regard to these factors. Moreover, four further interviews were conducted to gather comments regarding the degree of reliance on the work of IAF.

Findings - The study results revealed that perceptions and evaluations of participants regarding the study factors were satisfactory, with the exception of 'competence', which was generally not seen as sufficiently satisfactory. Another result is the significant differences in perceptions and evaluations that existed between groups of participants. This was especially so, in role and scope of work, work performance and communication factors. Moreover, the study indicated that top managers to some extent placed a degree of reliance on the work of IAF. However, participants had rated all the factors are influential and important for the nature and practice of IAF, as well when they rely on the work of IAF. Finally, all the practices studied in the current work are considered to be 'good' and required to improve the nature and practice of the IAF and add value to companies. The current situation in Libya, especially, will lead to more focus on efficiency and performance.

Research implications/ limitations – The research led to development of a conceptual framework, which may provide a useful tool for management to improve the nature and practice of IAF in Libyan oil and gas companies. The findings will be useful in informing the deliberations of regulators and standard setters, as well as providing a benchmark for internal auditors and top management. The current situation and challenges in Libya will

lead to more focus on efficiency and performance. This means that there are opportunities in front of IAF to extend its roots on solid foundations. Because the research focuses solely on oil and gas companies, the obtainable sample size and its regional distribution, further work is required to determine the extent to which these research findings can be generalised.

Originality/value – This research is a contribution towards expanding the existing knowledge in the area of the practice of internal audit and the relationship between top management and internal audit. In practice, any instrument developed such as 'communication' and its skills can, it is hoped, be used by top managers and internal auditors to improve and activate the level of service quality of internal audit provided by internal auditors, as well as internal audits' contribution to achieving the company's goals, when company management places a high degree of reliance on the work of IAF.

DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas. Any views expressed in the thesis are those of the author and in no way represent those of the University.

Signed ………………………………… Date ………………………….

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CHAPTER 1:   INTRODUCTION

1.1 Introduction

During the last two decades, internal auditing (henceforth IA) has witnessed huge developments in more aspects than one. From the practical point of view, for instance, the profession of IA has developed, especially in the developed economies, from a role limited merely to inspecting and auditing financial and accounting operations overseen by the financial manager of a company, to inspecting, examining and assessing all the activities and operations of the company. Sawyer (2003) has described IA as the "eyes and ears of management". Thus, internal auditors had to investigate operations in order to ensure that they were properly controlled and make recommendations to the management.

The Internal Audit Function (henceforth IAF) is playing an increasingly essential role in monitoring the internal control system of companies and their financial reporting systems. For this reason, it is one of the key parts of the corporate governance structure (Peursem, 2004). Al-Twaijry, Brierley and Gwilliam (2003, p. 507) state that there are two main benefits in having an Internal Audit Department (IAD). The first arises from the conventional audit of financial systems and controls (Albrecht et al., 1988; Flesher, 1996; Liu et al., 1997; Hayes, 1999; Miller, 1999; Cosserat, 2000 cited in Al-Twaijry, et al., 2003, p. 507)). This has "a primary focus on the prevention and detection of irregularities, whether they arise from mistakes or fraud, and the safeguarding of the assets of an organization". The second is performance audit (Ridley, 1994, 1996; Griffiths, 1999; Wynne, 1999; Marks, 2000), "which concerns the economy, the efficiency and the effectiveness of various aspects of the organization. Its scope can be wide-ranging, but its chief purpose is to enhance the overall economy, efficiency and effectiveness of the organization by adding value to its operational performance" (Al-Twaijry et al., 2003, p. 507).

The structure of corporate governance consists of many parts, such as an audit committee, a board of directors, senior management (SM), an internal auditor and external auditors. Eden and Moriah (1996) clarified that IA is a process that examines and evaluates the functioning of an organization. In addition, it compares actual performance via standards or expectations, based on relevant indices, to improve the organization's achievements

(Globerson & Globerson, 1990). Additionally, the corporate scandals in the USA and the subsequent passage of the Sarbanes-Oxley Act have intensified the public focus on the IA profession (Claybrook, 2004). IAF comprises a comprehensive plan and methods aimed at helping the management team to enhance the organizational control of an organization (Scott, Mannion, Marshall, & Davies, 2003).

The practice of the IAF outcome is characterised by three important features: governance, risk reduction, and economics of resources (Wangcharoendate& Ussahawanitchakit, 2009). In complex organizations, there is a need to optimise staff motivation by showing that the goal of the audit is to improve the efficiency and effectiveness of the organization (Eden & Moriah, 1996). Thus, the research model in this study examines the nature and practice of IAF in Libya in terms of its achievement of the aforementioned goals. To this end, the research considers and compares the perceptions of certain groups of qualified indivuduals with regard to the independence, scope, competence, work performance, and communication aspects of the discharge of the IAF within selected companies.

Nevertheless, internal auditors have seen their role evolve from performing traditional IAF to focusing upon adding value to the organization. This is evidenced by the new definition of IA, as adopted by the Institute of Internal Auditors in 2000 (IIA)
"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

According to this definition, the work performed by internal auditors today is not limited to the area of assurance activity; nowadays it has come to include consulting activities. This change in the role of IA has led to a number of questions and concerns arising about the ability of internal auditors to perform their role in an independent and objective way. Some conclude that internal auditors are not able to perform their new role as 'consultant' whilst maintaining their objectivity (Brody & Lowe, 2000). Furthermore, previous studies have also stressed that line managers often believe that internal auditors do not in fact have sufficient knowledge to provide useful help (Griffiths, 1999; Peursem, 2004; 2005).

Abdelkarim (2005) indicated that the trend towards broadening the scope of responsibility of the IA has led to a gap in expectations arising, because of the magnitude and breadth of

scope of these tasks and responsibilities - compared to the capabilities and potential of the staff employed in many companies' IAFs. This research draws on agency theory in the above context to examine the nature and practice of the IAF through its relationship with the Board of Directors, and Senior Management (SM) in the form of Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs). This theory can guide IA in adopting a particular approach to justify its existence and help to explain the nature of IAF through its work. It can also help anticipate how IA may be affected by organizational restructuring and rationalisation (Adams, 1994).

The following section provides fundamental background information on the expectations and perceptions of SM and the internal auditor. It also concerns the nature and practice of the IAF in regard to the relationship between the internal auditor and SM, as well as the contribution of the IA to achieving an organization's goals, as it is presented in previous research.

According to The International Standards for the Professional Practice of Internal Auditing, the nature of the relationship between SM and the internal auditor has to be more specific. Sarens and De Beelde (2006b) discussed the nature of expectations and perceptions of both the internal auditor and SM in Belgian companies. They found that perceptions of senior management have a significant influence on the IAF, though at the same time, the IAF in the companies that they studied were able to meet those expectations and attracted management support. Notwithstanding this, SM expects an IAF to compensate for the loss of control they experience as a result of increased organizational complexity, as well as fulfil a supporting role in the monitoring and improvement of risk management and internal control.

Cooper, Leung and Mathews (1994) focused on management attitudes towards the IAF; perceptions of skills; support mechanisms for IAF; and trends in the role and scope of the IA. They found, in terms of attitudes and recognition, that on the whole, the view was a positive one, even though there evidently existed some confusion between the perceptions of Chief Executive Officers (CEOs) and the reality perceived by the Chief Internal Auditors (CIA). Chun (1997) makes clear the functions and objectives of the IAF and the conditions necessary for them to be realized. He found three important conditions to be necessary: independence, organizational status and objectivity. He concluded that these

conditions have significant effects on accomplishing the functions and objectives of IA. Thus, it is essential for the IA to receive the support of SM to successfully fulfil its responsibility as the backbone of an organization's risk management. Carcello, Hermanson and Raghunandan (2005) found indications that, thanks to this enhanced focus on corporate governance, effective oversight and sound internal control, the importance assigned to the IA by management has increased markedly. Furthermore, they suggest that SM's expectations of the IAF have substantially changed over time.

However, a different perception can arise when audit customers (including the Board of Directors and SM) do not recognise the value of the IAF. In order to function effectively, the CIA and SM should have a similar understanding of what makes IA a value-adding activity. Failure to reach this understanding could result in the perception that the IAF is simply an obstacle to achieving organizational objectives, and that the oversight it provides represents a threat to managerial independence. This can result in under-utilised audit services and audit recommendations being ignored (Flesher & Zanzig, 2000). Even before the recent changes in corporate governance guidelines, a survey had already been carried out by Griffiths (1999) of the Finance Directors of a number of leading UK organizations, which found that they already recognised the major challenge such changes represented for the IAF in leading the corporate governance agenda. However, these changes also provide the opportunity for the IA to directly support the SM's requirements and responsibilities to accomplish organizational objectives.

1.2 Research problem

Much prior research has examined the accounting and external auditing needed in order to understand the profession (Moren, 2006). Sarens and Abdolmohammadi (2009) argued that IA is a profession that is less regulated, compared with the accounting and external auditing professions investigated in prior research. Similarly, Sarens (2009) promotes the need for further research on IAF quality and raises the question: "When can we talk about an effective IAF?" and then provides the answer: "When IAF quality has a positive impact on the quality of corporate governance". This combination of lack of prior research and the absence of direct regulation lends importance to the present research. There are links between the rise of the IAF, issues of corporate governance and the contributing problem of corporate failure. The recent failures within the banking sector support this view– if IAF is effective, how can failure continue to occur? Carcello, Hermanson, and Raghunandan

(2005) emphasise the role of IAF in corporate governance. In contrast, various studies indicate that the importance of IAF is often not completely understood by the general public and more specifically their clients, such as the line management and senior management. Such studies (Cooper, Leung and Mathews, 1996; Meyers and Gramling, 1997) found that the IAF was not perceived by the main line managers as being important to the organization, and that internal auditors' recommendations were rarely accepted and implemented. More recently Peursem (2004) judged that the problem could be that some customers do not view IA as a profession.

There are few previous and published studies related to the perceptions of the IAF by top management and internal auditors. Within the literature, there has been little research on the perceptions of internal auditors, Board of Directors and senior SM, of the IAF as a corporate governance mechanism. This lack of research is particularly marked in developing economies. In this regard, this study examines the perceptions and evaluations of Board of Directors, SM (CEO and CFO) and heads of IAD, about the nature and practice of IAF in terms of its independence, its scope and role, its competence, its work performance and its communication. It can be noted that the fifth factor, communication of IA, is considered a new factor designed to investigate the nature and practice of IAF. Smith (2005) argued that development of effective communication skills is an important part of internal auditors' advancement potential. Hence, communication is assumed to be a significant part of the study's contribution to the knowledge in this area. Moreover, the study investigates whether there are significant differences, or not, associated with the participants' perceptions and evaluations, in relation to the nature and practice of IAF and in terms of the participants' position in the organizational structure of company. Additionally, the research aims to evaluate the extent to which reliance placed on the IAF by top management helps to achieve the organization or company objectives. It furthermore seeks to improve the practice of the IAF in the Libyan field of study. This is because Libya is a developing country, and the IAF is in its primitive stages; furthermore, the subject has not been published for Libya before. In addition, the Libyan economy has recently opened its doors to privatisation and investment, both local and foreign. Therefore, in order to restore investor confidence and to bring about greater transparency and accountability to corporate affairs, regulations have been put in place by the Libyan Government to protect investors, such as Law No. (5) in 1997 with a view to encouraging investment of foreign capital as amended by Law No. (7) in 2003. This law aims at

encouraging investment of foreign capital for the establishment of investment projects within the policy of the state and the objectives of economic and social development with particular emphasis on: 1- the transfer of modern technology; 2- the development of Libyan technology; 3- the diversification of sources of income; 4- the contribution to the development of national products to help Libya's entry to international markets; 5-the development of a space programme.

However, the requirements of these changes in the Libyan economy have served to emphasise the need to study the nature and practice of the IAF in general, and specifically the views of top management in terms of the awareness of this function. In other words, there is also a need to consider whether the IAF is the cornerstone of corporate governance. Due to the important role of the IAF in achieving the objectives of an organization or company, it therefore holds that the nature and practice of the IAF should be studied, and also the degree of reliance that is placed by the management on the IAF to accomplish the main objectives of the company. It will benefit managers and the professions to better understand what leads the internal auditor to become committed to his/her organization and profession. Lastly, it also creates an opportunity for IA as function within the company to keep pace with the environment and legislative developments in the context of Libya in general, and in oil and gas companies especially.

1.3 Research aim and objectives

The main aim of this study is to examine the perceptions that the Libyan managerial class presently have, regarding the nature and practice of IAF in Libyan oil and gas companies, as well as the degree of reliance placed by top management on the work of IAF to contribute to achievement of the company's goals. In order to achieve this main aim, the following objectives were set for the study:

1. To compare the perceptions amongst top managers and internal auditors (in selected Libyan oil and gas companies) of the IAF to determine:
    a. The extent to which that there are differences between the current perceptions.
    b. The factors which have more influence on the nature and practice of the IAF;
2. To examine the degree of reliance placed by top management on the work of IAF in Libyan oil and gas companies to accomplish the companies' objectives.
3. To determine improvements that could be introduced to improve the practice of the IAF in Libyan oil and gas companies.

1.4 Research questions

1. How do top managers perceive the nature and practice of the IAF in Libyan oil and gas companies?

2. How do internal auditors perceive the nature and practice of the IAF in Libyan oil and gas Companies?

3. To what extent do top management in selected Libyan oil and gas companies depend on the IAF to achieve corporate objectives?

4. What improvements could be introduced to improve the practice of the internal audit in Libyan oil and gas companies?

1.5 Justifications and motivations of the research

This research is significant, because it relates to the role that the IAF plays in monitoring control systems and following-up the resources of companies in general, and in Libyan companies in particular. The importance of the IAF in this research lies in the fact that it plays, or can play, a significant role in the increased and added value of the activities of the companies; in turn, it can assist the management of Libyan oil and gas companies to discharge their responsibilities efficiently, which affects the achievement of goals in their companies. Accordingly, the study builds on the current body of knowledge of practice of IAF in corporations. The findings are important from a theoretical perspective, because the perception and evaluation of the IAF practice in the Libyan context is a relatively unexplored area, about which limited literature exists. The study could benefit the IIA by providing information on the practice of IAF in companies in developing countries such Libya, information that the IIA could use in developing its standards and providing guidance to its members. In addition, the study could be useful to companies when comparing the practice of their own IAF to the findings reported in this study. This comparison may provide insights about the practice of their own IAF and trigger initiatives for improvements where such practice is found to be lacking. However, there are a number of motivations for this study. These motivations have emerged from three different sources:

1) To extend the literature, especially Arabic literature, because it was found that less attention has been given to knowledge in this area; this was supported by Sarens and Abdolmohammadi (2009) who argued that IA is a profession that is less regulated, compared to the accounting and external auditing professions investigated in prior research.

2) Overall Libyan motivation in regard to the IAF, since IA in Libya does not have its own IA organization; furthermore, it has no defined or formal code of professional ethics and standards for professional qualifications for admissions (Daruish, 1990; Almagory, 1998; Mousa, 2005). Accordingly, the rationale of this motive is to improve the practice of IA.

3) Personal motivation. It is seeking to establish a profession with its code of ethics and standards in an association of professionals; the researcher intends to be one of them. Therefore, conducting research in this area will provide a strong foundation to create a practical framework for this motive in the Libyan environment in particular.

In order to clarify, previous studies have not addressed the need for a better understanding of how the attributes of corporate governance mechanisms (such as the Board of Directors, SM and internal auditors) may affect the nature and practice of the IAF. Additionally, the results of prior studies, on the link between IAF contributions to achieve the companies' objective, are mixed and inconclusive. Furthermore, up to the author's knowledge, there is limited and unpublished empirical evidence in this area from emerging economies, with relatively less developed capital markets.

1.6 Research methodology

The choice of a methodology for this particular study is important to achieve the objective of the research. As Collis and Hussey (2003) note, the choice of method will help determine the types of tools, which can be used to collect the research data. This research relied on the realism paradigm, because realism is a dominant tradition here in this subject area. However, as the research draws on individual perception, there is scope for respondents to use different perspectives. This is accomplished by the use of quantitative and qualitative methods. In this study of IA, qualitative and quantitative methods are used chiefly to achieve the research objectives. However, the motivations for this study reflect a desire to enrich and extend the understanding of the nature of expectations and perceptions in regard to the characteristics of the IA from Board of Director, SM and the internal auditors. Furthermore, in order to achieve the objectives of the research, the research plan consisted of two stages. The first stage is devoted to a review of the literature on IA in terms of the work in both developed and developing countries, including Libya. The purpose of this review is to identify various important perceptions and key issues associated with IAF. The second stage of the research uses two methods of primary data

collection. These are closed-ended questionnaires and semi-structured interviews. Because they are flexible and can be used to collect data cheaply from different research areas, both questionnaires and interviews are commonly used tools, and are useful in making the most effective use of the available research resource. The use of the two methods is a form of mixed-methods research, helping to explore the research questions from different perspectives (El-dahrawi, 2006). However, designing a good questionnaire to serve the study objectives is not an easy task, because it has been found that badly written and designed questionnaires are usually associated with low response rates (Al-qudah, 1991). The data was collected through questionnaires sent to all Boards of Directors, SM (CEOs and CFOs) and CIAs or heads of IADs in Companies operating in the oil and gas sector in Libya. Semi-structured interviews were also used as a means to collect data, at a greater level of detail than can be achieved by questionnaires; this related to the newly researched factor that was included to evaluate the nature and practice of IAF. This factor is the communication of the IA within an organization or company. In order to obtain viewpoints of interviewees regarding the degree of reliance on the work of IAF, the interviews were used to support the questionnaire data, and to analyse the reasons behind the differences in perceptions and evaluations of participants. Face-to face semi-structured interviews were designed to identify the validity of communication as a factor within the study model. Telephone semi-structured interview No.1 was designed to acquire viewpoints of interviewees regarding the degree of reliance on the work of IAF. Telephone semi-structured interview No.2 was designed to analyse the reasons behind the existing differences in perceptions and evaluations of participants, based on the analysis and findings of questionnaire data. The questionnaire was designed to achieve the main aim of the study, and consisted of five parts:

Part 1- Background information on the study's respondents.

Part 2- The perceptions and evaluations about the nature and practice of the IAF in terms of:

    a) the independence of IAF;

    b) the scope of the IAF;

    c) the competence of IAF;

    d) the work performance of IAF; and

    e) IAF communication.

Part 3- The degree of reliance by top management on the work of IAF.

Part 4- The improvements that could be introduced to improve the IAF practice in Libyan companies.

Part 5- Additional comments and suggestions on issues related to IAF practice.

1.7 Research ethics

The research will be conducted within the framework of the University's Research Ethics Code and the Market Research Society code of conduct. A personal letter was sent to the interviewees, informing them of the time required, the content of the interview, and the purpose of the research and the confidentiality of the data provided. Interviewees/respondents were informed that they could withdraw at any time or not answer any question. Interviewees were shown the results of the interview, providing the opportunity to correct any misunderstandings on the part of the interviewer. The questionnaires were anonymous and data was aggregated. Data from this research was not shared with any other parties.

1.8 Limitations of the Study

The limitations of this research should be noted. The study shortcomings are categorized into theoretical and empirical elements.

Firstly, this research focused solely on oil and gas companies, and does not represent the nature and practices of IAF in all companies in Libya. However, the reason for focusing on oil and gas was that this is the main industrial sector within Libya, and represents the main source of revenue to the Libyan economy, and it is also a more organized sector compared to other sectors.

Secondly, the results were gathered solely from the perspectives of participants inside the Libyan oil and gas companies. In other words, it did not take into account the way to which the IAF is perceived by external auditors and shareholders, independent of the management, or the impact that such perceptions have on the relationship between the IAF and these groups.

In the Libyan context, the extent to which 'external' auditors are external can be questioned. All government owned companies are audited by an 'auditor' government agency. Companies are not subject to audit by external, qualified professionals from

organizations such the 'Big Four' auditing companies. The audit agency in Libya is part of the same state apparatus as the management cadre of the companies. This means that it is possible to question the degree to which the government audit agency stands in the same relation to Libyan oil and gas companies as would be the external auditor to a major listed company elsewhere.

Similarly, as they are state (government) bodies there is no effective comparator to the shareholders in large listed oil and gas companies elsewhere. In the 'traditional' model, the external audit or serves to meditate the principal / agent issues related to the divorce of ownership from management. For large Libyan oil and gas companies this means that there is no effective 'representation' of 'owner' interests. It should be understood that, in the historic context of the Libyan state, there has been no clear demarcation between the elements of the bodies of the state as would be considered usual elsewhere. The lack of any sovereign body with power of scrutiny (such as a parliament equipped with review committees, or a national audit office of its own) has enfeebled this aspect of public policy. The effects of the unique structures adopted under the former system of government are certainly worthy of study, but they are beyond the scope of this one.

It is the case that most previous studies have considered the perceptions of external auditors toward IA, as table 2.1 on page 15 shows. On the other hand, few previous studies have considered the perceptions of top management. In addition, for the purposes of this research, perceptions and evaluations focused on the people *inside* the companies rather than *outside* the companies, such as external auditors. Moreover, Libyan oil and gas companies are owned by the Libyan government, and are reviewed by government agencies. There is thus a greater circularity in these relationships, given the nature of state bodies in the former system in Libya. As a result, the implications of omitting this element might not have so deep an effect on the findings of this study, as would be evident elsewhere where *externality* is more developed.

Thirdly, access to the opinions of the board of directors group is quite limited compared with other groups, because this group of participants is often very busy. This is probably as much a function not only of status, but also the need to show a particular 'face' in the Libyan social context. Efforts to gain wider access remained unsuccessful. (It should be remembered that these companies are major components within the Libyan economy, and

their directors are therefore somewhat comparable in social terms to directors of oil majors elsewhere).

Fourthly, the findings of the study create only a partial image (but a relatively strong one) of the nature and practice of IAF as a corporate governance mechanism in Libyan oil and gas companies. This powerful, but partial image nevertheless indicates that extensive efforts should be made to enhance the IAF in Libya in order to improve the situation.

Finally, the questionnaire was personally administered; however, the researcher was merely acting as a postman. In most cases, the questionnaire was handed out to individuals in the targeted oil and gas companies and collected at a later time. Therefore, the influences of a personally administered questionnaire *could* exist in this study, in addition to the other influences of a questionnaire as a data collection method. Respondents for the most part completed the questionnaire in their own time for later collection. This should serve to mitigate some of the effects of personal administration. Given that internal reports were considered to be another method to collect relevant data, but respondents indicated that to make them available to people outside the company was to cross a 'red line' as some put it, personal administration remained the most viable form of data collection.

1.9 Structure of the thesis

The thesis is divided into eight chapters:

Chapter two highlights the background of the study subject, IA, and reviews objectives and outcomes of the literature studies related to IA and the work of IAF. Certain issues are discussed, including the nature of IA and its activities. In addition, the concept of IA, and the changes that occurred on the role of IA are considered. The chapter as well provides brief information related to the Development of the Standards of Professional Practice of IA. In addition, it clarifies the relationship between the study variables-independence, role and scope of work, competence, work performance and communication. Chapter three discusses the Libyan economy, Libyan education provision in field of accounting and auditing, and the state of the accounting and auditing professions. The chapter also addresses the studies have been completed on the IA in Libya, and highlights the oil and gas sector in Libya. Chapter four discusses the methodology and methods used to carry out this study. The research objectives, questions and study sample population are presented. As the study employs two methods of data collection, qualitative and quantitative

(interviews and survey), these two methods are discussed in detail. Other methodological issues will also be discussed in the chapter. Chapter five focuses on the research instruments design. This chapter focuses primarily on questionnaire and interviews which formed the basis of the empirical work for the research. In addition, it is presenting the qualitative analysis and discussions findings of the interviews in terms of the validation of the questionnaire item (communication). Chapter six presents the descriptive analysis and findings of the questionnaire data collected from participants working in oil and gas companies operating in Libya. Chapter seven provides statistical analysis of the data and discussion of the findings. The results of this study have been discussed in light of previous studies in developed and developing countries. Chapter eight structured to include important parts, namely key points identified by research; conclusion; contribution to the knowledge; recommendations; limitations of the study and some guidelines and directions for future research.

CHAPTER 2: LITERATURE REVIEW OF INTERNAL AUDIT

2.1 Introduction

This chapter provides a comprehensive picture of the IAF. It views the conceptual evolution of the term IA, and explains the need for it, definitions of the term, and how it is necessary to the entities IAF works within. It goes deeply into those previous studies that are directly related to the topic and presents their findings, to help determine the starting point of this study. The chapter is going to discuss and develop a conceptual framework, and provides factors or criteria that may be used to perceive and evaluate the nature and practice of the IAF within oil and gas companies in Libya. Before entering into the details of the proposed model, it is appropriate to provide a brief description of the development of the Standards for the Professional Practice of IA issued by the IIA. This gives the basic information upon which the conceptual framework can be established and developed. Moreover, this part will focus on the literature concerning the factors related to the nature and practice of IAF, which are represented under the following headings: independence and objectivity; scope of work; competence; work performance; and communications.

2.2 Background

The increase in demand for IA services has become a feature that characterises the contemporary audit environment. The reasons for this rise in demand was corporate governance reform in the accounting and auditing environment at the end of the last century, with the need to control the overall process of the preparation of financial statements, and to review and publish them. Although audit committees are initially linked to the external audit, they depend heavily on the IAF in the application of those controls which ultimately aim to address manipulation and error in published financial statements (Menon & Williams, 1994, p. 121). However, the practice of accounting and the auditing environment both came under increasing criticism at the end of the last century. This was due to the failure to meet the needs of users of the information, such as investors and creditors. Reliable and accurate information is essential for sound decision-making, and the demand of stakeholders for such information has widened the role of IA in many large organizations (Imhoff, 2003, p. 119).

There is a considerable discrepancy between the roles of IA, as determined by the standards adopted by the IIA, and the actual IAF in practice. This discrepancy is reflected in an expectations gap in the IA. Essentially, this is an inability of the IA to meet the expectations of the auditing communities, concerning the functions and responsibilities of internal auditors. In view of this, the literature related to this subject has been reviewed: for example, Flesher and Zanzig (2000) pointed out that an internal auditor and the beneficiaries of IA service should possess a similar understanding of what IAF provides, in term of value added activity. Failure to reach this understanding could result in the perception that IAF is simply an obstacle to fulfilling production objectives. They surveyed a sample of internal auditors and management accountants in regard to how they viewed the IA concept in their current organizational environment. They concluded that there were significantly different distributions for three of the concepts in regard to how management accountants felt that the IA profession should function, suggesting that perceptions of the purpose of IA within these organizations varied according to an individual's relationship to the IA process. There were several things that confirm the existence of different perceptions of the IA. The most important of these is that there was no full agreement (Flesher & Zanzig, 2000) about the nature and practice of the role and objectives of IA amongst the managers of organizations on different levels. In this regard, the gap is reflected in the multiplicity of the divergent views. For example, is the IA report that is submitted to the organization presented to the audit committee, or to senior management? Is the role of the IA report of the organization to provide reports on the individuals at various administrative levels? Or does it focus on the control system of the organization?

In a study of perceptions of CEOs about IAF, Mathews, Cooper and Leung (1995) found that nearly 42% of respondents believed that the IAF was simply an independent appraisal of the internal controls, its role being restricted to certain areas by the chief executive of the organization. They also found there was an apparent lack of understanding of the broad range of services that IAF has to offer. This and other studies like it were instrumental in the gradual evolution of the IA function over the 1990s, which lead to the incorporation of the added value concept as a fundamental principle in the revision of the IAF. It is now recognised in more developed economies that in order to add value, internal auditors must embrace the forces of change in their business environment (e.g. higher demand for consulting-oriented services) and expand their role in organizations. The incorporation of the consulting concept is one of the major adjustments made in order to better reflect

contemporary IA practices (Sarens and De Beelde, 2006b). However, while perceptions of the purpose of IA as regards its expanding role have been investigated and considered by the formal bodies and developed countries, part of the motivation for this study is to investigate how the role of IA is perceived in developing countries? If it is not seen as encompassing the consultancy role and adding value to the organization, then how is it perceived? It could be argued that perception in the developing countries of the IAF is different, and this difference is justified by the requirements of particular economic milieus, compared to what is perceived in developed countries. The need to know what the current perceptions are has become a crucial subject.

In this sense, it may be useful at this point to present a summary of the previous studies on the evaluation of the IAF. It is quite clear that the majority concentrate on the factors of competence, objectivity and work performance (referred to as performance in some studies). Some studies consider the evaluation of the reliability or strength of the IAF (evaluation decision), others consider the amount of reliance that should be placed on the IAF (reliance decision) by external auditors, and some consider both issues. These previous studies are summarized in Table 2.1. Therefore, the studies are displayed in two ways: first the studies that involve the perspectives of external auditors; second, the evaluation of IA from perspectives other than that of external auditors.

Table 2-1 Summary of the Overall Findings of Previous Studies

(Source: obtained from different previous studies and condensed by the author)

Studies related to the subject under study here, including perspectives of external auditors:

No	Author (s)	year	Study objective	Study Findings
1	Gibbs and Schroeder	1980	Determines what criteria for external auditors are important in determining the competence, objectivity, and performance of audit work.	Concluded in three ranked lists of criteria to assess the competence objectivity, and performance of audit work.
2	Brown	1983	Determines the factors considered important by external auditors in evaluating the reliability of IA.	The dominant factors are independence and previous audit work
3	Abdel-khalik , Snowball and Wragge	1983	Determines the factors considered important by external auditors in evaluating the reliability of IAF.	The level to which IA staff report is the most significant factor.

4	Schneider	1984	Determines how external auditors evaluate the IAF.	The IA work is most important, followed by the competence and the objectivity factors.
5	Schneider	1985a	Studies the relationship between external auditors' evaluation of IA and their reliance in audit planning decisions.	Competence and work performance are equally important, while the objectivity factor is less important.
6	Schneider	1985b	The degree of consensus among external auditors in evaluating the IA.	Revealed that the work performance was in first place, than competence, and followed in third place by objectivity.
7	Margheim	1986	Examines the factors that external auditors consider important in their decision to rely on the IA work	Competence and work performance combined significant. Objectivity and interaction not significant.
8	Messier and Schneider	1988	To examine the external auditor's evaluation of the IAF	Competence is the most important attribute, than objectivity, than work performance.
9	Tiessen and Colson	1990	Determines the degree to what the external auditor relied on the work of IA.	Only 3 of 12 criteria were significantly related to the reliance decision (i.e., professional competence, reporting relation).
10	Edge and Farley	1991	Determines the relative importance of the factors used by external auditors when evaluating IA.	Technical competence is the most important factor, followed by work performance.
11	Maletta	1993	Examines the factors considered by external auditors.	IA competence was the most significant followed by objectivity and work performance.
12	DeZoort Houston and Peters	2001	Considers how the type of work that the IA routinely performs and the IA compensation structure affects external auditors' evaluations of IA objectivity.	External auditors perceived that the IA was less objectivie when its role was primarily consulting or when its auditors had the opportunity to receive incentive compensation.
13	Krishnam-oorthy	2001	Examining whether the reliability of the audit procedure employed by the IA affected the external auditor's evaluation of IA work performance.	When audit procedure reliability was high, the evaluation of IA work performance was differentially sensitive to alternate indicators of IA competence and objectivity. When audit procedure reliability was low, the evaluation of IA work performance was also low. Regardless of IA objectivity and competence. evaluation was contingent on the level of IA objectivity and competence., and whether that
14	Haron, Chambers, Ramsi and Ismail	2004	Determines the criteria that will be used by the external auditors to evaluate the work of the internal auditors. Respondents of the study consist of those from the big four and non-big four firms in Malaysia.	The findings of the study indicate that technical competence and scope of function are two most important criteria that external auditors consider in their reliance on internal auditors work.
15	Obeid	2007	Evaluates the strength of IAF and its relationship with external auditing mainly conducted in developed countries.	The study results revealed that internal and external auditors' perceptions of objectivity were affected by IADs reporting level as the majority of IADs reporting level was the bank managing director. Furthermore, competence was found to be dissatisfactory. Whereas

No	Author (s)	year	Study objective	Study Findings
				work performance of IADs was found to satisfactory. Moreover, the study indicated that external auditors placed some reliance on the work of internal auditors; however, external auditors rated work performance and monitoring of internal controls as the most important factor, followed by objectivity and competence.

Studies related to the evaluation of IA in from non-external audit perspectives:

No	Author (s)	year	Study objective	Study Findings
1	Gibbs and Schroeder	1979	Evaluate the competence of IA staff on the basis of their working performance.	Concluded that internal auditors' knowledge of company operations, procedures and adequacy of supervision are the most important of the criteria.
2	Clark, Gibbs and Schroeder	1981	They aimed to evaluate the objectivity of IA staff Through the classification of five criteria.	Independence is found the most important of the five criteria in evaluating the objectivity of IA.
3	Brown and Karan	1986	Identify the most important factors used in judging the quality of IA by the participants.	The overall evaluation judgment used by Linear models suggested that participants places less emphasis on competence and objectivity than work performance.
4	Albrecht et, Howe and Schueler	1988	Establishes the criteria to asses IA effectiveness.	Two sets of characteristics generated which were judged to be components of effective IA.
5	Daruish	1990	Evaluates the internal auditor's role in Libyan industrial companies.	The internal auditors are not independent; They do not sufficiently qualify; they are not performing all the required tasks; and they do not adopt the proper manner when performing their tasks.
6	Haimon	1998	Develops a model to evaluate the effectiveness of IA.	The implementation of corrective action was rated lower than other components. IA units were less effective in smaller municipalities.
7	Jung and Hui	1998	Identifies the factors that affect the effectiveness of IA for listed companies in Taiwan.	The factors that affect management's perceiving effectiveness are management's attitude, controllers' attitude, the probability of internal auditors' promotion, the implementation of performance evaluation, the establishment of job description, and the training and professional abilities of internal auditor. Secondly, the factors that affect audited department head's perceiving effectiveness are internal auditor professional abilities, and the combination of organization formalisation and professional abilities. Finally, the factors that affect the progress of annual auditing plan are management's attitude, controller's attitude, the organization position of IA department in a company, the probability of internal auditor's promotion, the implementation of performance evaluation, the establishment of job description, the training and professional

				abilities of internal auditor, and the combination of organization formalisation and the professional abilities
8	Arthur	2000	Examines the selected factors utilised to evaluate IA effectiveness.	The internal auditors can influence the perceived effectiveness of their department by educating top management about the standards for the professional practice of IA.
9	Felix Jr, Gramling and Maletta	2001	Determines the extent to which internal and external audit coordinated their efforts.	The extent to which the IA was involved in the financial statement audit was a significant determinant of external audit fees.
10	Krishnam-oorthy	2002	Presents a multistage model for the evaluation of the IAF and to understand how the three IA factors (competence, objectivity and work performance) interact and combine in the evaluation judgment.	The importance of these three factors, which vary depending on the type of evidence (convergent or conflicting), observed, depending on the mutual relations between the three factors. The main conclusion of this study is that in the Bayesian context, it is worthwhile to try the arrangement of factors, including that no single factor will dominate in all circumstances.
11	Al-Twaijry, Brierley and Gwilliam	2003	To add to our knowledge of the nature and practice of IAF in developing country (Saudi Arabia), and to use institutional theory to examine its development and the effectiveness of its operations in the Saudi Arabia corporate sector.	The results show that IAF is not well developed. Where it exists, it is inadequately resourced, and lacks qualified staff, has restrictions on its degree of independence, concentrate on compliance audit rather than performance audit, and internal auditors are not accepted by management and auditees.
12	Mousa	2005	Develops a model for evaluating the effectiveness of the IAF in Libyan organizations.	The study's developed model comprises of the following factors: independence, qualifications and professional experience, scope of work, performance of audit work and external components.
13	Sarens, and De Beelde	2006	To identify the extent to which IA practices are focused on the provision of assurance, the formulation of recommendations, or the performance of separate consulting activities.	The study identified that the IA clients, the organizational support for IA and the status of the internal control system are organizational variables that have an influence on IA practices, as well as specifying how each of them can exert its influence.
14	Leung and Cooper	2009	To provide an overview of the profile of IA in terms of investigate the usage and compliance with SPPIA, by shows the differences between Australia, China, Japan, New Zealand and Taiwan.	The profile of IA differs amongst the countries with much older organizations exist in Australia, Japan and New Zealand. Respondents in New Zealand, Japan, Chinese Taiwan, China and Australia all report to have a reasonably high level of usage of Standards. However, Australia has the highest number of respondents who report that they are in full compliance of the Standards.
16	Marais, Burnaby, Hass, Sadler and Fourie	2009	To examine to what extent the IA activity in South African compliances with the SSPIA and several areas of the IA activity's operations, through compare the responses of South African respondents with all	The findings revealed that the respondents compliance with the SPPIA in South Africans have a higher level comparing with that exist in in other parts of the world. Thus the new IA activity and internal auditors are given structure and support.

			Common Body of Knowledge (CBOK) 2006.	
17	Sarens, Allegrini, D'Onza and Melville	2010	To analyse and explore whether the organizational profile, the size of the (IAF) and (IA) practices are related to the age of the IAF.	The findings concluded that: the organizational profile is significantly different between these three groups; the current size of the IAF is related to the age of the IAF; those IAFs that were set up in the early days of the IIA (established in 1941) are more likely to use the IIA Standards and have more internal auditors with IA qualifications; a quality assurance and improvement program is more common within older IAFs; and older IAFs have a more diversified IA agenda and more frequently perform advanced IA activities.

As can be seen from Table 2.1, most of the previous studies have examined the manner in which external auditors evaluate the IAF. Abdel-khalik et al. (1983) reveal that objectivity is the most significant factor, while Brown (1983) and Schneider (1984, 1985a, 1985b) show that work performance is the most significant attribute. Margheim (1986) found that a combination of competence and work performance were significant in the subjects' judgments. In contrast, later studies (Messier & Schneider, 1988; Edge & Farley, 1991; Maletta, 1993) reveal that external auditors consider competence as the most significant factor in evaluating the IAF. In Brown's (1983) study, objectivity was the next most important, while in Schneider (1985a and 1985b), competence was second in importance. Schneider (1984) suggested that these results arise from the attributes used to define competence. He included an experience attribute to define competence, while Brown did not. In addition, there were some studies considered the attitudes that affect the effectiveness of IA. To some extent these studies reflect the preoccupations of IA at the time they were conducted, and regard IA as essentially an oversight function, guaranteeing accuracy and reliability, but adding little to the achievement of organizational goals In light of the results of these previous studies, it seems reasonable to argue that:

(1) The participants in most previous studies were external auditors, and in some cases, directors of internal audit were included. This means that the studies did not take into account the opinions of other parties, whose activities can be considered to be the subject of IA examinations, such as operational managers, accountants, boards of directors, audit committees, etc.

(2) Despite the fact that some of the previous studies have attempted to develop a model or framework to evaluate the IAF, these studies have not included all the factors that might

be considered important by management/external auditors in evaluating the reliability of IAF. While some of these studies have used two or three factors, the majority have used only one. The main reason for mentioning this is that in the current climate of concern for corporate governance practices and the protection of stakeholder interests, it cannot be expected that the IAF can be evaluated without considering all the factors which are thought to be important and may affect its practice in some way.

(3) Most previous studies have attempted to understand the external auditors' rank ordering of the importance of the three factors, without any explicit attempt to set up a model or framework that examines the interactions among them.

(4) Most prior studies have focused on the rank ordering of the importance of the three factors, without showing how they can be used to evaluate the nature and practice of the IAF.

(5) The overall findings of these studies have been mixed and inconclusive. Although a number of prior studies have been conducted, they have not produced a consensus regarding how external auditors seem to weigh and combine the factors in order to make assessments relating to the strength of the IAF.

(6) The contribution of Gibbs and Schroeder (1979, 1980) and Clark et al. (1981) was limited since they considered the three factors individually. It may seem logical to expect that no single factor should dominate an external auditor's evaluation of the IAF under all conditions, without regard to the interactions and interrelationships among the factors. Brown (1983) recognised this limitation when he stated that "future studies in this area should not attempt to deal with these factors on an isolated basis because auditors tend to view an intermingling relationship among key IAF characteristics and evaluative dimensions reported in SAS No. 9" (Brown, 1983, p. 452). 'Intermingling' is considered in the current study, so that in contrast to the literature considered above, this study considers the interrelationship of the five factors of IA included, and assesses differences in the perceptions of different groups with regard to these factors. Similarly, this study seeks to build on the previous literature by taking a new factor into account, namely communication, and its effects on the nature and practice of IAF.

(7) It is clear that the study conducted in Libya by Daruish in 1990 did not attempt to evaluate the IAF in Libyan organizations, and its contribution in this context was very

limited. Its main concern was to evaluate the role of internal auditors in Libyan industrial companies by using the International Standards for the Professional Practice of IA.

(8) One major reason why previous studies did not find significant interaction effects could be that there was no strong theoretical framework on which interactions could be predicted. Hence, experiments were not designed explicitly with a focus on the interaction of effects, and this represents a weakness in the generalisability of such studies. In contrast, this study is based on a clear conceptual framework which will enable it to draw conclusions about the effect of the factors of IA on each other, and provide recommendations for the future development of IA in Libya, and in developing countries as well.

(9) Previous studies did not attempt to examine the degree of reliance on the work of IAF on the part of company management, but from the perspective of the external auditor. This oversight ignores any evaluation of the role IA plays in adding value to organizational functions, and prevents any investigation of the components that go into adding value.

(10) Although, the results from prior studies were mixed and inconclusive, they represent a starting point for more research in the area of IA evaluation. However, such evaluation clearly requires the researcher to build in the strengths of previous research and utilise the factors which have proved to yield useful results, while also recognising that their lack of a conceptual framework that takes account of the changed role of IA requires the addition of comparative analysis, and new or revised factors to reflect IAs new functions.

It may be useful at this point to remember that the overall objectives of the present study were:

1. To compare the perceptions amongst top managers and internal auditors (in selected Libyan oil and gas companies) of the IAF to determine:
a) the extent to which that there are differences between the current perceptions; and
b) the factors which have more influence on the nature and practice of the IAF;
2. To examine the degree of reliance placed by top management on the work of IAF in Libyan oil and gas companies to accomplish the companies' objectives.
3. To determine improvements that could be introduced to improve the practice of the IAF in Libyan oil and gas companies.

For evaluation of the IAF, the first need is to identify the factors that affect the nature and practice of the IAF. This is the main objective of this chapter. It seems logical that any assessment or evaluation process needs valid factors against which the real data may be compared. The task of evaluating the nature and practice of the IAF should be divided into the evaluation of the five factors set out in the study model. It was found practical following the identification of the model, to provide an illustration of how some of the factors outlined in the model could be evaluated in future. It can be said that some of these factors are relatively easy to assess, others are far more difficult. Therefore, the next sections will address general concepts associated with internal audit. For instance: evolution of IA, definition of IA, IA activities and so on; this is followed by other sections that consider the standards of professional practice of IA, which represent roots for the study factors, with more explanation for these factors.

2.3 Evolution of the concept of internal audit

"The starting place for internal auditing theory is the definition of internal audit" (Pickett, 1997, p.3). In order to understand more about the nature of the activity, which currently exists, there is a need to know something about the changing conditions in the past, which created the needs for that activity (Brink and Witt, 1982, p. 4). IA began as a one person clerical procedure that consisted primarily of performing independent verification of bills before payment. To some extent, varying on the nature of the organization, IA retains a sense of being an administrative function, which includes ensuring the accuracy of lists and procedures, as well as the supervision of the inventory of goods, products and reporting on prior events to responsible persons.

During the economic crisis in America in 1929, official entities had the requirement of certifying the financial situation of an organization by external auditors, which led to the emergence of the concept of IA. In order to reduce the cost of audit fees, entities created IADs to carry out audit work prior to the external audit, while the external auditors' job remained one of certifying the financial statements. After the economic crisis ended, the internal auditors' functions began to operate in a way that allowed the extension of the audit scope.

IA has progressed much since the establishment of the IIA in 1941. Following this date, IA entered its golden development period, in which the theory of IA began systematically taking shape and IA organizations also came to the fore (Guoming, 1997).

The question that presents itself now is whether the evolution of the IA profession should be at two levels: first, at the level of the fundamental concept of the IA; and second, at the level of actual practice by audit departments. At the conceptual level, a historical review and analysis of IIA pronouncements indicates that the profession has evolved only slightly. All other changes, although useful, are less than fundamental in their implications. Courtemanche (1991) furthermore concludes through strategic planning theory, that the most enduring view of the IA appeals to the status quo, because the basic vision, which was established in 1941, has not changed much. Even though there have been many statements issued on the concept of IA, it continues to be an internal evaluation activity of interests internal to the organization, which performs oversight of the functions of the organization in a broader sense, including accounting and other operations.

The audit practice has seen multiple steps of change through history: according to Courtemanche, (1991, p.1), up until 20 years ago "The audit practice was considered as a traditional conformance role of auditing"; however for over 30 years, the auditor has been playing an "enhancing role". Nowadays, the role of auditors is expected to involve both enhancing the credibility of the financial statement and providing value-added services (Teck-Heang & Ali, 2008). Given that the roots of IA lie in the financial control area, in the earlier periods of its existence, the profession was charged with the task of measuring and evaluating the effectiveness of different types of control and evaluating the correctness of financial transactions and checking compliance with applicable laws and procedures. The objective of the function was to assist members of the organization in the effective discharge of their responsibilities (Brink & Witt, 1982; Rittenberg & Covaleski, 1997; Bou-Radd, 2000; Sarens & DeBeelde, 2006c). Thus, in the present day internal auditors must understand both their own role as a control, and the nature and scope of other types of controls, because the special role of IAF is to help measure and evaluate those other controls (Brink & Witt, 1982, p. 4). This represents one of the ways in which IA adds value to organizations; by rationalising and evaluating management functions it enables the organization to become both more efficient in the use of resources, and more effective in

the production of goods or services. It is therefore important to assess the degree to which SM utilises the IAF to make improvements in these areas.

On the legislative side, there is legislation that has affected the importance of IA services to all interested parties. One specific development in the United States was the 1977 Foreign Corrupt Practices Act, while the Inspector General Act has been another important legislative development (Brink & Witt, 1982, p. 7). In recent years the "growing emphasis on corporate accountability has led to a drive for more openness in the way private business and the public sector manage and communicate their performance to key stakeholders" (Pickett, 2003, p. 2).This growth has contributed to emergence of corporate governance, which in turn has forced companies to adopt a mechanism for responding to this openness, by focusing on the importance of audit in general and IA in particular.

2.4 Definition of Internal Audit

When writing about any topic, the area covered needs to be defined (Mousa, 2005). In fact, there are a number of definitions of IA, which have been issued by different formal bodies and are relevant to IA over an intermittent period. However, where IA has existed, in most organizations, it is an independent appraisal function for the review of operations as a service to all levels of management. Therefore, IA as part of the internal control is the activity within an organization, which seeks to administer internal supervision in order to: first, ensure that an accounting recording and assets of company are in accordance with the applicable laws and procedures; second, to supervise the authenticity, legality and effectiveness of financial revenue and expenditure (Chuanbing, 1997). IA is evolving from its traditional oversight function to one that includes a wider spectrum of activities, such as assurance and consultancy roles that add value to and help the organization fulfil its objectives. This was the result of changes in organizational needs (Mihret & Woldeyohannis, 2008; Ahlawat & Lowe, 2004; Bou-Raad, 2000). Traditionally, management views the IAF as that of a 'company's policeman' (Mousa, 2005). In respect to the extension of the role of IAF, Glenn (1973, as cited in Bou-Raad, 2000) found that IADs that have a broad scope of the examination and had exceeded the routine of financial audit, reflected positively on the management, through providing a broader and more useful service. Internal auditors have seen their role evolve from performing traditional IAF to focusing upon adding value to the organization. Internal auditors perform work that

is not just concentrated in the area of assurance activity, but now also involves consulting activities (Brody & Lowe, 2000). Moreover, this has been supported by many of the definitions issued by the official bodies that will be reviewed in historical sequence.

The IIA, stated in its first Statement of Responsibilities of IA (SRIA) issued in 1947, that the function of IA was to provide a summary from a general understanding of the role and responsibilities of IA, and further described IA as:

> "Internal auditing is an independent appraisal activity established within an organization as a service to the organization. It is a control which functions by examining and evaluating the adequacy and effectiveness of other controls".

As can be plainly seen from this definition, the objectives of IA are to assist the organization's staff in the effective discharge of their responsibilities (Brink, 1982). In 1957, the IIA issued a revised version of the SRIA, which defined IA as:

> "Internal audit is an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basic service to management. It is a managerial control. This functions by measuring and evaluating the effectiveness of other controls" (IIA, 1957, cited in Mousa, 2005, p. 40)

Similarly, IA as a function within an organization is aimed at reviewing and evaluating the effectiveness of the existing accounting and financial system, as well as other operations of management and controls. IA is therefore a management control tool which enables management to monitor the effectiveness of the organization's systems and operations, and ensures that all required objectives are being attained.

In 1971, IIA rendered a further revised version of the SRIA. In this, more amendments were made and all specific mention of accounting and financial review was dropped. IA in this revision was defined as follows:

> "Internal audit: an independent appraisal activity within an organization for the review of operations as a service to management. It is a managerial control, which functions by measuring and evaluating the effectiveness of other controls" (IIA, 1971, cited in Mousa, 2005, p. 40)

It is clear that the IAF has been expanded to include areas beyond the financial and accounting area into any part of the business activities, to give the opportunity for the

internal auditor to obtain an understanding of the activities of the organization, where s/he can be of service to any management levels.

In 1981 the IIA issued a new definition of IA:

> "Internal audit is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed" (IIA. 1981; Brink and Witt, 1981, p. 16; Mousa, 2005, p. 41)

This represents a further elaboration of the function: the internal auditor, while serving the organization, is to assist the employees. Such assistance has as its final objective the effective discharge of responsibilities by the employees. Furthermore, the objective should be for maximum effectiveness and the best possible utilisation of the organization's resources under the existing conditions (Brink & Witt, 1982). This definition also reflects the concept of IA being accountable to the organization as a whole.

"Internal auditing is an independent appraisal function established within an organization as a service to the organization. The objective of internal auditing is to assist members of the organization and (on) the board, in the effective discharge of their responsibilities. To this end it furnishes them with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed."(IIA, 1991, as cited in Pickett, 1997, p. 5)

There is not much contrast between the previous definition and this definition. However, the later one adds new features: "the provision of advice, and information that assists management in discharging their responsibilities" (Pickett, 1997) Clearly, these definitions represent an evolving understanding of the responsibilities of IA, as well as changes to the way IA is considered capable of adding value to the organization to which it reports. This study will attempt to estimate the extent to which these functions have been adopted by IA in Libyan oil and gas companies.

In addition, the Chartered Institute of Public Finance and Accountancy (CIPFA) 1997, as cited in D'Silvia and Ridley (2007) defined the IA as:

> "Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organization on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving

the organizations objectives. It objectively examines, evaluates and reports on the adequacy of the internal control environment as a contribution to the proper, economic, efficient and effective use of resources."

This definition has dealt directly with the assurance function, as the primary role of the internal auditor within an organization. IA provides an independent and objective opinion to the organization on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organization's objectives. This definition of IA expands the scope of its work to include many tasks. Moreover, it contributed to the following definition in 2000:

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

There is more evidence for this all over the world, where many organizations may experience this in their daily life in the field of auditing.

Based on this definition, it is clear that the focus of the IAF has changed from one of assurance to one of adding value. While the profession has been directed towards a standards-driven approach, this definition has had a clear influence on the auditing function (Bou-Raad, 2000; Krogstad, Ridley & Rittenberg, 1999). In addition, this definition recognises two roles for IAF:

• To provide an independent assurance service to the board, audit committee and management, focusing on reviewing the effectiveness of risk management, control processes and the governance that management has put into place to fulfil its focus on its objective;

• To offer advice to management on governance, risks and controls.

Finally, it can be concluded from previous definitions that the IA has evolved and expanded its work beyond the financial audit to assess and improve the effectiveness of risk management in the company. In addition, improving performance and reviewing the administration and operations of the company, and seeking to regulate the return (added value) and reduce costs.

2.5 The extent of the need for an Internal Audit in an Organization

IA is the result of economic development. Modern IA emerged after the industrial revolution in the eighteenth century. The end of the nineteenth century and the beginning of the twentieth century saw fast development of the market economy, separation of enterprises' ownership and operational rights, establishment of a great number of share-holding companies and large industrial enterprises in Western countries, resulting in higher management standards, and heavier economic accountability held by managers. The separation of ownership and management gave rise to the agency problem. Would managers, as agents of owners, always act in the best interest of owners, or would they be tempted to act in their own best interests, which would not necessarily be the same as those of the shareholders? Given these changes, there was a need for an explanation, which has become known as the Agency theory. As a result, IA emerged to meet the need of economic supervision and management of large organizations (Xiangdong, 1997).

In addition, after the global crisis of 1929 in the United States and Western Europe, the need for IA increased, as a huge number of companies went bankrupt. An effective review was needed to ensure that such a system was adequate and appropriate. The role of IA became to continually support and examine, and to project activities. As a result of the highly publicised accounting scandals in recent years, the IAF has received greater attention as an important contributor to effective corporate governance and quality external financial reporting (Prawitt, Smith & Wood, 2009). The need for IA has long been recognised by the USA and Canada. In the USA, due to a number of dishonourable company scandals and failures, the Foreign Corrupt Practices Act (FCPA) 1977 imposed on the management of companies statutory responsibility to retain an efficient control system with severe penalties for failing to perform well. This instruction led to an increase in the need for effective IA to assure the internal control system remained adequate and effective. Meanwhile, in the UK, IA development tended to lag behind that of North America, but IA is now acknowledged generally to be an important management tool, through its effective contribution to the implementation of policies of the company and to accomplishing the organizations objectives (Venable & Impey, 1991, p. 7).

IA, despite its early origins, did not evolve into a significant factor in internal control until the beginning of the twentieth century. Chambers, Selim and Vinten (1987, p. 10) specified that "the movement of occupations towards professional status has been seen as one of the

features of modern society with far-reaching implications for the individuals involved and for society as a whole. IA is part of this movement". In particular, the increasing complexity and scale of companies, and the need for greater accountability and more efficient control of costs and resources have emphasised the need for IAF. Paape (2007) indicated that there are factors that might be affecting the need for the IAF, such as the need for decision makers to explain and use information from reports and for messages. If those relying on these messages and reports have neither the time nor the ability to verify the contents, they will obviously need someone else who does. Thus, an allegedly more independent and objective function will evolve "organically", out of perceived internal demands. If this is the case - as to a certain extent it has to be – such a function will depend on its "credibility", in other words on the trust placed on IA reports by both internal users, and stakeholders to whom such information is made available. Algamal (1964) found that the following factors have helped develop the practice of the IAF:

1. the need for means to detect errors and fraud, where management want to ensure there are no errors or fraud in the operations and book-keeping; if this happens, it also wants it to be discovered early;

2. the emergence of enterprises with geographically dispersed branches; where this occurred, a representative familiar with all the centre's policies would be sent to see that the branches operated according to planned policies carefully and honestly enough, this internal auditor was known as the movable Internal Auditor; the role was not confined to a search for errors and fraud, but included the following:

    A. ensuring that foundations of sound practices existed;
    B. providing advice to the various branches of the organization;
    C. checking the credit operations, collection and movement of goods;
    D. ensuring there were no factors leading to a decrease in profits.

    The total of his/her duties being to assure the management that its policy was applied in the remote branches;

3. The need for objective and mathematically precise periodic statements. It was incumbent on management to rely on the data, summaries and statistics for project management and guidance. Here there was a need by the management for the internal auditor, who monitors the application of senior management policy, in checking the validity of data and statistics provided by departments. An increasingly important part of this role is to

assist the management in assessing risk, and it is in this area that some of the most controversial failures of accountancy and the IA function have occurred, particularly in developed countries with more advanced IA functions. It is possible that developing countries can learn from the mistakes of IA in developing their own IA functions.

4. The emergence of banks and insurance companies; these types of company are in constant contact with a third party, who is not required to wait for the external auditor to verify the accuracy of the calculations. Thus, there is a need for the IAD to review the processes continually. Then began the rapid development of IA since 1940, an independent institute for the teaching of IA was founded in the United States. In regard to small projects, there was no reason for the existence of the IAD, because a project owner is usually aware of all the different administration aspects of his project.

As a result, IA has played a critical role in recent corporate growth and in improving shareholder value. In the same way, the current global emphasis on the need for sound corporate governance, and acts and codes of ethics, such as the Cadbury committee in the UK (1992) and Sarbanes-Oxley ACT (SOA) in the USA, have led to an increasing interest in the IA, and the establishment of an IAF (Nagy & Cenker, 2007; Goodwin & Yeo, 2001). Internal auditors can support the need for their work by expanding their activities in proactively offering counsel and advice, by helping to solve problems and participating in the reengineering of processes, the development of systems and establishment of new organizations or processes (Anderson, 2003). The modern definition of an IA suggests that the role of IAF has been extended to include many dimensions. In recent years, the number of organizations that maintain IADs has been increased, as well as the average size of IAD staffing. The development and growth of IA has had an impact on the audits made by external auditors, who may rely on the work of IA (Glover, Prawitt & Wood, 2008). Wallace (1984) pointed out that the activities of IA departments have reduced external audit fees. As a result, management depends more on the IAF to assess internal control and improve corporate governance and operations. Hass, Abdolmohammadi and Burnaby (2006) in a review of the American literature, pointed out that the external factors influencing organizations resulted in the need for an expanded role of IA. They also emphasise that the IAF is moving away from a confrontational, detection-focused service to a prevention-focused service through a partnering approach with management, and away from a control approach to a risk-based approach with a focus on a consulting service.

2.6 Internal Audit Activities

The activity of IA depends broadly upon the purpose of its existence: IA is designed to add value and improve the organization's operations by assisting organizations to achieve their goals, through evaluating and improving the effectiveness of risk management, control and governance processes (Carcello, Hermason & Reghunandan, 2005). Due to an increasing number of earnings restatements and allegations of financial statement fraud committed by high profile companies, the IA has greater role in evaluating the internal control. The importance of IA work is confirmed by previous research investigating IA effectiveness in ensuring the reliability of the information supplied in financial reporting. Furthermore, the opportunity exists to investigate financial reports for the internal auditors more than the external auditors (Abdelkarim, 2005). In other words, for the internal auditors, more time is available for daily verification of the company operations than for the external auditors. In the context of achieving the quality of corporate governance, Gramling, Maletta, Schneider and Church (2004) suggest that understanding how the IAF interacts with the external auditors is necessary to achieve quality corporate governance. Clark et al. (1981) found that internal auditors' knowledge of company operations, processes, and procedures was the most important criterion. Therefore, a control activity such as IA has arisen into being as a result of emerging needs. IA as a separate function within the organization developed gradually in response to the needs of both owners and management in the conduct of a business (Mousa, 2005)

2.7 The Relationship between Top Management and IA

The board of directors, the audit committee, executive managers, internal auditors and external auditors are the cornerstones of effective corporate governance in organizations (Bishop, 2002). Effective corporate governance should be based upon a strong relationship between the board of directors, audit committee and the IAF. During the emerging phase of the IA profession, the scope of IA and the reporting lines were quite straightforward (Rupsys & Staciokas, 2005). Sawyer (2003) described IA as the "eyes and ears of management." In this sense, Pass (2004) expressed the view that the boards of directors are responsible for the governance of organizations and have an important monitoring role to play. Generally, the board of directors consists of two types of directors, executive and non-executive. The responsibilities of the executive directors include: setting the organizations' strategic objectives; providing the leadership with the necessary

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information; supervising the management and reporting to the shareholders on their stewardship. The main responsibility of non-executive directors is to monitor the executive decisions and ensure that the organization is acting in a reasonable way to assist management in achieving its functions. The board of directors represents all shareholders in monitoring management activities. However, non-executive members of the board of directors are not in a position to closely monitor the management operations. As a result, they will not be able to control management properly. Thus, many companies in developed countries have established an audit committee to help the board of directors to supervise management. This study will assess the extent to which such supervision is carried out by the IAF in Libya, and perceptions of the competence of IA staff to provide reliable information on such matters to boards of directors.

The main responsibility of audit committees is monitoring the financial reporting procedures, the internal control system and receiving reports for IA and external audit (Cook 1993). The board of directors is generally appointed by the shareholders of organizations. Beasley and Salterio (2001) said that this delegation of authority arises, because the shareholders do not have enough incentive to devote resources to ensure that management is working in their interests. This is consistent with Fama and Jensen (1983) in their famous research article "Separation of ownership and control", which described the board of directors as the highest internal control mechanism that monitors management. The revised Turnbull Guidance Report (2005) stressed that the responsibility for reviewing the effectiveness of internal controls lies with the board of directors. The Report recognised that the board delegates this task to its audit committee. Blue Ribbon Committee (1999) stressed the importance of audit committees as a monitoring mechanism. Regarding this issue, the Committee suggested that the board of directors should delegate their responsibilities to supervise management's financial reporting to an audit committee. Additionally, it suggested that audit committees increase the credibility of financial reporting by monitoring the internal and external audit function. In line with the Blue Ribbon Committee, the Securities and Exchange Commission (SEC) stated that "audit committees play a critical role in financial reporting system by overseeing and monitoring management's and the external auditors' participation in the financial reporting process. Audit committees can, and should, be the corporate participant best able to perform that oversight function" (SEC, 1999, p. 1). Audit committees as a part of the board of directors have an important role to play in improving the quality of financial reporting.

Regarding the relationship between IA, board of directors and audit committees, the revised definition of IA expanded the scope of the profession to include evaluating and improving the organization's governance process. Accordingly, management and audit committees are seeking assistance from internal auditors on corporate governance issues (Steinberg & Pojunis, 2000). However, Rupsys and Staciokas (2005) pointed out the presence of a variety of customers helps in increasing the IA services. This has happened because different customers will get benefits from different IA services. They add, referring to such circumstances, that there may be potential threats and conflicts related with reporting lines of the IA. For example, SM may be interested in activities, which may directly affect the bottom line in the profit and loss account, i.e. potentially their bonuses. On the other hand, operational management may be interested only in recommendations on improving the efficiency or effectiveness of operations. The audit committee may be more concerned with managing their own risk, and request a greater focus on risk management and control activities. It is therefore possible that IA may be pulled in several different diections at once, and this would be reflected in differing perceptions of the purpose of IA among groups with an interest in their reporting within an organization. IA standards have contributed to the literature regarding the relationship between IA and the board of directors. Standard 2130 issued by the IIA explained that the IA activity should contribute to the organization's governance process by evaluating and improving the process (IIA, 2003b). Thus operational management traditionally is experiencing demand for consultation services from internal auditors. The audit committee is interested in assurance services. Senior management is experiencing the need for both consultations and assurance regarding risks and controls. In addition, in Figure 2-1, the IIA explains the inter-relation between customers of IA services:

Figure 2-1: Internal relation between customers of internal audit service
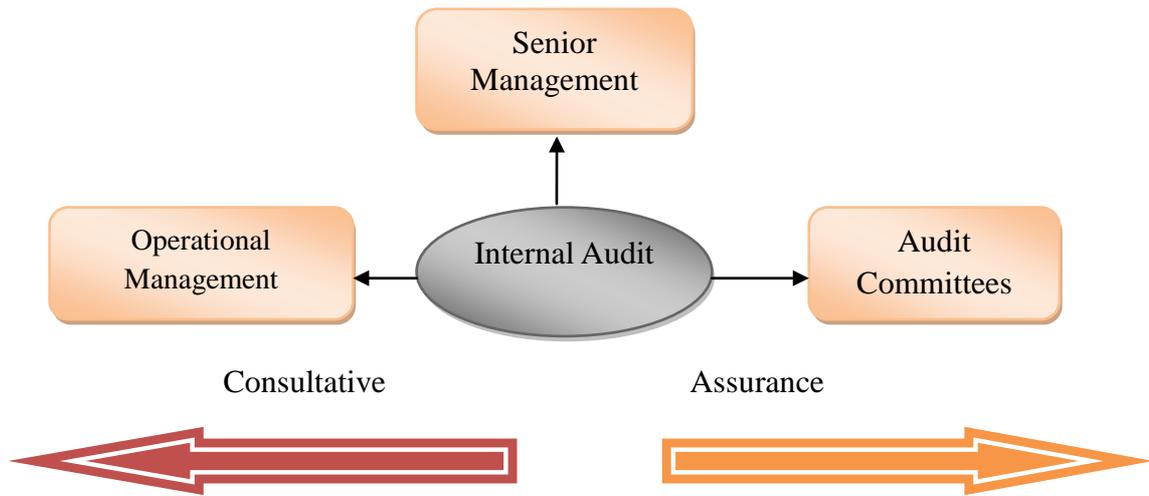
(Source: The IIA Research Foundation, 2003)

The Statement of Internal Auditing Standards (SIAS) No.7 encouraged the relationship between audit committees and internal auditors, and provides guidelines to internal auditors on communication with audit committees. The director of IA should have direct communication with the board via the audit committees. It is suggested by SIAS No.7 that regular communications with the board will assist ensuring independence and provide a channel of communication to keep each other informed on matters of mutual interest.

Moreover, the Treadway Commission (1987) considered the board of directors and the audit committee as the cornerstone of the firm's control mechanism. The commission noted that the IAF and the audit committee, together with internal accounting controls, played an important role in the internal controls that can help in preventing and detecting fraudulent financial reporting. Consistent with the recommendations of the Treadway Commission, the IIA issued its document "Improving audit committee performance: what works best". In this document, the IIA declared that the objectives of the audit committees and internal auditors are close. Therefore, the ability of the audit committee and IA to work together may help the audit committee to conduct its responsibilities towards the board of directors and the other parties. The recommendations of the two bodies suggested that there is a strong relationship between audit committees and IAF (cited in Menon and Williams, 1994). In order to summarise, in the area of internal controls, the board of directors is responsible for the company's system of internal control. The board sets polices

on internal controls and seeks regular assurance to satisfy itself that the system is functioning effectively. The role of management is to implement board polces on risk and control. In order to fulfil these responsibilities, management should identify and evaluate the risks, operate and monitor a suitable system of internal controls, which implements the policies adopted by the board.

2.8 Internal Audit and Agency Theory

According to early scholars, including Berle and Means (1932) and Jensen and Meckling (1976), the agency theory is essentially concerned with separating ownership from control in contemporary organizations. As explained by Fama (1980, p.288), separating security ownership from control can be seen as "as an efficient form of economic organization within the 'set of contracts' perspective". According to this concept, the board of directors and executive management, the agents of the shareholders are responsible for control; whereas the external auditors are entrusted with providing an assurance to the shareholders regarding the whole satisfactory input of the board and administration. Likewise, the aim of this concept is to capitalise on and sustain the fortunes of owners. As a result of the separation of ownership and control, including any emanating agency issues, in the contemporary business sphere, corporate governance system should be in place. Through this system, management is supervised and managed to minimise the agency costs and protect the interests of the board with those of the stakeholders. In the meantime, the contribution of the internal auditors in this respect has become more and more significant. The growing significance of the IAF in improving corporate governance has also been strengthened indirectly by means of legislation, including the Sarbanes Oxley Act (SOA) (2002) in the United States, as well as the Australian CLERP Act (2004). Even though this legislation does not exactly deal with the corporate governance contribution of the IAF, it still allows for the extended accountability needs of stakeholders, such as management and the board (together with the audit committee). As such, Gramling (2004) argues that this would lead to an extended role for the IAF provided that it includes an essential element of the network of parties which have corporate governance duties. Even though there is no widely accepted explanation of corporate governance, it can be described as a structure "consisting of all the people, processes and activities to help ensure stewardship over an entity's assets" (Messier, Glover and Prawitt. 2007, p 36). For this to happen, the IAF will represent the agent of the board striving to offer an assurance to the board through the audit

committee as to the adequate performance of management. As suggested by Adams (1994), the agency theory will thus be the basis in terms of clarifying the existence, and assessing the activities of the IAF.

In keeping with the aforementioned, Heath and Norman (2004) consider that this leads management to be answerable to the board, which is itself answerable to shareowners. So that the principal/agency issues that can permit management to transfer wealth excessively are dealt with, the internal auditors will then have a key role to play in that accountability cycle. Through the independent assurance of the board of the information quality it obtains, and the evaluation of risk management and controls, as well as the judgment of the effectiveness of management's actions, IA is by and large the shareholder's partner. Also suggested by Heath and Norman (ibid), internal auditors should attempt to identify as many techniques as possible to recognise the requirements and beliefs of those to whom the responsibility of IA is eventually due; i.e. the organization's investors. Performing compliance tests is not sufficient for auditors as they also need to ensure that adherence leads to governance, rather than obstructing it. As seen in agency theory, the interest of shareholders has been reinforced over time, mainly through government and professional bodies' reactions to financial scandals, approaching them via a number of changes in accounting measures, ethical principles and legal needs of legislation that has specific significance to accountants and auditors alike. These modifications which directly lead to increased external auditor's autonomy also indirectly reinforce the practice of IA, particularly by consolidating the role of the Audit Committee as suggested by Christopher, Leung and Sarens (2007). In addition, as a result of the aforementioned changes, management is pressurised into practising management and employing up-to-date ideologies, in order that the organization or company is governed efficiently, effectively and economically for the board, and in the long run to the investors. As such, this study refers to the agency theory in the above context to analyse the nature and practice of the IAF by means of its relationship with the highest form of management; namely, the board of directors and other prominent SM members (CEO and CFO).
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2.9 The need to improve the Practice of the Internal Audit Function (IAF)

Cathcart and Kapoor (2010) say that the IAF has to move from being just another routine and disconnected function to being the fulcrum of organizational governance and risk,

working in concert with management, the board, and external auditors. The role of the internal auditor has become one of the major challenges facing the profession today, and is associated with successfully managing and adapting in order to achieve significant improvement (Saul, 1986). Control over self-assessment and risk management are clearly as one of the main concerns of industry leaders (Coutts, 2009). Internal auditors have to manage all these changes to make sure that they continue to add value to their organizations and clients. Internal auditor training and education will have to be continually improved to enable them to identify new business risks and to design new controls to address them. The most critical factor in achieving IA quality is the auditor's competence and proficiency in evaluating the organization's risk management, control and governance processes (Swanson, ND). Each IAD should have a programme not only to ensure top quality of IA reports, investigations, consulting and other services, but should also have a way to effect continuous improvement in its service to stakeholders. However, IA techniques to be performed in the future will depend largely on further advances in technology (Gallegos & Carlin, 2004). In the context of focus on continuous improvement, internal auditors should practice what they preach to the company. The IIA Standards require ongoing and periodic assessment of the entire spectrum of audit and consulting work performed by the IAF, including an ongoing internal quality assurance process with periodic reviews, and an external quality assessment by a qualified independent reviewer every five years. In short, IAF should take steps to ensure its activities undergo quality assessment (Rossiter, 2007). On the other hand, this author also highlights some points that must be contained within assessments of quality programmes, which should include evaluation of the following:

- "Compliance with the IIA Standards and code of ethics
- Adequacy of the IA activity's charter, goals, objectives, policies and procedures
- Contribution to the organization's governance, risk management and control processes
- Compliance with applicable laws, regulations and government or industry standards
- Effectiveness of continuous improvement activities and adoption of best practices
- Improvement of the organization's operations and whether the auditing activity adds value" (p.38)

The IAF needs to change substantially from its current structure. In these cases, IAF in organizations and their audit committees should take a transformational approach, working

with outside advisers to redirect and reorganise to meet current reality, expectations and needs.

The IAF provides value for the business through its independent reporting to improve the effectiveness of the processes, and the use of its knowledge to disseminate good practices across the organization (ICAEW, 2000). In the same way, Noriyuki (2010) has drawn attention to the fact that internal auditors should look for consulting opportunities to use such strengths, and consider both areas that have not yet been approached by management, and areas in which management needs the independent review of internal auditors. Internal auditors' activity should not be considered superfluous. In real-time, IA can provide insight and value to its organization by expanding its scope to encompass a risk-centric approach, helping to establish the tone at the top, and focusing on collaboration and strategic engagement (Cathcart & Kapoor, 2010).

In respect to the IA practice of having more collaboration and strategic engagement, IA needs a plan to review important business strategies successfully. In order to achieve that, auditors need to collaborate with management (Cathcart & Kapoor, 2010). In addition to providing assurance on compliance initiatives, IA should develop "a forward-looking approach" to audit planning, in which it cooperates and coordinates with related risk and control functions, focuses on critical business risks and exposures, and determines the relevance and effectiveness of the responses to help an organization manage risk proactively. In order to be forward-looking, IA needs to be fully integrated into the strategic planning process. Then, it can clearly understand which risks facing an organization must be controlled.

IA must also be involved with the business in evaluating problems that emerge, and then determining whether they result from control weaknesses, or emerge from the business environment (Cathcart & Kapoor, 2010). Simmons (1998) inducted that the value of the idea that partnering with audit clients can improve significantly the results of IA work are recognised and embraced by the more advanced practitioners of IA. In other words, the practice of IA activity in cooperation with other parties within an organization would have a positive impact in improving the work of IA. In the context of the need to improve the practice of the IA, Cathcart and Kapoor (2010) stated that obtaining new skills and expertise means that the key skills that enable internal auditors to assess the effectiveness

of financial controls are not the same skills that will serve them well in addressing operational risks and controls. In order to assess these latter risks effectively, internal auditors must develop a deeper understanding of the business and the processes that make competitors in its industry successful. An effective IA activity that can deal with contemporary business risks and meet the ever-increasing demands of management and stakeholders requires a solid staffing strategy. Organizations need to invest in skilled resources, methods, training, career paths, and technical infrastructure to deal with increasing business risks related to fraud, internal controls, and regulations. In addition, acquiring new skills through training can enable internal auditors to focus resources on activities that are more effective in identifying risks to the organization. Especially important is the need to develop deep expertise in specialties, such as credit, IT, finance, compliance, and fraud.

2.10 The Practice of Internal Audit Function (IAF) as a Mechanism of Corporate Governance

According to Belay (2007), the presence of excellent governance in a company is a mechanism utilised to attain organizational policy. Interestingly, corporate governance is a subject which has attracted wide attention all over the world, and has gained major public and regulatory interest (Stanley, 2000; Coram, Ferhuson, and Moroney, 2008). A key area of an organization's corporate governance lies in its IAF. As stated by Spencer (2003), corporate governance is a concept that, over time, has found its way into the business research and has also attracted so much attention in the accounting and auditing field. Equally, Colbert (2002) has drawn attention to the fact that recently corporate governance has been a focal subject in the accounting and auditing literature. A few examples of this have been given, including the Panel on Audit Effectiveness Report and Recommendations in the USA (2000) and the Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (1999). There were published reports by Cadbury and COSO in relation to controls and corporate governance in the early 1990s. At an earlier stage, the Tread-way Commission (National Commission on Fraudulent Financial Reporting, 1987) as well as the Cohen Commission (AICPA, 1978) approached governance topics in the United Kingdom. As indicated by Vinten (1998), corporate governance is not a novel topic, but it could be traced back to the time when incorporation with limited liability was accessible in the 19th Century, with the

related need for laws and guidelines. In recent times, the argument has concentrated on more specific issues. Staciokas & Rupsys (2005) stated that the term corporate governance is widely associated with and frequently utilised by managers, directors, shareholders and auditors. According to Tricker (1984), it is broadly agreed that corporate governance is a process involving accountability to shareholders, supervising managerial action and setting a strategic direction. As also elucidated by the IIA, corporate governance involves the processes produced by representatives of an entity's shareholders to allow for oversight of the risk and control processes carried out by the management. Efficient corporate governance contributes to a better and precise management reporting, such as reporting on internal controls and financial findings and efficient internal controls (IIA, 2003a).

Another definition of corporate governance is that provided by the Organization for Economic Co-operation and Development (1999, www.oecd.org), which states that CG is "a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring...

In the broadest sense, corporate governance is referred to as stewardship, and the duty of corporate directors is to offer oversight of the objectives and policies of a company and to strive for their application (Peter, 2005). To put it differently, corporate governance is defined as a system through which business corporations are guided and managed (OECD, 2004). For a corporate governance to be effective, it should aim to successfully safeguard the interests of an entity's shareholders. As well as monitoring the adequacy and effectiveness of internal controls and ensuring the quality of audit functions, it has to also ensure that financial reports are integral, transparent, reliable, and of a high quality, (Rezaee, 2005; Barac and Staden, 2009). The aforementioned explanation of corporate governance is not only related to shared aims and incentives, but also to monitoring and control.

Nevertheless, it is not as clear from the definition as argued by Lex (2003) that corporate governance systems seek to control and monitor corporate performance. According to Staciokas and Rupsys (2005), the organizational changes have made a noteworthy effect on the IAF that functions within the organization. During recent years, these organizational

changes have led to the employment of the IAF as an essential factor in terms of decision making within organizations. As well as internal auditors, senior managers, the audit committee and external auditors are considered as the basis on which real corporate governance should be constructed (see Figure 2.2).

Figure 2-2: The Corporate Governance Model
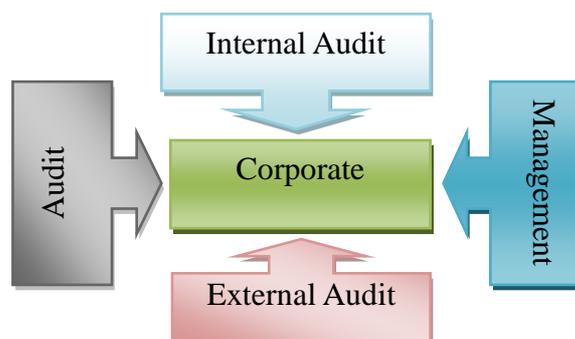
Source: from Staciokas and Rupsys (2005, p. 173)

2.11 The practice of the Internal Audit Function (IAF) as a mechanism of the internal control system

During recent years, there has been an increased awareness internationally of the importance of internal control as a key component in the management of risks (International Finance Corporation [IFC], 2008). Historically, internal auditors played an important role in evaluating the effectiveness of internal control systems. According to their organizational status and authority in an organization, an IAF may play a significant role in monitoring an organization's activities (Ahmed, 2007). Concerning the role of internal auditor in monitoring the internal control system, Chambers, Selim and Vinten (1990) indicated that the internal control system represents the main role in the IAF, since the internal auditors are considered experts in management controls. However, Goodwin-Stewart and Kent (2006) linked the existence of a strong internal control system and the use of the IAF as a review and monitoring mechanism, being one of the strong factors associating IA and the level of commitment to risk management. The COSO Report (1992) cited in Rezaee (1994) highlighted the responsibilities of the Board of Directors and management in establishing and maintaining a strong internal control system. The report showed that there should be a reasonable assurance regarding the adequacy and effectiveness of the organization's internal control by the internal auditors in achieving the

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organizational goals. The revised Internal Control-Integrated Framework, COSO Report (2003) focused on the role of internal auditors in evaluating the effectiveness of the internal control system by stating that:

> "Internal auditors play an important role in evaluating the effectiveness of internal control systems, and contribute to ongoing effectiveness. Because, of the organizational position and authority in an entity, an IAF often plays a significant monitoring role" (COSO, 2003, p. 4).

The series of business failures and corporate scandals that began with Enron in 2001 caused a very rapid decline in investor confidence. In order to prevent accounting frauds and re-establish shareholders' confidence, legislators have tried to regulate corporate governance, mainly by focusing on internal control. The United States became the initiator by introducing legislation to the area of auditing, especially IA. The Sarbanes-Oxley Act (SOX) of 2002 significantly expanded the regulations of corporate governance (Deloitte & Touche, Ernst & Young, KPMG, PricewaterhouseCoopers, 2004). These focused, in particular, on the requirements of SOX Section 404, which is management's assessment of a company's internal control over financial control of financial reporting, along with an independent auditor's report on management's assessment, and on the effectiveness of the company's internal control over financial reporting. However, the authors claimed that Section 404 creates an ongoing requirement for management, and over time, should cause companies to continue to monitor and strengthen their internal control over financial reporting. However, this is not just created by Section 404; there were many motivations to increase the importance of the internal control, while other factors, such as the information technology revolution and environmental awareness have also had an impact on the development of IA as a tool for internal control (Davies, 2001).

The professional literature, in terms of the auditing standards, has contributed to the role of internal auditors in monitoring and evaluating the internal control system. Furthermore, the IIA issued the Statement of Auditing Standards (SIAS) No. 1 in 2002 "Control-Concept and Responsibilities". The statement highlighted the role of internal auditors in assisting their organizations in discharging their responsibilities by providing them with information regarding the internal controls. Moreover, the revised statement of responsibilities of internal auditing (IIA, 2004, p.3) as a part of the standards framework stated that

> "the objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analysis,

appraisal, recommendations and pertinent comments concerning the activities reviewed. The internal auditor is concerned with any phase of business activity where he can be of service to management".

Based on the above, it can be concluded that internal auditors can play an important role in monitoring the internal control system, and assisting management to discharge its responsibilities.

2.12   The Development of the Standards of Professional Practice of IA

The primary objective of this section is to review the literature concerning the Standards for Professional Practice of Internal Auditing (SPPIA) issued by the IIA (revised in 2004) and to reflect its developments. Fadzil, Haron and Jantan (2005) explained that SPPIA are the criteria used to evaluate and measure the operation of IADs. However, on this point, the SPPIA included five general standards:

- The independence of internal auditing department from the activities audited, and the objectivity of internal auditors;
- The scope of internal auditing work;
- The professional proficiency of internal auditors and due professional care. In this study, the term 'competence' is used, instead of professional proficiency as they have been given the same meaning in the wider literature on IA;
- The performance of internal auditing work, in this study the term 'work performance' will be used instead of the 'performance of internal auditing work;
- The management of the internal auditing department.

This study will build upon these general standards by the use of five factors (independence and objectivity, scope of work, competence, work performance and communications). The inclusion of communication is based on both the updated SPPIA (2004) and on the broadening of IA functions and the concomitant requirement to communicate information more widely throughout an organization noted by authors such as Davies, (2001). However, the preliminary study of the research problem and the researcher's experience, have revealed that in this area, the size of IA units or departments is quite small in Libyan companies.

The SPPIA (2004) identified the purposes of the standards as follows:

- To delineate basic principles that represents the practice of IA;
- To provide a framework for performing and promoting a broad range of value-added IA activities;
- To establish the basis for the measurement of IA performance; and
- To foster improved organizational processes and operations.

By considering the above types and purposes of SPPIA, it can be noted that there should be homogeneity between IA standards and its objectives and the IAF. Accordingly, Coetzee (2004) argued that the SPPIA represent the minimum requirements to be maintained by internal auditors in practising their profession to assist management in a consulting capacity with risk management, control and corporate governance. Moreover, the IIA intervenes continually to enhance the practice of the IA profession greatly by adopting professional standards and developing knowledge of practice (Chun, 1997; Brody & Lowe, 2000). The IA Standards include various criteria for evaluation and measurement of IA. In 2004, the new framework for the SPPIA was restructured to be in line with the new definition of IA issued in 1999. The standards have identified the roles of internal auditors in control activities, risk management and corporate governance. The new framework consisted of three types of standards:

1) Attribute standards that focused on the organizations and personnel performing the IAF;
2) Providing quality criteria as to how to measure IA services through performance standards;
3) Providing guidance applicable in specific types of engagements through implementation standards (IIA, 2004).

With regard to the IIA's new framework that are considered mandatory guidance for internal auditor and emphasise more support to do his/her role and responsibilities. Smith Report (2003) provided recommendation regarding the audit committee should ensure that the IAF has the resources and access to information that lets it meet its responsibilities, and carry out its work according to professional standards for internal auditors. Some previous studies have focused on the SPPIA. For example, Burnaby, Powell, and Stricklaland (1994) conducted a worldwide study in the 11 countries surveyed, to determine compliance with the SPPIA and compare the functions covered by internal auditors. The choice of these countries was based on the grounds that they were listed in the IIA's Membership/Continuing Professional Development Directory. The study results revealed

that most internal auditors (82%) were in compliance with SPPIA and followed the IIA Standards. It was argued that although the sample was selected from the membership of the IIA, a total of 18% were not in compliance with the IIA's standards. This may raise a question about the reasons behind not compliance with them, and therefore the quality of IA in these countries. This study did not explain how the commitment to the standards effect on reality of the IAF.

Accordingly, there exists a strong relationship between the quality of the internal control system and the SPPIA. Fadzil et al. (2005) conducted a survey into all the companies listed in the Bursa Malaysia in 2001, to determine whether the IADs of these companies complied with the SPPIA of IIA (2000), and whether compliance with SPPIA was affecting the quality of the internal control system of the company. The study found that the monitoring aspect of the internal control system was significantly affected by management of IADs, professional proficiency, and objectivity factors. The scope of work and work performance significantly influenced the information and communication aspects of the internal control system, while work performance, professional proficiency and objectivity affected the control environment factor of the internal control system. Al-Twaijry et al. (2003) aimed in their study to assess the degree of compliance with SPPIA, excluding the standard relating to the actual performance of IA work in the Saudi Arabian corporate sector. The study result revealed that the work actually conducted by the organization of IA is not consistent with the expectations of IA practice expected from IIA in terms of guidance at level 2 (SPPIA) and level 3 (Practice Advisories) and level 4 (Practice Aids and development and training tools).

As mentioned in earlier chapter, the aim of this study is to evaluate the nature and practice of the IAF, and thereby examine the degree of reliance that is placed by the top management on the work of IAF to contribute to achievement of the objectives of the company, through obtaining the perceptions of top management and heads of IADs of study factors. The next part will focus on the literature concerning the factors related to the nature and practice of IAF, which are represented under independence and objectivity, scope of work, competence, work performance and communications.

2.13 Factors related to the nature and practice of the IAF

This section focuses on the study factors. It is divided into five parts in line with the five factors of the current study model. Each section considers both the professional and academic literature. With regard to the factors related to the nature and practice of IAF, Schneider (1984) conducted a descriptive study examining the factors related to the IA, namely objectivity, competence and work performance, by utilising a questionnaire and interviews. Haimon (1998) conducted an empirical study about the effectiveness of IA in municipalities in Israel, examining the components of the model for the effectiveness of the IA: independence, role and scope, competence, work performance, and management of the internal auditing as part of performance. The last factor of Haimon study was replaced by other factor namely (implementation), by using a questionnaire survey and interviews. Mousa (2005) sought to add to the academic literature on the proposed model for evaluating the effectiveness of IAF in Libyan organizations, by establishing a set of factors made up of independence, qualifications, professional experience, scope of the work, performance of audit work, and external components; he had utilised the interview method only to evaluate the validity of model.

In a study by Felix Jr, Gramling and Maletta (2001), using cross-sectional regression models and a survey, external auditors' reliance on the IAF was shown to be affected by the quality of internal auditing (objectivity, competence and work performance) factors. Obeid (2007) conducted a study evaluating the strength of the IAF in Sudanese Banks by using a questionnaire and interviews; he also employed the same last factors, also taking into account the evaluation of the degree of adoption by the External Auditor of the work of the internal auditor. Obeid showed that external auditors will rely on the work of internal auditors, if the quality of IAF is considered to be high. If the quality of IAF is low, external auditors' reliance on it will be lower. Marais, Burnaby, Hass, Sadler and Fourie (2009) examined to what extent the IA activity in South African complied with the SSPIA and several areas of the IA activity's compering with the exited perspectives in the world. They concluded that the respondents in terms of compliance with the SPPIA in South Africans had a higher level compared with those that exist in other parts of the world. Thus the new IA activity and internal auditors were given the structure and support that they needed.

It could argue that the above studies were similar in addressing at least three of the same factors. These factors were also addressed in the current study, to obtain the perceptions and evaluations concerning the nature and the practice of IAF. However, the previous studies did not consider clearly to a new factor, which is communication and the perceptions from the side of management, while the current study has devoted a great deal of attention to this factor and top management perceptions. In line with the concept of the nature and practice of IA and above studies; in terms of degree of reliance on the work of IA, with taking in consideration the second objective of this research. It can be assumed that top management will rely also on the work of IAF to contribute to the achievement of a company's objectives, if the quality of IAF is considered to be high. In addition, if the quality of IAF is low, top management's reliance will be lower. However, the current study sought to evaluate the degree of reliance placed by top management on the work of IAF in contributing to the achievement of the desired objectives, while this point has not been addressed by previous studies.

However, the next sections will be relevant to the main factors of the current study. The first one is the independence of the IAF, followed by the remaining factors that are considered to be important to perceive and evaluate the nature and the practice of IAF and degree of reliance by top managerial class, and other points on the subject of research.

2.13.1 Independence of Internal Audit Function (IAF)

All definitions of IA mentioned previously at this chapter contain the word "independence". This is therefore considered an important factor to examine the nature and practice of the IAF. There is a degree and quality of independence that has to be earned, to ensure that an audit is sufficiently distanced from the particular operation being reviewed and this has to be achievable. On the other hand, there is a need for the organizations to have an IAF (Pickett, 1997). Regarding the management of an organization and audit independence, Cheung and Qiang, (1997) indicated that within an organization, IA needs to maintain a high level of independence to give IA practice the opportunity to fulfil its objectives effectively and support the organization's management to meet desirable objectives. Meanwhile, this level of independence has to be recognised by top managerial class and internal auditors to meet the expectations each other. Independence has always been considered as a fundamental attribute for auditors, external and internal (Wynne,

2001). So, the auditors must be independent in the performance of their work in order to verify their effectiveness in the audit work. Thus, the work of IA should be observed by SM, in order to review and examine the system of organizations, and to ensure the implementation of plans, and internal policies. Therefore, IA needs to distance itself from the application of project policies, procedures and the preparation of records or links to any other executive work. The organization is continually reviewed and assessed by IA and the audit department submits the results of its work and recommendations in the reports to the board of directors (Mendez & Garcia, 2007). In turn, this distance would to some extent contribute to preserving the independence of IA.

Cathcart and Kapoor (2010) argued for promoting management engagement, while maintaining independence. An effective control environment requires SM to establish and maintain effective internal controls, promote risk awareness at all levels, disseminate an appropriate corporate risk culture, and maintain transparency and accountability throughout the organization. In this sense, Management should recognise that the IA needs to be an independent, objective assurance with consulting functions that reports directly to the Board of Directors and audit committee, as IA has been defined by the IIA (1999).

The definition highlights the independence and objectivity of IA with respect to both assurance services and consulting, which reflects the importance of the factors of independence and objectivity for the nature and practice of IAF. Independence and objectivity are closely related and are sometimes used within the IIA Standards in a somewhat circular manner. Indeed, the IIA (2001) acknowledges that the terms have been used interchangeably, and with a lack of clarity. However, the Glossary to the IIA Standards distinguishes between the two concepts in the following way:

"Independence: The freedom from conditions that threaten objectivity or the appearance of objectivity; such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels."

"Objectivity: An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others."

Hence, the IIA distinction between the two terms appears to be that objectivity is a state of mind, while independence is the state of affairs that permits an internal auditor to operate

with an objective attitude. While the IIA standards emphasise independence at the organizational level, the definition indicates that it is also important at the individual, engagement and function levels.

Weizhong and Shourong (1997) believe that independence is important for internal auditors to achieve their responsibilities, arguing that when conducting the audit work adhered to the basic principles of independence should be followed by the internal audit department. In the same time, the organization management needs to recognise the importance of audit independence. Brink and Witt (1982) state that "independent" is characterises the audit work as being free of restrictions that could significantly limit the scope and effectiveness of the review or the later reporting of findings and conclusions.

Given this independence, internal auditors are able to perform their work freely and objectively. Without independence, the objectives of IA cannot be achieved. Moreover, The SPPIA, standard No.100 concerning independence, dictated that "internal auditors should be independent of the activities they audit". Also under this standard, there are two other sub-standards regarding organizational status and objectivity. In this regard, "the organizational status of an internal audit department should be sufficient to permit the accomplishment of its audit responsibilities" (IIA, 2003).

Independence lies in the fact that an independent organ should be set up without interference and restriction from other departments. The audit organ should have an adequate ability to give independent opinions and make decisions on how to manage the problems arising from the audits. The performance of audit cannot be independent of other pressure through an organization, if the organ cannot be independently set up or is merged with other departments (Weizhong & Shourong, 1997). Similarly, Woolf (1983) clearly states that auditors who have lost their independence, have lost their raison d'être.

Furthermore, commentators and standard setters in a study of the development of IA using institutional theory in Saudi Arabia identify independence as being a key attribute of the IA department. In addition, the SPPIA suggests that the independence of the internal auditor is to be enhanced more when the authority for appointment and dismissal is with the board of directors. The head of the IAD needs to be responsible to an individual of suitable seniority within the organization (AI-Twaijry, Brierley & Gwilliam, 2003).

Vinten (1999), in studying audit independence in the UK, suggested that the principal elements of independence of IA, which should be present for it to function effectively, are:

1- Enablement IA to get access to all departments within an organization as much as the work of internal audit requires;
2- Separation between IA and personnel who are responsible on the transactions under the audit work;
3- Keep IA far from any financial systems operating within the organization- to make sure the work of IAD will not impair by not involvement in design and operate these systems,
4- Granted the right to heads of IADs to issue reports without editing under his own name; and
5- Conferring the right to heads of the IADs to reporting on any aspect of the financial work including that of the finance department.

These principal elements will affect the independence of IA more positively, if involve to whom organizational level the IAD should report. While Vinten (1999) pointed out that if the auditor was unable to produce unbiased judgements, opinions, and recommendations, for any reasons, in this case, the auditor should make his position clear in the audit report.

Furthermore, regarding the role of the audit committee, many companies tend to compose the audit committee of numbers of executive and non-executive members. The goal of the committee is to oversee the IAF, which increases the independence from management (Mendez & Garcia, 2007). Research has been carried out on evidence from a critical analysis of the independence of the IAF by Christopher, Sarens, and Leung (2009) aimed at establishing whether the relationship of IA with SM and audit committee in Australian companies threatens to influence the independence of IAF. They pointed out that threats to independence are extant, and accordingly having negative influence on audit independence. Of the threats identified, the first threat to independence refers to the popular practice of using the IAF as a training ground for future managers. Although there are arguments supporting this practice, in terms of the ability of internal auditors to operate objectively and independently, when they are taking into account their independence upon the auditees for future positions. The second threat to independence concerns SM, which has authority to approve the IA budget. This type of threat may be considered a serious threat to the independence of the IAF, as the scope and impact of IAF is reduced by the powerful tool, which management may use. The third threat to independence is heavy interference from SM in developing the IA plan. At the same time, SM's participation is

essential for setting what is right for the IA plan. In the same line, Rittenberg (1977) in his model of IA independence, came to the conclusion that organizational aspects, especially top management support, have a much greater influence on IA independence than individual factors (personal character and technical competence). Many articles, such as Reinstein and Gabhart, (1987), Penno, (1990) and others have emphasised that the IA unit or department should report to the higher levels of the organization or at least have access to them.

In addressing the relationship between IA and audit committee, the potential threats to independence resulting from this relationship have been identified by Christopher, Sarens, and Leung (2009). The first threat to independence concerns non-compliance with best practices recommending the IAF to report functionally to the audit committee and administratively to the SM (CEO or CFO). The second threat to independence pertains to the composition of the audit committee. It is important to guarantee the independence of IAF, but it becomes useless when audit committees do not have the right composition, which invariably threatens the independence of IAF. The third threat to independence relates to the power of management to appoint and dismiss the head of the IAF. It is also a threat when SM is solely responsible for appointing, dismissing and evaluating the head of the IAD. In addition, attribute standard 1110, on organizational independence issued by the IIA (2004), explained that it is important to the heads of IADs to report at level within the organization that allows the IA activity to accomplish its responsibilities. Such as report functionally to the Audit Committee or its equivalent to enhance necessary independence.

Bariff (2003) posits that the organizational independence of the IA provides a degree of objectivity that is important to the task of establishing a strong independent audit. IA has a specialist understanding of the audit functions, such as accounting, and internal control and auditing issues, which should be addressed in the design of the effective audit committee policies and procedures. Moreover, for Bariff (2003), the preferred reporting relationship of the IA should be directly to the audit committee itself, rather than to management. Such a structure provides a degree of independence for IA, and the IA can be more effective.

Given to the current working scope of IA, the IIA (2004) recognises that audit committees and IA have the same purpose. In order to fulfil IAF responsibilities to different levels within an organization such as SM, Board of Directors, shareholders and outside parties,

the IA essentially requires the existence of a strong working relationship with the audit committee. The IIA (2003), which studied the IA reporting relationship, found that audit committees are most interested in the evaluation and opinion of internal auditors concerning whether internal controls are adequate, the financial information provided is reliable, the policies of organization, laws and regulations, are abided to, and assets are safeguarded. Thus, assurance-oriented activities regarding risk management and internal control are expected to add more value to audit committees (Sarens & De Beelde, 2006a).

2.13.1.1   Organizational status of the Internal Audit Function (IAF)

The revised SPPIA (2004) standard suggested that the organizational status of the IAF and the support provided by management are the major success factors for IAF. The status of IA should enable it to function effectively. Management support for IA is essential. IA should be involved in the determination of its own priorities, in consultation with management. Accordingly, the chief or head of IA should have direct access to, and freedom to report to, all SM, Board of Directors and, where one exists, the audit committee (Vinten, 1999). Moreover, the status of IA is vitally important as it plays a major role in the ability of IA to achieve its objectives (Venables & Lmpey, 1991, p. 48). In addition, The Statement of Auditing Standards SAS No. 65 (1997) stressed that the importance of organizational status of the IAD should be sufficient in order to accomplish its audit responsibilities. In this regard there are three recognised forms.

1.   "Reporting directly to a chief executive or managing director".

This is considered the ideal situation. However, it has not always proved to be totally successful because:

   a)   Audit ideals may be pursued to the detriment of operational performance;
   b)   The auditor may be perceived as a restricting influence;
   c)   Difficulties may arise in liaising with other departments.

The existence of these complications may engender a negative attitude to IA, to the detriment of the decision-making capacity of line management. The objectives of the organization are then not met because audit objectives take precedence over operational objectives.

2.   "Reporting to a departmental manager or local manager".

In this situation the auditor is responsible to a departmental manager. Both the auditor and organization are probably in the worst situation. The one remaining advantage of this relation is the specialised local knowledge. The main disadvantage is the tarnishing of audit independence, resulting in the auditor becoming too close to the management of one department. Secondly, professional audit experience gained in such a department is unlikely to compare with the promotion prospects offered within a centralised department, with the consequence that attracting qualified auditors will prove difficult, and this may lead to poor auditing standards.

3. "Reporting to a director of finance."

This is the most common situation and has many advantages. According to Standard 1110 (IIA, 2001) regarding Organizational Independence (status), "the director of internal audit should report to a level within the organization that allows the internal audit activity to fulfil its responsibilities".

In exploring the organizational status of the IAD, Dunn (1996) observed that the independence of the IAD is determined by the manner in which it is supervised. Similarly, Vinten (1999) defined the organizational independence as the situation that will allow the IA activity to fulfil its function with effectiveness. In relation to the management support Lopez, Lopez, and Perez (2003) argued that the management team's support is fundamental and that the director of IAD should have direct access and freedom to report to every manager, including the executive director, the top director and the audit committee. A meeting of the IIA's 1997 Global Forum reached the main conclusion that there is a need for greater understanding of the status of IA around the globe (Lower, 1997).

It can be argued that organizational status is significantly affected by the level to which the IAF reports. Abdel-khalik, Snowball and Wragge (1983) confirmed that the administrative level to which the head of the IAD reports (a surrogate for independence) was clearly a dominant factor, comparing with audit techniques. None however was more important than the level of organizational independence of the IA staff. Simmons (1996) explained that the organizational status of the IAD should be sufficient to permit the accomplishment of its audit responsibilities. The director of IA should be responsible to an individual with sufficient authority to maintain independence, ensure broad audit coverage and appropriate

actions on the audit recommendations. Studies showed that an individual's social position or stature within an organization, and ability to objectively disclose information are positively related. For example; Near and Miceli (1985) provide a framework for studying "whistle-blowing" based on existing theories of motivation and power-dependency relationships within organizations. They suggested that the "whistle-blowing" dilemma is caused by certain conditions and events, and is influenced by several factors, including the social position of employees. They found that staff who work as inspectors or internal auditors will be in stronger positions than other members of their organization, and thus have greater opportunity to report negative information to management according to their organizational position. In order to enhance the organizational status of the internal auditors, the COSO Report (1992) recommended that there should be a clear relationship between the director of IA and the Board of Directors. Furthermore, the Report (p. 26) states that

"It should be recognised that the internal audit function does not have a primary responsibility for establishing and maintaining the internal control system, but it is management's responsibility. But internal auditors evaluate the effectiveness of control systems and thus contribute to ongoing effectiveness. Because of its organizational position and authority in an entity, and the objectivity with which it carries out its activities, an internal audit function often plays a very significant role in effective internal control."

With respect to the organizational independence issue, paragraphs 2 and 3 of SAS No. 65 pointed out that the internal auditors should maintain their independence when they are conducting their audits. The standard explained that IA staff are employees within the organization, and therefore are not independent from the entity, so that their reporting relationship should be established. It is important that the director of IA should be responsible to an executive with enough authority to provide the appropriate level of IA coverage and adequate consideration of, and action on, findings and recommendations.

Furthermore, the director of IA should have a clear reporting relationship with the Board of Directors and Audit Committee (Braiotta & March, 1992). Finally, internal auditors should have the support of the top management and the Board of Directors so that they can gain the co-operation of auditees, and perform their work free from interference. The Standard 2060 (IIA, 2004) explained this issue in that:

"the director of internal auditing should report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risk exposures and control issues, and other matters needed or requested by the board or senior management".

It is suggested that the director of IA should not report to divisional management or line managers, as this situation will impair the independence of the department.

2.13.1.2   Objectivity of the Internal Audit Function (IAF)

Objectivity is very important characteristic that internal auditors must work to achieve. Vinten (1999) indicated that each internal auditor should have an objective attitude of mind and be in a position of independence to exercise discretion, express opinions and ensure recommendations are presented fairly. He also pointed out a set of situations or practices, which would affect the objectivity of IA. These situations are as follows:

a) The work that is carried by internal auditors within an organization should not face any kind of conflict of interests, which are might arise from any sort of relationships probably extant between auditors and auditees or their activity.

b) Protection of internal auditor from undue influences, which either interrupt or restrain the audit work conduct or modify the scope of work, as well significantly affect the opinions or judgements as to the content of the internal audit report.

c) The internal auditor should not incline to weaken objectivity when reviewing activities were under his responsibility or authority.

Given the sensitivity of the mentioned points on the objectivity of internal auditor, Vinten concluded that where any of the situations mentioned above arise, this required from the internal auditor to clearly declare that consideration can be given to the need for an alternative preparations for the audit function. It can be argued that there are few practices would affect directly on the objectivity of IA. While he pointed out to other situations might not effect on the objectivity of IA. However, these situations must be taken into account by the other parties such as management. These situations are:

d) Internal auditor should consult with respect to the proposed changes affecting the large control systems, and applications to which they relate, in addition to making recommendations on control standards that must be applied.

e) Internal auditor should not consider discharging non-audit duties is normal, while when he does that, management have to suppose his function is not functioning as an internal auditor.

The last two points represent what usually happens in the daily life of the internal auditors. While if this happens, it requires from management and internal auditors themselves to consider whether these situations therefore, will not weaken the independence and objectivity of auditors. As long as the IA was one of the employees receiving a salary from a company with particular management, he/she could not be said to be truly independent. They therefore prefer the term "impartial". As a result, the IIA is proposing changes to the SPPIA that places significant emphasis on "objectivity", and less on the concept of "independence" (Simmons, 1999).

In regard to the potential conflict and managing threats facing the objectivity of IA, the IIA has issued a number of professional standards and guidelines. In 2001, the IIA published "Independence and Objectivity: A framework for Internal Auditors" (IIA, 2001). The framework identifies seven key threats: 1) self-review; 2) social pressure; 3) economic interest; 4) personal relationship; 5) familiarity; 6) cultural; and 7) cognitive biases. It also identifies a variety of safeguards against these threats. However, the SPPIA provided the following guidance in regard to independence and objectivity in carrying out IA activities, cited in Simmons (1999):

1) So that the entity's mission and aims can be attained, the board and executive management need reasonable assurance. For this to happen, they are in charge of supervising the activities in which subordinate line managers are engaged to design and apply a comprehensive control system able to offer the necessary practical assurance.

2) While being generally directed by executive management, it is the duty of the subordinate line manager to administer the tasks and reach the goals and intended outcomes set up by the board and the executive management members.

3) Under the SPPIA, IA is carried out on behalf of the board and management, with the internal auditor being a central figure in the entity and whose major role is to shape a perspective about the state of control and report it back to the board and executive management, as well as providing guidance and suggestions to the entity members.

4) The internal auditor can have an advisory role under the SPPIA; however, s/he cannot design, execute or run the systems of control. Similarly, s/he may wish to give suggestions. One of the line manager's duties involves assuming corrective action, or accepting the related risk. Therefore, the responsible line manager has the freedom to approve, decline, or suggest other courses of action in keeping with the requirements of the board and executive management.

5) One can link an internal auditor's independence of his/her reports to the sufficient fulfilment of certain conditions in terms of the level of governance, such as acceptable consideration of audit reports; suitable consideration of audit proposals; and the achievement of audit obligations without being encroached upon. There is surely a sense of objectivity if the internal auditor does not allow professional judgment to be subordinated to the judgment of others when it comes to auditing issues; if s/he similarly exhibits a genuine opinion regarding the audit work item; or if there are no considerable compromises affecting the quality of the audit product.

It could be understood from the above guidance that the proposed changes of SPPIA, are enhance to the independence and objectivity of internal auditors and they will not compromise it.

Regarding the twofold role of IA, two previous studies conducted in the US have addressed the concern of this role of IA, as provider of assurance and as a consultant, might create bias, thus causing problems for the objectivity of IA. Both Brody and Lowe (2000), and Ahlawat and Lowe (2004) examined whether internal auditors can remain objective when consulting for corporate governance in the acquisition process of a company. Studies involved the internal auditors who were acting on behalf of the seller or the buyer in the acquisition process. In such studies, the role that the company was taking in the negotiating process was found to influence the participants' provisions, with internal auditors for buyers of the requirement to provide much weightier judgments about the likelihood of inventory obsolescence, compared with those allocated to the requirement of the seller. The researchers conclude that this indicates that the internal auditors who are working as advisers may not be able to maintain objectivity.

The IIA has developed standards for both independence and consultation, the IA literature is not clear as to how top management views the role of the internal auditors in project

systems development. One viewpoint is that top management places more importance on the internal auditor's role as a consultant than on his/her objectivity. Meredith and Akers (2003) argue that independence is more important and that consulting activities should not impair the internal auditor's objectivity. In their study, which examines the participants' views of the role of IA in project developmental systems, and whether consulting impacts on the independence of the IAF. The findings indicate that the respondents believe IA should be involved with the testing of the operating effectiveness of the systems, including their accuracy. While this finding is inconsistent with the consulting perspective, it is consistent with the respondents' views on independence. The respondents were essentially indifferent about IA's involvement in the planning and design phases and did not support IA involvement in the development, implementation and maintenance phases. Abdel-Khalik et al. (1983) pointed out in regard to factors affecting the independence of IA, that the objectivity of the IA was the most important of all factors they tested. Another study by Goodwin and Yeo (2001) examines two factors that may influence the independence and objectivity of IA, through a survey of chief internal auditors in Singapore undertaken to establish current practice in these areas and to identify relationships between these variables. The first, affecting the organizational independence of the IAF, is its relationship with the audit committee. The second is the use of the function as a management training ground. In reference to the side effect of this last factor, it is argued that this practice might affect individual objectivity, because internal auditors may be reluctant to stand up to pressure from an auditee, who could be their future supervisor. They concluded that it is necessary to have a strong relationship between the audit committee and the IAF, enhancing independence and objectivity of IAF. In regard to using the IAF as a management training ground, this was found to be quite widespread in Singapore (Goodwin and Yeo, 2001). In the context of these results, it is not necessary to consider whether using the IAF as a management training ground impacts on the independence and objectivity of IAF. However, this would be dependent on an understanding by top management of the key role that the IAF plays and its importance.

2.13.2   The Role and Scope of the Internal Audit Function (IAF)

The IA role has evolved through a number of stages. In the mid-1800s to early 1900s, the audit practice was considered as "traditional conformance role of auditing". However, over the last 30 years, the auditor has been playing an "enhancing role". Today, auditors are

expected not only to enhance the credibility of the financial statement, but also to provide value-added services (Teck-Heang & Ali, 2008), and they also enhance critical historical events (e.g. the collapse of big corporations, court verdicts, and technological developments) that are likely to cause change in the audit function and the role of auditors; any major changes in these contextual factors will reflect on the role and function of audit. It is evident that the paradigm about auditing has shifted in the past, and is likely to continue shifting in the future. Mautz (1975) cited in Teck-Heang and Ali (2008) maintain that social consent ultimately forms the audit function in a market economy, because:

"Society either accepts or rejects the role of a professional group assumes for itself, in time the group either finds a role acceptable to society or the group disappears. As conditions and apparent needs change, society may reject roles formerly considered accepted so professional group must continually be alert to the desirability of role modification and revision."

Social and economic development and the innate needs of enterprise management have led to the gradual development of the IA. Xiangdong (1997) argued that under the current socialist market economy, the IA has grown significantly in importance. Moreover, the Audit Charter came to be developed due to the increasing role of the IAF in many organizations. This policy document is the main mechanism of the IAF, thus communicating to all employees of a company or organization the importance of the IAF as considered by SM, (Cheung & Qiang, 1997). Moreover, the role of the IA continues to evolve. The revised statement of responsibilities of internal auditing issued by the IIA (2000) as part of the standards framework, has clarified in the section on objectives that:

"the internal auditor is concerned with any phase of business activity where he can be of service to management. This involves going beyond accounting and financial records to obtain a full understanding of the operations under review".

Goodwin and Seow (2002) conducted research by examining the perceptions of auditors and directors in Singapore regarding the impact of certain governance mechanisms that prevent and detect control weaknesses, financial statement errors and fraud on the role of IAF. The results of the study indicated that auditors and directors believe that the existence of an IAF and strict enforcement of a proper code of conduct have a significant influence on the organization's ability to strengthen its internal controls, prevent and detect fraud, and financial statement errors and enhance audit effectiveness. However, the changes in the definition of internal auditing have extended the role and scope of IAF by explicitly

including consulting activities. Selim, Woodward, and Allegrini (2009) examined the nature, extent and consequences of the definitional change on IA consulting activities. A survey was conducted on a sample of IIA members in the UK/Ireland and Italy. The survey results reveal significant changes in the level and scope of the consulting aspect of IA. These changes clarified that UK/Ireland members are involved in change management and project management, while a majority of Italian members are involved in model design and implementation. In both countries, internal auditors are experiencing both benefits and drawbacks.

In regard to the benefits that might be gained from the IAF to an organization, which are suitable to any level within an organization, Sawyer and Vinten (1996) pointed out that there were four such benefits. These benefits were: providing the bases for managers for judgement and action, helping managers by reporting weaknesses in control and performance and in recommending improvements, providing advice to managers and boards of directors on the solutions of problems that face a business or organization, and supplying adequate information that is reliable, timely and useful to all levels of management. Additionally, it can be argued that the statement sets forth types of services that should be performed, and the kinds of activities carried out by the IAF in attaining the overall objective. First, internal auditors should review and appraise the solidity and adequacy of the accounting and financial processes, and other operating controls, and promote effective controls at reasonable cost. Secondly, the internal auditors should ascertain the extent of compliance with established policies, plans, procedures, laws and regulations, which could have a significant impact on the company's operations. Thirdly, internal auditors review the means used in safeguarding assets, and when appropriate, verify the existence of such assets and appraise the economy and efficiency with which resources are employed. Fourthly and lastly, internal auditors review the operations or programme to ascertain whether results are consistent with established objectives and goals, and whether the operations or programmes are being carried out as planned.

Rossiter (2007) highlights the effects on the roles and responsibilities of IA following new challenges, changes and expectations the IAF have to meet. Internal auditors need therefore to place more emphasis on actual and future risk, assess internal control systems constantly, monitor the organization's risk profile, and incorporate flexibility into the audit plan, as well as the audit approach. Zaman (2001) considers that these new challenges do

not just contain threats, but also opportunities for IAF to add additional value, and become a major contributor to the internal governance system, because of its unique position within the organization. In order to keep up with the rapidly changing business world, the IAF has to continue evolving, start responding to the new demands and thus, move to the next level. The key roles and responsibilities of IA are generally to challenge current practices, to advocate 'Best Practice' and to be a catalyst for improvements with the overall aim of supporting the organization in achieving its strategic objectives (IIA, 2008). However, such roles and responsibilities require a structure for sharing information on, for example, best practice, and an organization of IA members who can share standards across their profession irrespective of the nature of their organization.

The unique situation of IA as an independent, but inside observer, enables it to play an active role in keeping the board of directors, SM and external auditors informed about risk and control issues (Bookal, 2002). It is important to note that the traditional activities of analysing operations and ensuring compliance with applicable laws, regulations and guidelines in order to improve the performance of an organization and achieve its overall objective, still remain the fundamental responsibilities of internal auditors (IIA, 2008).

Lately, due to the emphasis on the role of IA, and consulting activities, new questions have emerged regarding the ability of IAs to function with an independent and objective approach, (Brody & Lowe, 2000; Nagy & Cenker, 2002). In addition, highly-publicised corporate misadventure and multi-million dollar misappropriations by leaders in industry were the subject of many headlines. The internal auditor plays a part in activities related to these events by providing the management's oversight, through improving corporate information quality and engaging in risk management (Peursem, 2004). Due to these financial scandals, the formal organizations, such as IIA, sought to introduce to the world a wide scope of audit responsibilities. In addition, it issued the new definition of IA that since 1999 has contributed in changing the consulting activities and types that are provided by the IA (D'Silva & Ridley, 2007).

The skills used by IAs have evolved and changed to meet the expansion of the scope of audit responsibilities; for instance concerning the role of internal auditors in strategic management, Melville (2003) examined the role of IA in using the Balanced Scorecard. The study was based on the results of a survey of an international, specialist group of

professionals of internal auditors and non-internal auditors; a range of statements about strategy and the Balanced Scorecard were directed to respondents to evaluate their own and their organization's attitudes. The results have shown that there was a significant awareness of the potential benefits of the Balanced Scorecard with the role of IA in strategic management, and its potential role in good corporate governance practice. Similarly, the USA-IIA looks at the Internal Auditor who has become a right arm of management, not just because he/she to checks that its policies and procedures are implemented effectively, and that the level of risk is minimal and under control but as a result of IA's positive intervention to strengthen the management function of a company through its consultative role in preparing and training future managers, and also providing oversight and demonstrative reports required from IA for the audit committee or board of directors. The Institute has identified the daily tasks of an internal auditor as the following:

1. Check the credibility of information and existence the feedback continually
2. Auditing the extent of adherence to rules, legislation and ethical values
3. Protecting of tangible and intangible assets
4. Risk appraising
5. Analysing organization operations
6. Evaluation and direction of internal control

On the other hand, the UK-IIA believes that the role of IA in the contemporary environment consists of two main roles:

1. The first is providing reasonable assurance to SM and the board of directors, about the extent, appropriateness and efficiency of applied internal control in risk management, in a written report.

2. The second role is providing consulting services to SM and the board of directors, that improve an organization's governance, risk management, and control processes.

Nagy and Cenker (2007) indicated that among many companies in the world, the IAF varies significantly from a traditional assurance orientation to that of a value-added and consulting orientation, with most companies landing somewhere in the middle. Furthermore, management appears to determine primarily the orientation or role of IA, rather than the profession, IA professionals, or the audit committee. However, they indicated that the question has been raised by some of the interviewed directors, of whether

the IAF could and/or should be defined by the profession in the first place. The interviewees believe that top management is appropriately defining their organization's IAF, and that the profession should concentrate its efforts on providing guidance and support. Despite this viewpoint, most IADs have shifted towards a more value-added or operational focus, advised by directors' responses, which is consistent with the definition of IA.

Furthermore, auditing standards dealing with the work of internal auditors, for example, SAS 500 and SAS 65 (AU 322 AICPA 2001) in particular, stressed that if the quality of internal auditing is not of a high level that will affect the work performed by internal audit on the one hand. On the other hand, this will affect many things, such as the extent to which the external auditor relies on the work of internal audit. Consequently, this impacts on valuation fees and the time and scope of the audit. Therefore, it can be argued that the scope of work and the role of the IAF are very important for several reasons, and that who determines the scope of work is also a key issue in assessing agency power.

Selim, Sudarsanam and Lavine (2003) examined the role of IA in mergers, acquisitions and divestitures. Their research involved interviewing internal auditors and senior managers in 22 companies in the US and Europe. They found that IA played a relatively small role in merger, acquisition and divestiture activities, but that interviewees believed that opportunities exist for a more pro-active role, notably in the areas of advising management and providing consulting services. Similarly, in reference to the importance of expansion of the role of IAF in the process of mergers and acquisitions (M & A), Dounis (2008) indicated that the auditor's role in M & A link with great significance to transactions process, not only to the organizations involved, but also to their many stakeholders. The success or failure of such an undertaking can have enormous consequences for many parties inside and outside an organization, such as an organization's shareholders and lenders, employees, competitors, and community, as well as the economy. There is a high rate of mergers and acquisitions failures, because organizations often underestimate the importance of the role of the IAF in risk management, especially in M &A decision-making. In particular, the modern concept of the IAF provides an opportunity to improve the quality of risk management by taking the necessary professional care.

2.13.3   The Competence of the Internal Audit Function (IAF)

For the purpose of this research, the term used in this section is professional competence rather than professional proficiency. In highlighting the concept of professional skills and competence, Siddiqui and Podder (2002) explained the concept of professional skills and competence in that the auditing profession must include a wide range of technical skills. As a result, the auditor must be qualified to understand the criteria used and competent to understand the amount and types of evidence used to reach the proper conclusions. In order to be successful, the IAD or unit must not only possess the required qualifications but must also be seen by others to possess them. Basically, this necessitates appropriate technical proficiency and educational background, which will enable the IA personnel to conduct the audit properly and to be seen to be analysed. The IA members of staff collectively possess the required proficiency in applying IA standards, procedures and techniques and maintain their technical competence through continuing training. However, the International Standard of Internal Auditing (Proficiency Standard) explained that audits should be performed with due professional care. The standard includes many explanatory statements. Some of these statements are concerned with IAD staffing, knowledge, skills and disciplines, and supervision and standards related to internal auditor compliance with standards of conduct, knowledge, skills and disciplines, human relations and communications, continuing education and due professional care SPPIA (IIA; 2004).

The quality of audit work in an organization is determined by the competence of auditors. In other words, competence is one of the factors used to evaluate the effectiveness of the IA, because the quality of audit work determines the effectiveness of audit. Belay (2007) also said competence is measured in terms of academic level, experience, skill and the effort of staff in continued professional development. The change in the profile of the IA activities also led to a change the nature of industry expectations. According to Harrington (2004), a broader set of skills and experience are needed by internal auditors to address the change of mass and complexity of the operations of public and private sector. Oxner and Oxner (2006) agree, indicating that internal auditors must demonstrate competence in many areas, including control assessments, operational reviews and analysis of systems. Ramamoorti (2003) also stated that internal auditors possess the necessary knowledge and skills to perform properly within their respective organizations. The CBOK study conducted by Abdolmohammadi et al. (2006) indicated that recognising the nature of

business and risk analysis are, on average, the most critical technical skills for internal auditors to possess. The study has shown that there emerges relative agreement between the levels of the study's target sample. The agreement was about the importance of many skills at various positional levels in the organization. Prior research relating to the competence of IAF, e.g. Messier and Schneider (1988), suggests that there are many beneficiaries from work of IA, who place great reliance on the IA, such as management, external auditor and so on, when the IA has the attributes associated with competence (e.g. the percentage of professionally certified internal auditors may be a criterion related to competence). Previous research on auditors' assessment of the criteria of IA competence includes: IA training programmes, with a high emphasis on professional certifications (Brown, 1983), and the experience of IA (Messier & Schneider, 1988). Other research has surveyed the internal auditor, external auditor, CFO and audit committee, and pointed out that the Certified Internal Auditor designation (Myers & Gramling, 1997) or educational background of the IA (Reinstein, Lander & Gavin, 1994) are the most important criterion of competence.

The IA staff should also be well versed in human relations. So far as is possible, satisfactory relationships with auditees can be maintained: in this respect communication is critical. Therefore, the IA staff should possess oral and written skills to be able to pass on their audit work, which includes objectives, evaluations, conclusions and recommendations (Haimon, 1998, p. 72). Perry and Jeffords' (2003) research foundation in IIA mentioned that an auditor should possess the skills necessary to identify both the problems and the symptoms that could lead to problems. Included in this overall responsibility is the identification of fraudulent activities, and the ability to evaluate those environmental characteristics that allow fraudulent activities to occur. This responsibility clearly has the potential to be compromised if internal auditors are also providing consultancy services to their own organization, and the extent to which these roles coexist and overlap also falls within the purview of this study.

An important aspect of the competence of IAF is whether a department within the company is properly focused to meet the company's needs not only on day-to-day basis, but also for the future. Schueler and Vondra (1993) argued that the IAD needs to address changes in the business on an ongoing basis as a result of many things in the life of the company, such as technology, diversification, organizational restructuring and new laws

and regulations. In this way, the opportunity is available for the IAF to be better able to adapt to future changes that affect the company and to provide meaningful ideas for improvement. It could be argued that the IAF is not the only part in this process. As well as support from SM, their desire for change and improvement is also another important part. In addition, the perceptions of top management in terms of the competence and ability of the IAF are also part of this process. In this respect, Sarens and De Beelde (2006b) point out that the internal audit is able to meet most of the expectations of SM on the one hand, while on the other hand, IA is looking for SM support, as these benefits their overall status within the organization. It is evident from the literature that in certain circles perceptions of IA have evolved into a view of its function as being a totally integrated management tool, which serves to reinforce and support the success of an organization.

Internal auditors are ruled by law and best international practices. Therefore, value-added services for the evaluation of the effectiveness of risk management processes, control and governance in organizations have to be in place. This requires the internal auditors to acquire the necessary skills and competencies. Therefore, to obtain extensive understanding about the competence of IAF, there is a need to study the attitudes or views of companies' management, especially in developing countries like Libya.

2.13.4 Work Performance of the Internal Audit Function (IAF)

In this part, issues linked to the work performance carried out by IA staff will be covered. According to the Professional Guidance of SPPIA (2004) speaking, there are generally six main sub-standards pertaining to the Performance Standard, including supervision of IA activity, work type, engagement development, carrying out the engagement, communicating outcomes and checking progress. In this section, work performance of internal auditors as a whole will be discussed, along with the internal audit charter, since it sets out the IAF's aims and scope. A survey carried out by Belay (2007) on a number of public businesses in Ethiopia to identify and estimate what the existing practices and desired practices of the role of IAFs are, and to ascertain the gaps associated with the checking and promotion of an effective public sector governance system. The survey findings showed that the present IAF in the public field has less satisfying participation in evaluating the efficiency of governance structure, because of absence of resources, inadequate leadership for IAF, lack of suitable framework to assess the performance of

IAF, and absence of skilled and experienced workforce. In terms of the issue of internal auditors' work performance, Chambers (1992) stated that the audit scope should be tailor-made in keeping with the IA unit's resources. Thus, whenever a unit's audit range is too wide, this may endanger its independence. Another point made by Chambers is that constraints upon the IA scope can also jeopardise audit objectivity. Brierley, Nafabi & Gwilliam (2001) studied the problems that could effect on establishing IAF in the Sudanese public sector. They found that shortage of staff number in the IADs was main reason behind suffer public sector organizations from audit coverage. This could be as a result to lack awareness organizations' management to the importance of IAF.

The contribution of the internal auditors in control and governance is explained in the Nature of Work Standard 2100 (IIA, 2004), pointing out that the IA practice should assess and make a contribution toward enhancing risk management, control, and governance procedures by employing a systematic and disciplined strategy.. Pertinent to work performance is the planning of internal auditors of their audits, examination and evaluation of information, as well as communication and monitoring of results. Internal auditors are required by the Engagement Planning Standard 2200 (IIA 2004) to promote and make a plan for all engagements, which include the scope, aims, timing and allocation of resources. As suggested by the standard, it is important that internal auditors are able to promote working programmes to attain the engagement aims (Standard 2240). Likewise, internal auditors are required by the same standard to establish the processes for recognising, examining, assessing, and recording data during the audit engagement. Before being implemented, the work programme should be agreed. According to Abdolmohammadi (2010), in terms of the work performance of the IA practice, the most important advantages of the IA practice are related to the performance characteristics. There were 43 attributes for CAEs, with 18 being acknowledged as the most significant performance characteristics, including confidentiality and interpersonal skills for internal auditors. These 18 key characteristics were matched to professionalism, in a process showing substantial changes. More interestingly, the 18 characteristics were categorised into two dynamics of leadership and technical capabilities. Projected as it was from the external auditing literature, leadership has grown in significance in professional circles, while technical abilities have declined in worth with professional ranks.

Practically, effective audit working papers can support work programmes. According to Ratliff, Wallace, Leobbecke, and McFaem (1988, 195), there are a number of functions performed by auditing papers, and which are crucial to effective audits:

- The accumulated evidence contributing to the preparation of the audit are documented and organised by the report working papers;
- They offer a reference during the process of the audit that helps in organising data and contributes to formulating a set of evidence;
- They can be utilised as a reference for monitoring audits;
- They can be utilised to assess the whole work of the audit teams and individual internal auditors.

By stressing the significance of working papers, Haron, Cambers, Rasmi and Ismail (2004) clarified that due professional care is related to whether IA is appropriately organised, managed, deliberated and standardised. In their opinion, there should be acceptable audit guides, work schedules and working papers. As stated by Principle 11 of the Basel Committee Recommendations (2000) "Internal audit includes drawing up an audit plan, examining and assessing the available information, communicating the results, and following up recommendation and issues". In the principle, various types of audits are highlighted, including those related to finance, compliance, operations, and management. On the other hand, with regards to audit tasks, it was proposed that for every audit assignment an audit programme should be organised. It is important that the objectives as well as the outline of the audit work deemed necessary to attain them is defined by the audit programme, while all audit processes and activities should be filed in working papers to show the work carried out. Also important is the fact that the working papers are instructive in terms of appropriate information and to monitor the way in which it was achieved (Basel, 2000, Para. 42, 43).

The director of the IAD is required by the performance standard to successfully supervise the IA activity to ascertain that it gives more value to the company. In addition, the adequacy and efficiency of an organization's system of control and the excellence of performance of allocated responsibilities should be examined and evaluated by the internal auditor. According to Mousa (2005), the audit work does not only involve the issuance of the audit report, but far exceeds that. One duty of the director of the IAD is to perform follow-up tasks. Thus, they have to ensure that suitable measures are taken to work on IA

recommendations, or that management has full awareness of the risk if action is not taken. As such, the report should assign the time and decide actions for the follow-up in order for the auditees to identify what is anticipated of them and when it is possible. One point worth mentioning here relates to the director of the IAD who has no right to enforce others to follow his/her proposals. Nonetheless, s/he should confer and consult with concerned parties about those suggestions (recommendations) and the remedial procedures (corrective actions) required.

The Internal Auditor Competence Framework has recently been published by the IIA (2009, cited in Abdolmohammadi, 2010) to offer in-depth performance attributes. Additional information was also requested to further enhance the Framework's Standards. There are four categories in which the Framework attributes are classified; namely, interpersonal skills, tools and techniques, areas of knowledge, and IA standards. These broad categories are further classified into subcategories, and then into very exhaustive characteristics. In the next figure, these framework attributes will be further explained.

Figure 2-3: Performance Attributes
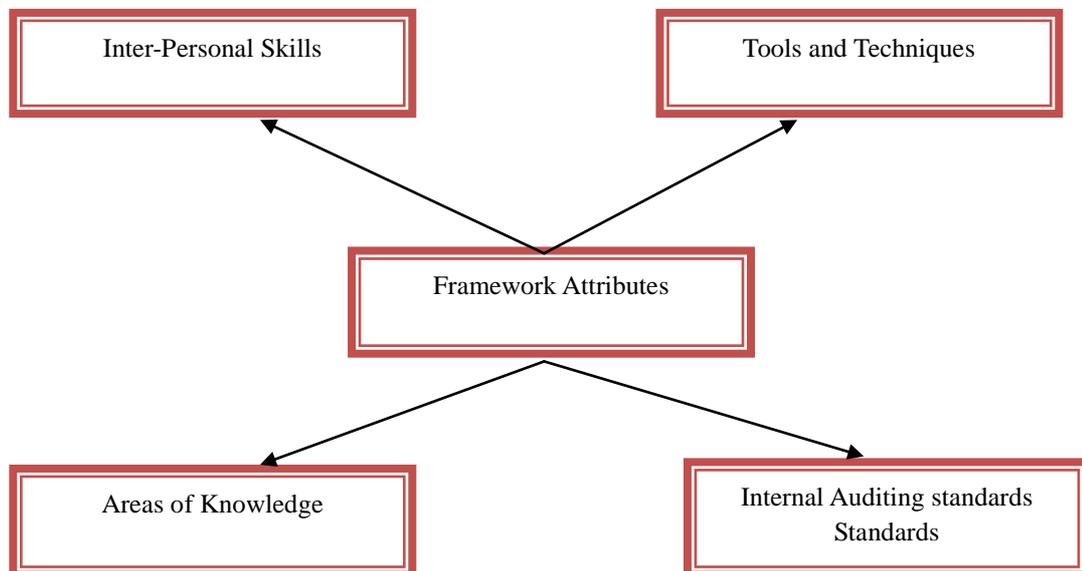
(Source: Author won)

2.13.5   Communication of the Internal Audit Function (IAF)

"Effective communication is the cornerstone of internal auditing" (Loss, 2000). Moreover, the need for the ability to communicate well for the practice of IAF is very important, because the ultimate success of the function is largely dependent on relationships with others, especially the relationship between the IA and audit customer (Loss, 2000). Internal auditors should be skilled in dealing with people and in communicating effectively. The reporting processes they establish must effectively communicate the results of the audit work to each of the IAD's clients, including the audit committee, senior management, operating management and the external auditors.

The best practice indicates that the internal audit activity should have a dual reporting relationship, to ensure transparency, prevent collusion and avoid conflicts of interests. Thus, the Chief Audit Executive (CAE) should report to executive management for assistance in establishing direction, support, and administrative interface; and to the organization's most senior oversight group, typically the audit committee, for strategic direction, reinforcement, and accountability (IIA, 2010).

In addition, the International Standards of the IIA define that IA should discharge its activities independently and objectively, and with an impartial and unbiased attitude, to avoid conflicts of interest. The International Standards stipulate that the IAF should report to a level within the organization that allows the activity to fulfil its responsibilities. An independent status for the IAF is important as it enables management to place full reliance on audit findings and recommendations (Pickett, 2005). In the context of periodic evaluation, the CAE will periodically report to senior management and the board of directors on the IA's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by SM and the board of directors (IIA, 2010).

In regard to the communication of the IAF and improved effectiveness of the IAD, Albrecht et al. (1988) in their survey of companies in USA evaluated the effectiveness of the IAD. They used a questionnaire and interviews with different people inside and outside the companies. They concluded that strong top management support and communications throughout the company are an absolute necessity to achieve IA effectiveness. Moreover,

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IA effectiveness is enhanced when the leadership of the function has access to, and is respected by, top management and the audit committee. This result was supported by Chung (2003), who argued that it is important for IADs to add value to their function by educating people inside and outside of the organization about their role, function, and mission, as well as the value they bring to the organization. Utilisation of a company's intranet as a tool to communicate was emphasised as an effective way of reaching this goal.

According to reliability the communication between IA and others, Holt and DeZoort (2009) discovered that participants with access to an IA report had more confidence in financial reporting reliability and higher perceived company oversight effectiveness than participants without access to an IA report. They added that the IA report's effect on confidence in financial reporting reliability is particularly evident for high fraud risk companies. Another way is for internal auditors to report and communicate with external stakeholders. Archambeault, DeZoort and Holt (2008) concluded that an IA report has the potential to complement existing governance disclosures, increase stakeholder confidence in governance quality, and motivate internal audit diligence. These qualities are of particular importance to organizations in Libya, where familiarity with changes in accountancy practice and the IAF has been restricted by the isolation of Libya politically and through sanctions, and where many companies now urgently need investment to restart their activities and allow them to enjoy the benefits of knowledge and technology transfer. Clearly, stakeholder confidence will be a major part of achieving this investment, and IA will have a major role to play in building this confidence.

Loss (2000) believes that the auditors have to go further and encourage their colleagues to use steps called a "communication contract" for a productive communication system. There is a need for IA processes to have an open line between auditors and auditees, allowing the information to flow effectively in a streamlined way between them, so they receive immediate feedback from each other. This type of communication would result in an increased degree of satisfaction about the audit process, and thus the effectiveness of practice of the IAF, according to Loss. In the same context, Wangcharoendate and Ussahawanitchakit (2009) studied the effect of IA team function on operational effectiveness through IA team outcomes. IA team function was defined as five characteristics: shared knowledge, project participative, planning integrative, interpersonal

communication and teamwork commitment. Besides, it determines IA team outcome as the mediator: risk reduction, economics of resources and governance. The study results indicate that interpersonal communication positively influenced operational effectiveness. Therefore, in auditing, interpersonal communication is critical to most IAF processes, including team collaboration and decision making. Many tasks and decisions in business are performed in team settings. Interpersonal communication is commonly assumed to be superior to all other forms of communication. Yet, interpersonal communication does not cope well with organization constraints (Berry, 2006). In addition, information and communication technologies have had a strong influence on teamwork, by reducing risk and creating new work settings, demands and ways of operation (Gibson & Cohen, 2003; Caballer, Gracia, & Peiro, 2005; Berry, 2006).

2.14 Conceptual Framework for Study Factors

After reviewing the available literature, both academic and professional, it is clear that internal auditing is being implemented in businesses as a tool that provides a unique service to businesses. This unique service requires the IAF to achieve high perceptions of both its effectiveness and its independence from many parties both within and outside organizations. It is necessary that great emphasis should be placed on the perceptions and evaluations of internal parties, because these parties, such as boards of directors, CEOs and CFOs, as well audit committee members if applicable, are considered primary beneficiaries of the IA services.

However, for IAF to be able to provide services of high quality, it needs to operate in appropriate conditions. The academic and professional literature showed that there are many components or factors providing the appropriate conditions. These factors are viewed as a framework to examine the nature and the practice of IAF.

Therefore, they have been adopted within the conceptual framework of the current study. They consist of the following factors:

- independence,
- scope of work,
- competence,
- work performance;

All of them emerged through the literature review. The final factor used here, communication, is new one that has been added to the initial four factors. All five of these factors are designed to examine the nature and the practice of the IAF in Libyan oil and gas companies, as well as assessing the degree to which SM relies on the work of IAF to achieve organizational goals. Figure 2.4 depicts the conceptual framework used in this study, in which each of the initial five factors is shown with the variables associated with it.

To achieve the aim of the study, the perceptions and evaluations of top management and head of IADs will be obtained concerning the five factors, and comparisons between their perceptions will be made. It is within this comparison that valuable insight into the nature of the work of IA in Libyan oil and gas companies is expected to emerge, with differences in perception likely to highlight ongoing changes in rôle or tension within organizations as to the function IA ought to be performing.

In sum, the study examines the relationship between these five factors, using the framework to examine the nature and the practice of the IAF "study variables" linked to the factors. This is achieved through examining the perceptions and evaluations of participants, while considering the managerial rôles of the participants, thereby discovering whether these perceptions and evaluations are different or not, between the groups. The model illustrates the five factors identified initially by this study as most important to the investigation of IA, and shows how they contribute to the nature and practice of IA. Connected to each factor are a number of variable or components that combine (in some way) to form the factor. These variables themselves form the basis for conceptualizing and designing the research instrument. This research instrument will be used to collect qualitative data, which will require thematic analysis. The conceptual framework provides a basis for this analysis, with each factor and its components providing themes by which the research data can be analysed.

Figure 2-4: Conceptual framework
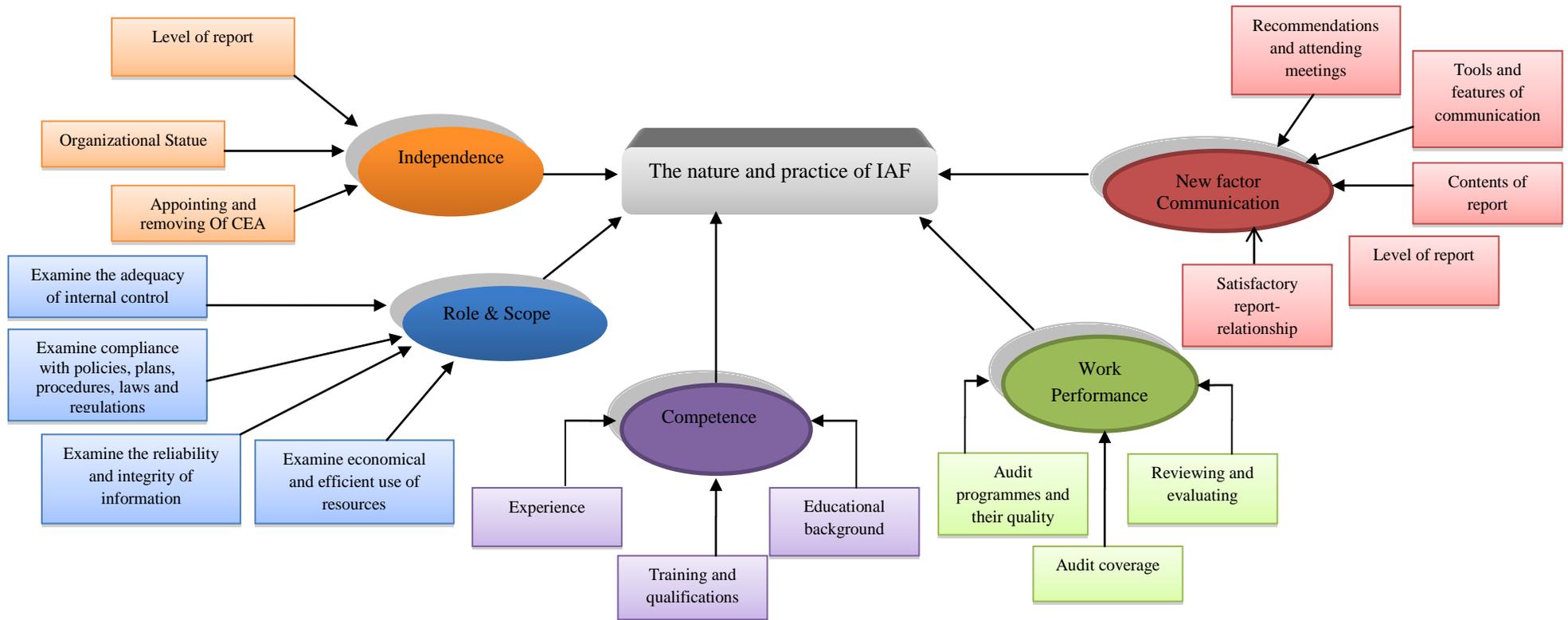
(Source: Author own)

2.15 Summary

There are two main benefits of IADs. The first came from the conventional audit that focuses on the audit of the financial system and control. Therefore, the IAF assists in preventing and detecting irregularities, and safeguards the assets of an organization. The second is the performance audit, which concentrates on the economy, the efficiency and the effectiveness of different aspects of the organization. The chapter has presented a review of the literature related to the IA in terms of its definition; scope and objectives; and development and effectiveness. Limited research was found to have been conducted in the specific area of perceptions and evaluation of the nature and practice of IAF. This chapter has also shown that IA is an integral part of the accountability process, and therefore internal auditors should play a vital role in enhancing the effectiveness of corporate governance and internal control in accordance with the most recent definition of IA and the perspective of agency theory. Therefore, the chapter discussed the development of IA and its relationship with top management, and the need for IAF within the organization. Finally, the chapter linked the functions of IADs as a mechanism of corporate governance, and as mechanism of internal control. It has emphasised how the scope of IA has expanded greatly, from its initial narrow concern with fraud and error, to include a major commitment to operational auditing. Although the evaluation of the internal controls system is still a basic function of the internal auditor, the emergence of additional functions, such as operational auditing, has enabled the auditor to play an increasingly important role in improving the overall efficiency and effectiveness of organizations. Over the years, IADs have grown and have commanded increasing support from corporate management, external auditors and boards of directors. Also, a professional association was formed and reached substantial stature. The remaining part of this chapter was to present the suggested factors (conceptual framework) that may be used to perceive and evaluate the nature and practice of IAF. Accordingly, the chapter presented an overview of the development of the standards of professional practice of IA, and then addressed the factors that are related to the main model (Figure 2.4), to enable this study to perceive and evaluate the nature and practice of IAF in Libyan oil and gas companies. This model comprises five main components namely: (1) independence (2) role and scope of work (3) competence (4) work performance (5) communication. The model presented in this chapter will be used in subsequent chapters to assess the way that board directors, senior managers (CFO and CEO) and IAD directors working in Libyan oil and gas companies perceive and

evaluate the nature and practice of IAF, and also to examine the degree of reliance placed by top management on the work of IAF.

CHAPTER 3:   ACCOUNTING AND AUDITING IN THE LIBYAN CONTEXT

3.1 Introduction

This chapter provides information about Libyan political and economic systems, and the organizational context of the study. The first part starts with a brief overview of Libyan history. The second part describes the business and economic system, together with an outline of the culture. The third part relates to the accounting and auditing profession in Libya, with more focus on the studies done regarding IA. The final part gives an outline of the Libyan oil and gas sector, its companies and institutions, and their main activities.

3.2 Summary of Libyan History

Libya is a developing country situated in the north of Africa. It has a coastline on the Mediterranean Sea stretch from Tunisia to Egypt. The country is bordered by Algeria and Tunisia to the west and north-west respectively, with Chad and Niger to the south, Sudan to the south-east and Egypt to the east. The area of Libya makes it the fourth largest country in Africa, covering 1,759,540 square kilometres. Tripoli is the capital city, while other important cities include Benghazi, Azzawiya, Sabha and Misrata. The Islamic religion and Arabic language are two of the main elements that characterise Libyan culture (Farley, 1971). Family, religion and language have a significant effect on the attitude and behaviour of people in Libyan and Arabic society (Abu-Baker, 2008). The first census of Libya was taken in 1954; the population at that time was 1,880,873 including 47,774 non-Libyan nationals. Since 1954, a census has been undertaken every ten years (Khorwatt, 2006). The population of Libya has been growing continuously; in 1984, it was 3,637,488 (Libyan Secretariat of Planning and Economics, 1984, p. 75), while in 1995 the population was 5,407,000 (Libyan Secretariat of Planning and Economics, 1995, p. 3), giving the country an overall population density of about three people per square kilometre. The population has grown by 48.6% over a ten-year period (Bakar and Russell, 2003). In 2006, the population was 5,673,031, including 349,040 non-Libyan nationals (Othman and Karlberg. 2007, p. 88).

A study prepared under the joint management of the Libyan Urban Planning Agency (UPA) and the United Nations Human Settlements agency (2006) stated that the Libyan

population is projected to increase to 6 million by the year 2010 and to 8 million ten years later. Over 90 percent of the population increase is in urban centres, which requires the provision of environmental and social infrastructure, creating about 1.6 million jobs, with social and economic effects for the Libyan people. (www.unhabitat.org). The indigenous population mostly lives in the major cities and towns along the fertile coastal strip. Tripoli has nearly 40% of the total population and the cities of Benghazi, Beida, Misrata, Azzawiya, Anekat Al-khums, Tobruk, Al-Khums, Marsa Al-Brega and Ras Lanuf are all coastal; inland, there are sizable settlements at Sabha, Al-Kufrah and Ghatt (Kharibi, 2007, p. 97). For most of its history, Libya has been subjected to various invasions, mostly by Mediterranean empires, i.e. Phoenicians, Carthaginians, Greeks, Romans, Spaniards, Vandals, Byzantines, and Arabs. Libya came under Ottoman rule from the 16th century until the twentieth century. Italy invaded Libya in 1911, and after years of resistance, Italy finally gained control of the area following World War I. After World War II, British and French forces occupied the area, which led to a short period of British and French administration (1943-1951). Thereafter, under United Nations auspices, King Idris I proclaimed the United Kingdom of Libya as an independent state in 1951. King Idris ruled Libya until the 1st of September 1969, when the political system of the country changed as military and civilian officers seized power. The movement was headed by as twelve-member directorate that designated itself the Revolutionary Command Council (RCC), which formed a new government. Among the RCC members was Muammar Al-Gadhafi, who served both as Prime Minster and Defence Minister. The new government proclaimed as is its watchwords "Freedom, Socialism and Unity". In line with its intended populist and socialist character, in 1977 the official name of the country was changed to "The Socialist People's Libyan Arab Jamahiriya" the word "Jamahiriya" has been translated to mean "state of the masses" (people's state). According to Gadhafi, it means "a state run by the people without a government". The revolutionary leader declared the Jamahiriya system or "people's authority" in 1977. Under the new regime in Libya, the Revolutionary Leadership Council and the Council of Ministers were respectively replaced by the General People's Congress (GP Congress) and the General People's Committee (GPC). The main objective of declaring this system was to hand the authority for decision making, in all aspects of government, to the people. In order to achieve this objective, the state was divided into Basic People's Congresses (BP Congresses) and local People's Committees (LP Committees); each of which has a secretary and members.

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Besides these structures, there were a number of unions, such as youth, producers and other professional unions and syndicates. Secretaries and members of the BP Congresses and LP Committees choose its secretariat, which comprises of the secretary and five members, who run the congress. In addition, they choose the secretaries and members of the different general secretariats, who together comprise the members of the GP Committee, and finally choose the secretary of the GP committee. The decision mechanisms are designed to reflect the people's authority, beginning with the people who gather and make their own decisions on all aspects of government through the BP Congresses, unions and syndicates. The secretaries of all these gatherings are responsible only for writing decisions down, in clear statements, and conveying them to the GP Congress where a final decision can be reached. These final decisions are submitted to the GP Committee to be implemented through the specialised General Committees and Local People's Committees of Education, Health, Energy, Industry, etc, and through the GP Committees of the companies belonging to them. The relationship between the people's congress and people's committees is that the latter implement what the former decides. Concerning the current situation in Libya, the old structures described above are to be replaced by the National Transitional Council, but it is not clear yet what the new structures will be.

3.3 Libyan Climate

Libya's geographical position between the Sahara and the Mediterranean Sea has a substantial influence on the country's climate. The coastal strip enjoys typical Mediterranean conditions, with long hot summers.The winter is mild compared with European standards, with daytime temperatures seldom reaching below 27°C. Inland, temperatures can reach uncomfortably high levels during the day, and the clear nights can be chilly, particularly during the winter. It seldom, if ever, rains in the desert, but on the coastal strip, average annual rainfall is about 20 cm, most of which falls between October and February, and is heaviest during December and January.

One unique climatic feature is a seasonal, hot, sand-bearing wind, the Gibli, which blows from the South during the summer and autumn, lifting temperatures rapidly, but fortunately lasts no more than two to five days.

3.4 Libyan Economy

Before the discovery of oil in 1952, Libya was considered one of the poorest countries in the world. Since 1961, when Libyan crude oil was first exported in commercial quantities, annual crude oil revenues, Gross Domestic Product (GDP), and per capita income have increased at an exceptional rate. The Libyan economic system was mainly capitalist until 1969. Private ownership existed with minimum governmental interference. Public ownership was mainly confined to sectors that required heavy investment. The government initiated a number of measures to encourage competition and the establishment of private businesses: these included protectionist measures to support domestic firms, the establishment of the Industrial and Real Estate Bank of Libya (now known as the Development Bank) to provide loans to Libyan businesspeople to build local industries. In addition, the Libyan government has sought to improve the level of local industry by establishing the Industrial Research Centre, also to help implement the country's development plans by providing technical and economic services in both the public and private sectors (Bait-El-Mall, Smith, and Taylor, 1973).

Since the revolution in 1969, the country has changed its economic system from capitalism to socialism. State intervention in the economy has increased and the government started expanding the public sector and cutting back on the private sector. The State ownership structure of businesses, started in the early 1970s, gained momentum in the mid-1970s and reached its peak in 1980s, when most businesses of ant size in the country became owned or controlled by the State. The State came to dominate virtually all sectors of the economy, and along with this dominance came central planning. Nowadays, the Libyan economy is dominated by the petroleum sector, which accounts for approximately one-third of GDP and generates almost all of its trade and foreign exchange earnings. The service sector contributes an equal share in GDP, while the contribution of agriculture has remained negligible despite government efforts to promote this sector and achieve self-sufficiency in food production (Central Bank of Libya, 1972; 1973; 1986; 1991).

However, Libya is still going through a period of substantial change. The current economic conditions are quite different from what existed before. The standard of living for the majority of the people has risen dramatically in a relatively short time, due largely to the wealth produced by oil and gas extraction (Kharibi, 2007). This has allowed an

ambitious programme of social revolution in health care, housing and education to become a reality. The main aim of current economic policy is to reduce the dependence on oil revenues to finance the economic development of modern industry. From early 1988, Libya has moved towards liberalisation, exemplified by the greater scope allowed to private enterprise in the retail trade, small-scale industries and agricultural businesses. However, the abolition of state export and import companies remains confined to the trade in consumer goods, while large items such as cars are still controlled by state purchasing companies. In September 1992, a privatisation law (Act No.9) emerged to enhance and regulate economic developments, especially in the private sector activities in the national economy, and to open the door for the privatisation of a number of public-sector companies. The Act specifies the economic sectors in which the private sector and individuals can operate, which include production, distribution and services. These activities are in areas such as agriculture, industry, commerce, tourism, transport, finance and the private practice of professionals. The Act permits the establishment of privately funded companies and family and individual activities. Based on a recommendation of the GP's Committee, the Act allows the selling of publicly held companies into private ownership.

In addition, the Libyan government issued Act No.5, 1997. The Act concerns Foreign Capital Investment Encouragement, and was designed to engage foreign capital investment within the overall policy of the State, in order to meet the targets of economic and social development in particular. Foreign investment is encouraged by laws in areas that would result in the transfer of modern technology and contributions to the development of local products for international markets. Since Libya announced the abandonment of plans to develop weapons of mass destruction in 2003, this has opened the doors to vastly improved relations with the West, and the UK and USA particularly. The sanctions and embargos imposed on Libya by the UK and USA in the late 1980s were all lifted by 2003. This has permitted more emphasis to be put on privatisation.

As a result of these events, Libya has awarded new exploration deals to American and European oil companies. Libya is also attempting to position itself as a key economic intermediary between Europe and Africa, and has become more involved in the Euro-Mediterranean process. In this regard, intimations from Libya that it is ready to join the 5+5 Euro-Med group as a full participant look promising for Libya's hopes of boosting

trade with the EU. On hearing the news, the EU called on Libya to send its officials to Brussels to negotiate its possible entry. As an example of closer ties, France and Libya recently signed three economic cooperation accords, which cover investment, credit protection and a fiscal agreement (Kharibi, 2007).

Libya, in December 2001, officially applied to join the World Trade organization (WTO). Before Libya is accepted as a candidate, it will face a long process of negotiating individual deals with trading partners and amending legislation to comply with WTO rules, before it can achieve full membership. The current situation will reflect positively on the Libyan economy, as there will be re-planning of economic policy and adoption of transparency.

3.5 The Professional Status of the Accounting and Auditing in Libya

This section provides a concise overview of the professional status of accounting and auditing in Libya, with respect to internal and external audit practice generally, and IA specifically, and the challenges and difficulties facing the profession in reality. However, in considering the state of the profession in Libya, it is important to recognise that there was very little data available, especially with regard to IA. This was due to the lack of written material (e.g. academic studies) in this field on the one hand, and the absence of an appropriate body to organise the profession of IA on the other hand (Mousa, 2005). Since the discovery of oil in 1959, the business and finance sectors have grown significantly, causing a substantial increase in the demand for qualified accountants and reliable accounting information. At that time, the country was suffering from a scarcity of experienced accountants and was some way from establishing a profession of accounting that would specify and control accounting standards and practice; all public accounting firms were then branches of foreign firms and were controlled largely by foreign head offices. These firms were responsible for auditing foreign companies and agencies that were operating in Libya, their main function being to audit the annual financial statements (balance sheets and income statement) of business enterprises and to express an opinion on their "correctness" (Mousa, 2005). Bait-El-Mal et al. (1973) stated that American and British companies or branches that are working in Libya, in particular in terms of their implementation of the accounting principles and standards, were consistent with their home countries. As a result, they established private offices for accounting and auditing, and due to the increase of these offices in both number and size, and the lack of regularity

in accounting and auditing standards and practices, there was a critical need to set up a professional body to take responsibility for developing a general framework for accounting. In order to meet the demand, in 1973 the State passed Law No.116, which was the first law governing accountancy and associated areas. It covered:

1. The formation of the Libyan Association of Accountants and Auditors (LAAA)
2. The registration of accountants
3. The exercise of the profession
4. Fees
5. The pension and contribution fund
6. The obligations of accountants and auditors
7. Penalties
8. General and transitional provisions.

Subsequently in 1975, the Libyan Association of Accountants and Auditors (LAAA) was established, and in 1976, the Minister of Finance issued Law No. 82 to systematise the accounting and auditing profession in Libya. Article (1) of this Law indicates that the LAAA aims to achieve the following objectives:

- To make the conditions of the accounting profession more organised and improved, by raising the attention professionally, academically, culturally, and politically of standards of accounting and auditing ;
- To encourage its members to organise and participate in conferences and seminars, especially those that are related internally and externally, and keep them in touch with others.
- To stimulate its members to contribute to the social security fund;
- To protect members' rights and create a spirit of co-operation between them; and
- To protect the profession from non-professional practices and irregularities. (LAAA, 1976, p. 30).

Despite the LAAA being established more than thirty six years ago, it has done nothing to build any professional theoretical basis of principles or practice for accounting and auditing as a profession in Libya, and has not established a Code of Ethics for members to abide by (Bakar and Russell, 2003). Rather, it has simply followed government regulatory requirements relating to accounting practice. This suggests that the LAAA has failed to

regulate itself and to recognise its obligation towards the public interest. Furthermore, it has not achieved the objective of furthering activities such as research, conferences, and seminars, a continuing education and training programme or of promoting accounting publications to improve the status of the profession and accordingly of its members (Shareia, 1994). All these factors have contributed to the current very weak status of the Libyan accounting profession.

Subsequently, Libya has witnessed, over the last thirty years, significant developments in the areas of economic, social and other fields, due to the adoption of multi-state plans, aimed at increasing the national income and production efficiency and raising the standard of living; the current situation will support these tendencies and extend their sphere of influence. However, the increase in spending on programmes and development projects in Libya has led to the need for a policy on one hand of a rational distribution of available resources, whether financial, in-kind or human; on the other, for oversight of how the resources should be used in the most efficient economic way, to achieve the greatest possible benefits at the lowest cost (Dahmash, 1985, p. 3). This has increased the role played by the accounting and auditing profession, and oversight in general, as an important tool for effective control of the national economy, and its role of providing appropriate information that contributes to set up of development planning, follow up, oversight and performance evaluation (Alinverawi, 1998, p. 33). As a result, the profession of accounting and auditing needs to drive a programme continued education to meet these expectations, because of these rapid economic developments, to face changes and the need to meet new requirements. These are thrust upon people who have chosen that profession, requiring of them a great deal of professional interest in theory and practice, through development and self-training.

3.6 Libyan education provision in the field of accounting and auditing

While accounting education has existed in Libya for over 50 years, at the levels of both higher and further education, knowledge of Libyan accounting practice is scarce among Western accounting academics and researchers (Ahmed and Gao, 2004). According to Bait El-Mal et al., (1973), Saleh, (2001) and Bakar and Russell, (2003) there are three key sources affecting accounting and auditing practice in Libya:

1) Statutory requirements (i.e. governmental laws and regulations) that control business in this particular country;

2) The impact of accounting technology and know-how imported from other countries (particularly from the UK and the US) through publications and the experience of qualified personnel and companies;

3) Influence of accounting education and the contribution of academics and practitioners in the accounting field.

Education has been recognised as a key element in political and socioeconomic development (Mashat, 2005). Bakar and Russell (2003) claimed that universities in Libya played a major role in constructing and developing the accounting practices in the country. Academics in the accounting field have played a prominent role in influencing education and accounting practices in terms of academic qualification. However, this does not mean that the Libyan universities and academics have influence on professional practice. In fact, the role of universities is impoverished in terms of establishing a mechanism linking the *output* of accounting and auditing education, and the *practical* side of these outputs. This may be called a "Transferable Skills" gap; which mean that the skills improve within different educational stages, but do not always affect practical performance of practitioners and employees in this field (Boufares, 2007). In addition, universities' role in providing opportunities in accounting and auditing training for practitioners and staff is very minimal, which creates what may be called a gap in knowledge. In addition, university degrees in accounting and auditing do not cover the theoretical framework of the key principles of the profession such as international standards of accounting and SPPIA, and this is compounded by the absence of formal bodies to promote and sponsor the accounting and auditing profession in Libya.

If the degrees of the universities at the moment do not deal with the practice of IA, then the internal auditors have to imagine for themselves what an internal audit consists of. They may look at what goes on internationally, but their working life is very much biased in terms of personal experience against the importation of external kinds of models. Therefore, a commentary about Libyan education provision should include the fact that in the degrees in accounting and auditing in Libya, which establish the basis for qualification,

there is no content about internal audits. From the start of their careers, internal auditors are not well served by the Libyan education system.

Bakar and Russell (2003) in their study of the development of accounting education and practice in Libya identified several factors as the main impediments to the development of accounting education and practice in the Libyan context. These, inter alia, include: (a) outdated curricula of accounting and academic plans; (b) the dearth of Arab input into modern textbooks and references; (c) a lack of active professional organizations; and (d) insufficient public knowledge of the role that accounting and auditing can play. Bakar and Russell (2003) concluded that Libya needs a strategic plan in order to modify and modernize both its accounting and auditing education and practice. In fact, these factors have to be considered when bridging the gap in perceptions about the practice of accounting and auditing in field work. Shareia (1994) confirms this, stating that since Libya is looking to achieve economic development, it is necessary to devote attention to the accounting systems that have been established, and the provision of accounting information. Thus, the development of education and the accounting profession is an integral part of this process.

3.7 Internal Audit in Libya

Every profession in the world has a set of characteristics that distinguish it, so that it can be judged as a profession. Liody (1956, cited in Mousa, 2005) noted that the three characteristics of a profession are:

(1) Specialized intellectual training at higher education level equal to, at least, a university degree,
(2) Standards for efficiency and success based on ideas and ethics, rather than financial incentives;
(3) Associations and professional bodies devoted to maintaining and improving the quality of career services.

However, the IA profession in Libya does not meet any of the above-mentioned characteristics of well established professions. Internal auditors do not have their own IA organization. Also, they have no defined or formal code of professional ethics and standards for professional qualifications for admission. Moreover, there are no professional

examination requirements and there are no professional training programmes for internal auditors. Instead, they base their practices mainly on their accounting training (Daruish, 1990; Almagory, 1998; Mousa, 2005). This lack of professional standards has implications for the Libyan economy as a whole, for example the efficiency of capital markets depends on the availability of reliable information about the condition of the firms whose stock is publicly traded. Furthermore, the efficiency of the management of firms also depends on the availability of reliable information related to the internal control condition, corporate operation, and corporate governance; here the profession of IA should play a key role in achieving that. The next section will introduce those few studies that have focuses on efforts to create an effective IA function in Libya.

3.7.1   Studies of Internal Audit in Libya

This section seeks to provide brief information on studies that have been conducted about IA in Libya, which are related to the current study. However, have been few studies addressing multiple aspects of IA. The following provides a brief, separate, introduction to each study in historical order.

Darwish (1990), in his study aimed at assessing the role of the internal auditor in industrial companies in Libya, indicated that there was a lack of independence for the internal auditors, because of a lack of the basic components of this independence. In addition, he determined that the scope of work of internal auditors did not exceed the financial audit.

Arevi (2004) aimed at determining the extent of adoption of control on the work of internal auditors in Libyan companies, through the views of financial controllers and internal auditors. The study revealed that the financial controllers relied on the internal auditor to perform a variety of tasks, including inspecting and reviewing the documents supporting each process of exchange and collection, and reviewing the payroll, as well as balancing the bank statement and accounting books. However, controllers differed as to whether internal auditors should perform reviews of books and records.

Badri (2005), focused on the criteria that governed the performance of IA in industrial enterprises in the city of Benghazi, and clarified the concept of IA and its objectives. The study relied on a questionnaire divided into two sections, one for the management of IA and the second for specialists working as internal auditors. The study reached the following conclusions:

- The area of IA work shows that companies are not interested in the efficient economic use of resources.

- With regard to defining the responsibilities of IA, there was no interest found in developing the necessary programmes for testing and development of human resources.

- With regard to the written information describing policies and procedures guide for the work of IA staff, few companies were found to have a guide for IA work.

- However, a reasonable sample of the study indicated that they were developing plans for the implementation of audit work.

- With regard to the independence of IA, the study indicated that the IAD reported to the highest authority in the organization or company (Secretary of the People's Committee), and this confirms the independence of the IA in organizational terms.

Khlat (2005) sought to introduce and clarify the services that relate to the IAF in Libyan industrial companies. The study concluded that the main objective of the IAF was concentrated only on the discovery of errors in the areas of accounting and finance, and presenting the findings to the top management. In addition, the review and evaluation scope of IA practice did not extend to reviewing non-accounting and financial matters. In other words, it did not involve auditing administrative procedures.

Sharah-Elibaal's study (2005) examined the IA as a function and profession. The results revealed that development of the role of IA in Libyan companies was necessary. This development, however, has been reinforced through the legal form of the companies and sources of funding, as most of Libyan companies are now joint stock companies and owned by the community, and funded from the public treasury directly or through Libyans' contribution. He pointed out that those members of staff appointed to carry out the audit should have the efficiency of specialists, and abide by performance standards and rules of professional conduct, and be subject to continuing professional education. Moreover, he also highlighted the absence of a role for oversight of accounting and auditing in the development of the profession, and the removal of obstacles that has led to the deadlock that characterises the profession, especially in Libya.

El-msallati (2008) examined the difficulties that affect the role of IA in commercial banks in Libya. While his study indicated that there were many difficulties affecting the role of IA in Libyan commercial banks, at the forefront of these was the fact that IA is a necessary, but often misunderstood function. It was therefore concluded that the implemented role of IA in the commercial banks was not effective, and that to implement an effective IA practice, the following should be taken into consideration: top management support, intensive and continuous training programmes, communication, and gaining support from the Libyan authorities.

3.8 Developments in the Libyan Labour Market in Accounting and Auditing

As a result of emergence of the Law No (5) in 2001, regarding the promotion of foreign capital investment in Libya, as well as Law No (7) in 2003, regarding the participation of national capital investment, the way was open for the private sector to participate in economic development, and the framework of the variables related to economic policy in Libya. These led to new developments in the labour market in Libya relating to the accounting and auditing profession, which Alinverawi (2004) summarised as follow:

- expansion in computer use, transformation of the auditing process to test auditing;
- negotiation of audit fees;
- laws determining the time for the preparation of reports and financial statements;
- exploring the expectations gap between the auditors and the users of accounting information;
- moving towards the use of quantitative methods;
- emergence of social responsibility in accounting and social audit;
- moving towards reviewing efficiency and effectiveness.

These changes are expected to clear the way towards the application of the GATT agreement and the requirements of uniformity in the process of disclosure in the financial statements, and compliance with international standards, both in the preparation or in the audit of the financial statements, and rehabilitating the audit profession according to the changes that have occurred to the surrounding environment.

3.9 Difficulties and Challenges Facing the Profession of Accounting and Auditing in Libya

The profession of accounting and audit, like any other profession, has a role and place in the Libyan environment. Accounting and auditing are specialised studies in universities and institutes, even in specialist business schools, dedicated to teaching its origins and rules. Moreover, a professional association has been established to create a framework to achieve its objectives, and to raise the efficiency, practice and professional behaviour of the profession among its members. This aims to protect the reputation of the profession with regard to practice in several areas.

Alinverawi (2004) pointed out that the profession of accounting and auditing in Libya suffers from challenges and difficulties, which reflect on Libyan accountants and auditors and their performance in particular, and the profession in general. The study aims to review these difficulties and challenges. They can be identified as:

- The use of accounting information by multiple groups of beneficiaries (such as the IRS) is still questionable, because of the unreliability of some information and lack of easy access to content. This information is often also delayed, which sometimes hampers the process of decision-making.

- The absence of accounting and auditing standards that are consistent with the Libyan environment, and are agreed between Libyan accountants and auditors.

- The weak relationship of Libyan accountants and auditors with accounting and auditing companies abroad.

- The presence of accountants and auditors who have not attained the level of a vocational degree that enables them to provide services of high quality.

- The inadequate use of technology and information systems to follow developments in this area.

- The increasing responsibility of auditors toward other parties.

- The change in the method of auditing from detailed audit to the method of sampling. This requires auditors to obtain high skill levels in statistics.

- The expansion of the role of financial control and technical services in the State to include the audit of performance, efficiency and effectiveness.

- The lack of adequate courses and training programmes. The training process has become a very important issue for the development of the capacity of the Libyan accountant and auditor.
- The low level of output of education in the field of economics.

3.10 The Libyan Public Sector

The oil and gas sector is the focus of this study; hence this section aims to provide information about public sector enterprises and companies, management styles in public sector management, and the oil and gas industry sector in Libya.

3.10.1   Public Sector Enterprises

After the discovery of oil and gas, and before the 1969 revolution, all sectors in Libya were privately controlled by a number of international companies, most of which were working in the oil and gas field. Since the revolution in 1969, Libya has, like many countries in the region, experimented with central planning and nationalisation in an attempt to promote economic growth and development. Thus, the public sectors have been used to takeover and dominate the Libyan economy (Kharibi, 2007). However, state-owned companies tended to be less efficient than private sector companies. In Libya, lacking market motivation, public companies were less productive and innovative and therefore registered low returns or losses. As a result, privatisation programmes started with the incorporation and sale of state enterprises in the industrial sector. Bennett (2003, p. 22) pointed out that:

> "most MENA (Middle East & North Africa) countries now recognise the need to reform their public sectors; for more than 10 years, many countries have made good progress in reining in their public sector, improving the efficiency and value of public services, and modernising public finances. But several countries – particularly Syria and Libya, still have very large state-owned sectors"

3.10.2   Management Styles in Public Sector Enterprises

There have been three management styles used in public sector enterprises since the mid 1970's. Originally, enterprises were controlled by the General Director responsible to the Board of Directors. However, oversight of the chief executive is now by management committee or people's committee (Kharibi, 2007). The changes are explained below.

3.10.2.1 Management Committee

The first managerial mechanism was the Management Committee or the Administration Board. This was used to run socialist companies in general, and the oil and gas, and industrial sectors in particular. The committee is composed of the president and two to four members. This committee is accountable to and controlled by the company's General Assembly. The Management Committee (within the boundaries of laws, regulations, decisions and recommendations) manages a company and forms the general policies to achieve its objectives, which should be ratified by the General Assembly. Thus the company's manager applies these policies and uses them as a guide for his/her decisions and procedures. For instance, the committee may recommend a relevant general policy, such as to study the budget, balance sheet, profit and loss account, and issue internal regulations.

3.10.2.2 General Representative

Management by a general representative was the second type of management used in the public companies. The representative's role is very similar to that of what is known in western companies as a chief executive, in that he/she holds the final decision-making authority in the company, but with the difference that the powers of the former are limited due to the intervention of upper government levels, such as the GP-Congress, GP-Committee, etc. (Kharibi, 2007).

3.10.2.3 People's Committee Management

After the revolution (Military Coup) in 1969, Muammar Gaddafi, who led the September Revolution, declared the Jamahiriya system or people's authority in 1977. He explained that the RCC and the Council of Ministers were respectively replaced by GP Congress and GPC. The main objective of declaring this system was to hand the authority for decision making, in all aspects of government, to the people.

Since socialism was the dogma of the 1969 coup, the public sector was encouraged to take over and dominate the Libyan economy. Consequently, management by people's committee was introduced into the public sector companies. In order to achieve the revolutionary ideal of handing over the ultimate authority to the people, considerable efforts were made in this direction by the 1969 coup leader. These efforts were intended to

replace all managerial forms with management by people's committee in all government organizations and companies. Despite these efforts, the oil and gas sector's response to these changes came only after a considerable time in comparison with other sectors, such as industry, agriculture and finance. However, most oil and gas companies introduced the new type of management by people's committee only from early 1990, after long discussion with the National Oil Corporation (NOC), the Secretariat of Petroleum, GPC and GP Congress; this system is still in use by most public sector companies. It is expected that following the recent political change in Libya, a new government will restore more modern management systems.

3.11 The Oil and Gas Industry Sector in Libya

3.11.1   Overview

In Libya, oil exploration started during 1952 and although small quantities were discovered during 1957, it was not until June 1959 that wells in the Libyan desert started producing up to 17,500 barrels per day, heralding the start of the Libyan oil industry. At that time, only foreign companies, which numbered 42, were exercising exploratory and drilling activities under concession contracts covering an area of 600,000 sq. km. Large-scale production started in September 1961, and by the end of 1969 Libya's production amounted to 15.4% of OPEC's total production, and 7% of the world's total production. As a result of the events of the September Revolution, revolutionary measures were enacted to stop the depletion of this resource (Kharibi, 2007). The oil and gas sector has been the dominant force in the sharp rise in Libya's GDP over the past four decades, and this domination, no doubt, will continue due to the fact that Libya's proven oil and gas reserves are large; 30 billion barrels of oil and 45 trillion cubic feet of gas as of early 2002; by early 2010, Libya's proven natural gas reserves were estimated at 54.4 trillion cubic feet (EIA, 2010).
The oil and gas sector in Libya comprises two groups: NOC and the companies under its direct supervision (Libyan companies, which are at least 50% owned by the government through the NOC), and non-Libyan oil and gas companies. The non-Libyan oil and gas companies have contracts with the NOC, which are usually divided into three sequential phases: exploring, producing, and sharing (produced oil). Each phase has its own terms and conditions; for example, in the exploration phase, a non-Libyan company has to pay, on its own account and at its own risk, all exploration expenses (Kharibi, 2007).

However, Libyan industrial companies, including oil and gas companies, like those in many developing countries, are owned, managed, and supervised by government institutions.

3.11.2 National Oil Corporation (NOC)

The NOC was established in 1970. It handles all of the state's interests in the oil and gas sector. These are pursued either through wholly owned subsidiaries, or through a variety of joint ventures with numerous foreign companies or in certain cases by fee-and royalty-earning contracts with foreign oil and gas companies.

3.11.3 Affiliated Companies

In terms of ownership, oil and gas companies are divided into four groups; companies 100 percent owned by the NOC, joint venture and participation companies with the NOC, research and development activities of the NOC, and companies with exploration and production sharing agreements. In turn, these are divided into three fields, in terms of the nature of the activity that they perform.

3.11.4 The Main Areas of Activity

There are many different areas of activity involved in the oil and gas sector. These activities include things which are directly relevant or not directly relevant to these industries. In regard to the activities that are directly relevant to oil and gas operations, these are provided by specialised companies. Indirectly, activities are represented in general services, which may also be provided by specialised companies. The direct activities and the indirect activities are discussed below.

3.11.4.1 Direct Activities

1. Exploration.
2. Production.
3. Refining and processing.
4. Gas processing.
5. Oil processing.
6. Specialist oil services.

3.11.4.2 Indirect Activities

1. Flying services.
2. Food supply services.
3. Transport and shipping services.
4. Marketing services.
5. Teaching and training services.

3.12 Summary

This chapter has provided a framework of the general Libyan situation including the history of Libya, its climate, and economic backgrounds. In regard to the systematic sequence to the idea and environment of study, information has been provided about the state of the accounting and auditing profession in Libya, with a brief introduction to the studies completed on the IA function in Libya. In addition, the difficulties and challenges facing the profession of accounting and auditing, as well as the developments that followed recent changes in the labour market have been discussed. In the final part of this chapter, a description of the organizational context was provided, including the NOC, its affiliated companies and their different activities. With this background in place, the following chapter turns to an explanation of the methodology employed in the empirical part of this study.

CHAPTER 4:   RESEARCH METHODOLOGY

4.1 Introduction

The literature review in Chapters 2 and 3 helped to develop the theoretical framework for this study, and contributed to the selection of its methodology. This chapter develops the research methodology and methods employed in the study. The next section discusses the research strategy. The study has used both quantitative and qualitative methods; therefore, the philosophical assumptions that guide the research are discussed in order to justify the methodology of the study, procedure and methods, demonstrating how these led to the answers of the research questions and objectives. However, the research methods adopted (questionnaire survey and interview methods) are discussed with detailed procedures for each.

4.2 Research Strategy

Burnaby (2000, p.3) defined research as "a systematic investigation to find answers to a problem". Ryan, Scapens and Theobald (2007, p.7) defined research as "a process of intellectual discovery, which has the potential to transform our knowledge and understanding of the world around us"; they recognized that there is problem regarding 'How we can acquire knowledge'? Regarding this issue, they indicated what Plato and others following him have defined as "justified true belief". There are some important issues here, which include "the nature of belief, the basis of truth and the problem of justification". These issues represent the point of departure for thinking about the philosophy (or paradigm) of research. In addition, Sekaran (2003, p.5) defined business research as:

> "an organized, systematic, data-based, critical, objective, scientific inquiry or investigation into a specific problem undertaken with the purpose of finding answers or solutions to it".

Saunders, Thornhill and Lewis (2007, p.5) defined research as "something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge". They refer to two important phrases in this definition: systematic research and to find out things.

It could be argued that all the definitions above are joined together in common words, such as 'a systematic or (process)', and 'finding ' or (answering) and the last one is knowledge, which can be an input for, and output of research at the same time. Generally, based upon this reasoning, Saunders, Thornhill and Lewis (2007, p.5) indicated that research has a number of characteristics: "First data are collected systematically; Second data are interpreted systematically and; Third there is a clear purpose to find things out".

It can be argued that social research is a method of understanding and making connections, between actions, experience and change. In this sense, Gilbert (1993) explained that the main ingredients of good social research should include: 1-the construction of theory, 2-the process of data collection and 3-the design of methods for gathering data. Therefore, the first element that should be taken into consideration is the research strategy that is available to the researcher and the tactics for the work in hand. However, the strategy of research might be a general plan of how to answer the research questions. This should include clear objectives that are derived from the research questions (Remeniy, Williams, Money and Swartz, 2002). Remeniy, Williams, Money and Swartz (1998) discussed that to establish and identify research strategy that is associated with the tactics of research is the most important initial phase of the research work. Furthermore, the researcher must first decide whether the search is theoretical or empirical. Remenyi et al. (2002) also distinguished between strategy and tactics. Strategy refers to the adoption of a comprehensive approach (methodology), while the tactics are about the specific details of data collection and analysis (method). Therefore, the existence of a research strategy allows the researchers to ensure that there is a conceptual framework for their studies. From the practical point of view, for instance, Creswell (2009, p.5) displayed a framework for design of research philosophy. It clarifies the interconnection of worldviews (philosophy) that need researchers to think through the assumptions that they bring to the study, the strategy of inquiry that is related to this worldview, and the specific methods of research or procedures that translate the approach into practice, as follows:

Figure 4-1: Summary of research methodologies
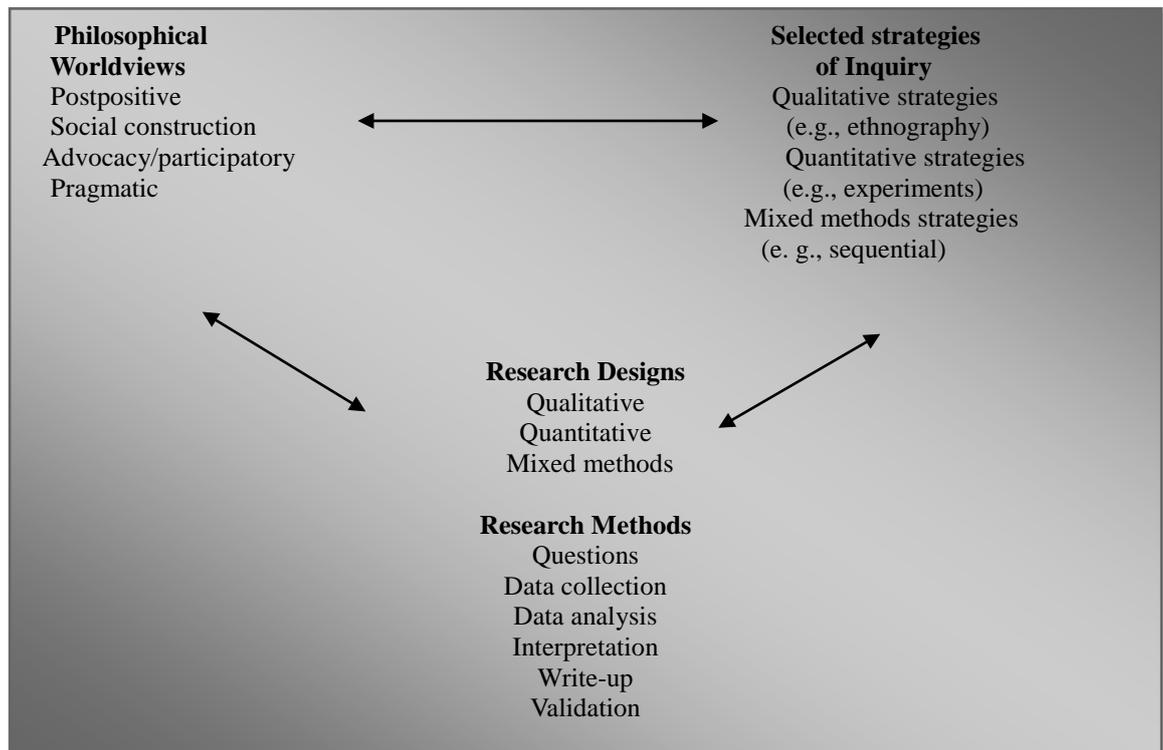
Figure A framework for design: the interconnection of worldviews, strategies of inquiry, and research methods - source: Creswell (2009, p.5)

4.3 Philosophical Positioning

The precise aims of the research derive from the methodology to be pursued in a research project. However, scientific research paradigms are overall conceptual frameworks within which researchers work. That is, a paradigm is a world-view or "a set of linked assumptions about the world which is shared by a community of scientist investigating the world" (Deshpande, 1983, p.101). Collis and Hussey (2003, p.17) argued that the term paradigm refers to the progress of scientific practice based on people's philosophies and assumption about the world and the nature of knowledge. Equally, the value of the term paradigm is that it offers a way of categorizing a body of complex beliefs and worldview (Blaxter, Hughes, and Tight, 2006). In particular, Guba and Lincoln (1994) classify scientific paradigms into four categories: 1) Positivism; 2) Critical theory; 3)

Constructivism; and 4) Realism. Each category has three elements: a) Ontology; b) Epistemology; and c) Methodology.

Briefly, ontology is the 'reality' that researchers investigate. Epistemology is the relationship between that reality and the researcher. Methodology is the technique or the overall approach used by the researcher to investigate that reality (Healy and Perry, 2000).

Underlying the four paradigms of Guba and Lincoln is the question of knowledge creation: how can the findings of one research project be generalized to other situations? In the first of the four paradigms, positivism uses a statistical analysis of observations about an easily accessible reality to generalize the knowledge to a population (Sobh and Perry, 2006). In the paradigm of realism, the findings of one study are extended by analytical generalization. This shows how the empirical findings of a research project nestle within theories. In other words, the aim of the realism paradigm is to generalize to theoretical propositions and not to populations (Yin, 1989). In the other paradigm of constructivism [and critical theory], "reality is perception" and so generalization of one research finding about someone's perceptions to another person's 'theory' about reality, cannot be done (Sobh and Perry, 2006).

Collis et al., (2003) maintain that the main, 'labelled' research paradigms or philosophies are the positivist and phenomenological, which are common in business and management research particularly. Phenomenology is the existing literature; positivism and interpretivism appear to be the research paradigms that are applied to explore truth and fact of the world by both academician and practitioner. The two stances dominate epistemology (Zhu, 2006). In the same way, Easterby-Smith, Thorpe and Lowe (2002, p.3) argued that the decision made to study a topic in a particular way requires some kind of philosophical stance, i.e. "Choice about what is important". However, some social scientists pointed out that the physical sciences deal with objects, which are outside us, whereas the social sciences deal with action and behaviour, which are generated from within the human mind. Moreover Smith (1983 as cited in Collis et al., 2003, p.53) stated that the:

> "interrelationship of the investigator and what was being investigated was impossible to separate, and what existed in the social and human world was what we (investigators and laymen) thought existed".

In addition, Cassell and Symon (1994, p.2) summarized these differences, when they mentioned:

> "the assumption behind the positivist paradigm is that there is an objective truth existing in the world which can be revealed through the scientific method where the focus is on measuring relationships between variables systematically and statistically".

Holloway (1991) argued that the quantification is at the heart of social sciences' claim to scientific method. The key concerns are that measurement is to be reliable, valid and generalizable in its clear predictions of cause and effect.

4.3.1   Positivistic Paradigm

Bryman and Bell (2003, p.14) defined positivism is

> "an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond".

But the term stretches beyond this principle, though the constituent elements vary between authors. In addition, Easterby-Smith et al. (2002, p.28) argued that

> "the key idea of positivism is that the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition".

The French philosopher, Auguste Comte (1853) as cited in Easterby-Smith et al. (2002) was the first person to encapsulate this view; he said that all good intellects have repeated, since Bacon's time, that there can be no real knowledge, but that which is based on observed facts.

It can be concluded that the above definitions highlight the idea of applying the methods used in the natural sciences to social sciences.

According to the positivists, this approach provides the basis for explanation, permits the anticipation of phenomena, predicts their occurrence, and therefore allows them to be controlled. However, explanation includes the process of establishing causal relationships between the variables by establishing causal laws and linking them to a detective or integrated theory (Collis et al., 2003).

Scott (1997) suggested that positivists believe that there are no meaningful differences between natural and social sciences methodologies. In line with this argument, Collis et al., (2003) suggested that positivism is founded on the assumption that studies conducted in human behaviour should be conducted in the same way as studies carried out in natural sciences; so it attempts to place social research in the same realm as natural scientific research.

However, positivism has been criticized by some authors. It was argued that establishing a relationship between variables depends on defining these variables. Some explain that it is not possible to treat subjects as being separate from their social environments, and they cannot be understood without examining the perceptions they have of their own activities (Remeniy et al., 1998; Mashat, 2005). Collis et al. (2003) also criticized positivism in terms of researchers' objectivity, in particular, being part of what they observed. It is argued that researchers introduce their own interests and values to the research.

4.3.2 Phenomenological Paradigm

Not so long ago, positivism began to be discussed adversely by some social scientists. They said that physical sciences deal with the objects outside us, whereas the social sciences consider that action and behaviour are generated from within the human mind (Collis et al., 2003). Allen (1990, as cited in Collis et al., 2003, p.53) stated that phenomenology is the science of phenomena. A phenomenon is a fact or occurrence that appears or is perceived, especially one of which the cause is in question. Therefore, "the phenomenological paradigm is concerned with understanding human behaviour from the participant's own frame of reference" (Collis, 2003, p.53). Moreover, they explained that the word 'phenomenon' is derived from the Greek verb 'to appear' or 'to show'. Also Saunders et al. (2007) indicated that a phenomenology refers to the way in which we as humans make sense of the world around us.

It is argued that the phenomenological paradigm in research needs to be contrasted with the positivistic methods. In contrast to the positivist, aside from the basic belief that the world is socially constructed and subjective, the phenomenologist does not see the world as consisting of an objective reality. The focus of researchers, according to the phenomenological paradigm, is mainly on the meaning rather than facts, seeking to understand what is happening, through a look at the totality of each situation and

developing ideas through induction from evidence (Remeniy et al., 2002). Creswell (2009) has seen the phenomenological paradigm described using another expression, namely social constructivism. It holds the assumption that individuals seek understanding of the world in which they live and work, through developing subjective meanings of their experiences and directing the meanings toward certain objects or things. These meanings are varied and multiple; accordingly, researchers focus on the complexity of views, rather than narrowing meanings into a few categories or ideas. Moreover, Collis et al. (2003) also mentioned that another term, preferred by other authors, is in use, namely interpretivist rather than phenomenological, because it suggests a broader philosophical positioning.

However, Cohen and Manion (1987) considered this paradigm a theoretical point of view that helps in studying the direct experience taken at face value and one that sees behaviour as determined by the phenomena of experience rather than by external, objective and physically-described reality. Therefore, Remeniy et al. (1998) suggested that the phenomenological paradigm is increasingly accepted among business and management scholars, and considered to be suitable for this type of research.

The phenomenologist believes that the world can be modelled, but that this should not be through a mathematical method; rather, they believe that a verbal, diagrammatic, or descriptive model could be acceptable (Remeniy et al., 1998). The phenomenological method as described is a qualitative paradigm that stresses the subjective aspects of human activity, and focuses on the meaning rather than measurement of social phenomena. It is suggested that this approach be described as the descriptive/interpretive method, and it stipulates that every event should be studied as a unique incident in its own right (Remeniy et al., 1998; Collis et al., 2003).

The above briefly outlines the key issues and controversies that divide positivistic and phenomenological paradigms. As shown, advocates from each camp defend the appropriateness of their tenets, assumptions, and approaches. They also argue for the respective abilities that their methods provide, and that each is superior to its 'counterpart' in approaching 'reality'. In essence, a paradigm that reflects an understanding of a researcher on the nature of existence is beyond "logical" debate, because each paradigm is "Sound" in its own logic (Lincoln and Guba, 1985).

4.3.3   Post-positivism Paradigm

Post-positivism is one paradigm which seeks to move on from positivism. As "the intellectual heir to positivism", post-positivism emerged approximately in the middle of the last century, challenging the traditional assumptions associated with positivism and seeking to respond to some problems of the paradigm (Tashakkori andTeddlie, 2003, p6). However, stemming from the traditional philosophical school, post-positivism shares the problem of quantification, addresses the appropriateness of 'quantifying' social phenomena, and applies the techniques to different contexts such as perceptions – areas that are not investigated within the pure positivism paradigm. Creswell (2009, p.7) argued that post-positivists "hold a deterministic philosophy which in turn causes probably determine effects or outcomes". Therefore, post-positivists study the problems to reflect the need to distinguish and evaluate the causes that influence outcomes. It is also reductionist in that the intent is to set the main ideas into a small, discrete set of ideas to test, such as the variables that encompass hypotheses and research questions (Creswell, 2009, p7). Post-positivism acknowledges the assumption that the world may be objective and external, and it is based on careful observation and measurement of the objective reality that exists "out there" (Phillips and Burbules, 2000; cited in Creswell, 2009). This critical view is in response to the problem of quantifying considered before, i.e. whether it is appropriate to quantify social phenomena.

Post-positivists challenge the positivists' position that the basis of 'pure' knowledge is the absolute truth. One fundamental argument is that it is inappropriate to assume that researchers are completely independent of reality. Post-positivists explain that researchers, are part of reality, and influence research from at least two aspects, where research is influenced by the theory of interest, and by the values of the researcher (Tashakkori and Teddlie, 2003).

Therefore, post-positivistic researchers accept one constructivist assumption, namely that the understanding of reality is structured and constructed by the human mind (Tashakkori and Teddlie, 2003). The nature of research is influenced in this position, i.e. it is affected by the researcher, by measurement, and the 'subjects' involved in that research It is still concerned with how to deal with any problems emerging from quantification (Sayer, 1992).

4.3.4   Realism Paradigm

Realism is another epistemological position with respect to scientific research (Saunders et al., 2007). Realists believe that there is a "real" world to discover, even though it is only imperfectly apprehensible (Godfrey and Hill, 1995; Guba and Lincoln, 1994; Merriam, 1988; Tsoukas, 1989; Healy and Perry, 2000). The essence of realism is that what the senses show us is the truth, i.e. objects have an existence independent of the human mind (Saunders et al., 2007). In addition, realism shares two features with positivism; firstly, a belief that the natural and the social sciences can, and should apply the same kind of approach to the collection of data and to explanation; secondly, commitments to the view that there is an external reality to which scientists direct their attention. In other words, the existing reality is separate from our image of it (Bryman et al., 2003). In this sense, realism is opposed to idealism, the theory that only the mind and its contents exist. As a branch of epistemology, it is similar to positivism. Realism assumes a 'scientific approach' to development of knowledge. This assumption underpins the collection of data and the understanding of those data (Bryman et al., 2003).

Finally, in line with all the above, this research implies a realism paradigm, because realism is a dominant tradition here in this subject area. However, as the research draws on individual perception, there is scope for respondents to use different perspectives. This is accomplished by the use of quantitative and qualitative methods. In this study of IA, qualitative and quantitative methods used chiefly to achieve the research objectives. However, the motivations for this study reflect a desire to enrich and extend the understanding of the nature of expectations and perceptions in regard to the characteristics of the IA from SM, board of director and the IA. Furthermore, in order to achieve the objectives of the research, the research relies on the analytical descriptive methodology of secondary and field data. The theoretical analysis explaining the technical and functional development of practicing the IAF based on the IA standards, as well as the related legislations, the previous studies, books, references, and publications of Arab and international IA organization. On the other hand, the practical field study adopted the questionnaire and interview to collect initial data from the study population.

4.4 Research Aim and Objectives

The main aim of this study is to examine the perceptions that the Libyan managerial class presently have regarding the nature and practice of IAF in Libyan oil and gas companies, as well as the degree of reliance placed by top management on the internal audit function to achieve the company's goals. In order to achieve this main aim, the following objectives were set for the study:

1. To compare the perceptions amongst top managers and internal auditors (in selected Libyan oil and gas companies) of the IAF to determine:
    a. The extent to which that there are differences between the current perceptions.
    b. The factors which have more influence on the nature and practice of the IAF;
2. To examine the degree of reliance placed by top management on the work of IAF in Libyan oil and gas companies to accomplish the companies' objectives.
3. To determine improvements that could be introduced to improve the practice of the IAF in Libyan oil and gas companies.

4.5 Research Questions

1. How do top managers perceive the nature and practice of the IAF in Libyan oil and gas companies?
2. How do internal auditors perceive the nature and practice of the IAF in Libyan oil and gas Companies?
3. To what extent do top management in selected Libyan oil and gas companies depend on the IAF to achieve corporate objectives?
4. What improvements could be introduced to improve the practice of the internal audit in Libyan oil and gas companies?

4.6 Research Approach

As explained earlier, the main objectives of the study are to examine the perceptions that the Libyan managerial class presently have, regarding the nature and practice of IAF in Libyan oil and gas companies, as well as the degree of reliance placed by top management on the work of IAF to contribute to achievement of the company's goals. In order to achieve this main aim, the perceptions of participations examining. Therefore, this involves testing the differences in views, in order to be able to provide policy recommendations. Depending on whether the analysis of data confirmed the different views or not, it will be

possible to assess whether different respondent groups have different perceptions of the various factors, which together comprise the basic factors of acceptable IAF practice.

In addition, analysis of the different factors according to the different respondent groups should be very instructive in the study of each group's perceptions of the factors. It might also point out weaknesses in the way in which IAF is practiced. The perceptions tested were mainly related to the variables of the study, in other words, independence and objectivity, role and scope of work, competence, work performance, and communications. The study variables were split by the demographic data, such as "an administrative location" with a link to other demographic data, such as educational background, years of experience, and the size of internal audit department, to help in data analysis and interpretation. In summary, the research questionnaire and obtainable data were designed as the variables of the study, and also to test the perceptions of the study's participants. In addition, a qualitative research approach was used to answer questions about phenomena that were identified in the research questions and research objectives (Creswell, 1998, p.15; Leesy and Ormrod, 2005, p.94). This research often focuses on describing and understanding the phenomenon from the point of view of the participants.

4.7 Research Methods

As stated by Sapsford and Jupp (1996), Vaus (2001), and Bouina and Atkinson (1995), the three primary data collection methods used most often in social science research are survey, observation and experimentation. The term method "can be understood to relate principally to the tools of data collection or analysis: techniques such as questionnaires and interviews" (Blaxter and Hughes, 2006). As Collis et al., (2003) note, the choice of method will help determine the types of tools, which can be used to collect the research data. In deciding whether to use a quantitative or a qualitative approach, it is necessary to explore these alternatives in more depth. The use of both quantitative and qualitative methods in the same study is known as triangulation; this refers to the use of different data collection methods within a study to ensure that the data from these different methods agrees. For example, semi-structured interviews may be a valuable method of triangulating data collected by other means, such as questionnaire (Saunders et al., 2003). In addition, Denzin (1970, as cited in Collis et al., 2003, p.78) defines triangulation as "the combination of methodologies in the study of the same phenomenon". Thus triangulation is used in this

study to achieve greater validity and reliability. Creswell (2009) argues that the researcher bases the inquiry on the assumption that collecting diverse types of data best provides an understanding of a research problem.

Questionnaire and interview research methods were used for data collection in this research project concerned with IAF practice in Libyan oil and gas companies. The use of a qualitative approach to support a quantitative questionnaire will serve in fully understanding the questions of research. This research is very much an exploratory study into the perceptions about the nature and practice of the IAF. Questionnaires were sent to, and support interviews, conducted with directors or heads of IADs or internal auditors as staff, senior management (CEO or CFO), and board of directors within Libyan oil and gas companies.

4.7.1 Quantitative Research Method

The most important requirement of a quantitative research is selecting a sample. The sample selected for the study is chosen to reflect the attributes of the target population, and also to be representative and unbiased. In other words, the sample serves as a model for the population. From a statistical analysis of the sample data, it is possible to generalize to the whole population with a specified degree of confidence (Remeniy et al., 1998). This attribute of social sciences is known as representativeness. One of the main advantages of quantitative data collection is the relative ease and speed with which research can be conducted. However, the analytical and predictive insight, which can be gained from statistical analysis when the research adopts a quantitative approach to data collection, must be set against the issues of sample representativeness (Collis et al., 2003). Besides the representation issue, using standardized measurements is considered an advantage in quantitative methods.

Patton (1990, p.14) supported this argument, when he mentioned:

> "quantitative methods entail the use of standardized measures so that varying perspectives and experience of people can fit into a limited of predetermined response categories to which numbers are assigned".

In this research, to test the perceptions of participants, a quantitative research method, i.e. a questionnaire survey, was considered to be the most suitable. The reasons that led to this decision are as follows:

- Comparatively low cost: Given the geographical distance between the research base and target organizations, i.e. Tripoli and rest of Libya, the financial economies associated with the use of a survey made this the preferred method.

- Economical use of time: Use of the survey method meant that data collection could be managed in 3 months, which is an acceptable time period. In contrast, because the environment needed for direct observation might occur infrequently, the research period for this method cannot be controlled.

- Ease of administration: As the data to be collected involved internal auditors and auditees' attitudes, opinions and behaviours, the use of a survey was considered to offer a simple means of obtaining such information without any field team.

- Ethical and co-operational problems: The survey method allows respondents to decide whether or not to reveal information. The observation method fails to provide this option, and the experimentation method may lead to respondents being unwilling to participate within the specific environment.

- Flexibility of data collection: Due to the geographical distance of the research setting, the flexibility of data collection was critical. The survey method provides a flexible approach (e.g. mail survey), which led to this being the method of choice.

- Diversity: Based on the survey method, a wide variety of questions could be designed in order to elicit respondents' essential thinking. In contrast, by using the observation method, issues such as underlying motives, beliefs, attitudes and intentions could not be understood.

4.7.1.1 The Questionnaire Survey

For its exploratory purpose, in this type of research, empirical work is considered to be important. Therefore, the researcher used the questionnaire survey method, as it was determined to be the most efficient and economical method of collecting data. Saunders et al. (2000. p.278) considered questionnaires as a general term to include all techniques of data when respondents are asked to respond to the same set of questions in the same order. In the same context, Collis et al., (2003, p.173) argued that questionnaires are related to positivistic and phenomenological methodologies. They defined a questionnaire as:

> "a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample. The aim is to find out what a selected group of participants do, think or feel".

In the same context, Sekaran (2003, p.236) defined a questionnaire as a "reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives". Sekaran (2003) viewed the questionnaire tool as the most efficient and important one in collecting data, when the researcher knows exactly what type of information he/she needs, and how to measure the study variables. The latter view is crucial for researchers to help them choose the means of data collection. The next section will review the types of questionnaires, in general, and the ones used in the study.

4.7.1.2 Types of Questionnaires

There are some alternative ways to conduct a survey. Among these methods are telephone interviewing, postal questionnaires and self-administered questionnaire. Each of these methods has advantages and disadvantages. The following sections highlight these methods, and reflect on the advantages and disadvantages of each.

4.7.1.2.1 Telephone Interviewing

The telephone interview costs approximately half what a face-to-face interview costs (Dooley, 1990). Czaja and Blair (1996) explained that telephone numbers can be selected in different ways. It could be done through random selection from a telephone directory or created by using an existing telephone number and dropping one or more of the last four digits and substituting random numbers. The telephone interview can be:

- A short, highly structured interview, aimed specifically at identifying points.
- A longer initial interview, using multiple-choice questions, to gauge suitability for the specific points, and to maximise success rates at the next stage of selection.
- An in-depth interview conducted over the telephone for a particular purpose.
  Advantages include:
- Random digital dialling for sampling the general population.
- It gives the researcher better chances of accessibility to interviewees when compared to personal interviews.
- Lower cost than personal interviews.
- Interviews can be arranged more quickly, and the entire process takes less time than other conventional methods.
- Shorter data collection periods.

- In terms of research administration, it has the advantage of easy administration when compared with a postal survey.
- It needs less staff to conduct the survey.

Disadvantages include:
- It is less reliable in case of sensitive questions.
- Non-response associated with random-digit-dialling sampling is higher than personal interviews.
- Telephone interviewees may produce more missing data on income questions.
- If the questions are long and complicated, respondents will face some difficulties.

4.7.1.2.2 Postal Questionnaire

This type of questionnaire requires the researcher to post questionnaires and letters to the population. Researchers usually provide participants with a prepaid envelope. This type of survey is considered the most common method, and many researchers use it. Sarantakos (1998) explained that the main feature of this method is that respondents are exposed to limited data interference by the research staff. Moreover, the key advantage is the low cost and time saving compared to other techniques, such as self-administered questionnaires and interviews (Hakim, 1987; Sarantakos, 1998; Sekaran, 2003). Other advantages of left questionnaires can be classified as follows:

- Can offer a considered and objective view on the issue; the respondent has the opportunity to consult their files and colleagues, as many respondents prefer to write than to talk about certain issues.
- Can be completed at the respondent's convenience; in other words, at their homes and at their own pace.
- Can promise wider coverage, considering that researchers can approach subjects more easily than in other methods.
- The use of postal questionnaires may reduce the possibility of bias caused by the presence or attitude of the interviewer.

There are some disadvantages of postal questionnaires; for example, Sekaran (2003), Collis et al., (2003), and Saunders et al. (2003) categorized the following disadvantages:

- Researchers will not be confident that the right person has responded to the questionnaire, because the respondent's identity and the conditions under which the questionnaire was answered are unknown.

- The possibility of a low response rate, and as a result, it can be very difficult to establish representativeness of the sampl,e because the respondent may not at all represent the population they are supposed to.

Furthermore, one can argue that Libya, as a developing country, has a very poor postal system and Internet network. As result researchers in Libya rarely rely on postal questionnaires. For this reason, the current study did not rely on this type of questionnaire.

4.7.1.2.3 Personally Administered Questionnaire

Collis et al., (2003) considered the personally administered questionnaire as one of the best tools for data collection. In line with Collis et al., (2003), Sekaran (2003) viewed the personally administered questionnaire as an effective method, if the survey is confined to a local area, and the researcher wants to target a group of respondents at their place. In highlighting the advantages of personally administered questionnaires, Collis et al., (2003) and Sekaran (2003) suggested the following:

- The ability of researchers to collect the completed responses within a short period of time, so it can be argued that this type of questionnaire offers a high response rate and minimises interviewer bias.

- The ability of researcher or a member of the research team to clarify, if there are any doubts raised by the respondents on the spot.

- The researcher can introduce the research topic to the participants by explaining the research themes, encourage and motivate them to respond frankly.

- Administering questionnaires to large numbers of respondents at the same time is less expensive and consumes less time than interviewing.

- It does not need much skill to administer the questionnaire as to conduct interviews.

- It gives the researcher the opportunity to check the completeness of the questions in the questionnaire.

Disadvantages can be summarized as:

- It is more costly than other methods, in particular, when carrying out a survey to a large number of participants, who are geographically separated or abroad.

- Respondents may hesitate to respond to sensitive issues.

In conclusion, considering all of the above advantages and disadvantages, the current study employed one type of questionnaire, which is a personally administered questionnaire.

4.7.2 Qualitative Research Method

Bryman (2004) viewed qualitative research as a research strategy that usually considers words rather than quantification in the process of data collection and analysis. In line with Bryman (2004), Sekaran (2003) argued that qualitative data refers to information gathered in a narrative form through interviews and observations. However, qualitative research is broadly defined as "any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantifications" (Strauss and Corbin, 1990). In the same context, Remeniy et al. (2002, p.288) mentioned:

> "qualitative research based on evidence that is not easily reduced to numbers. In some cases the evidence cannot be reduced to numbers and any attempt to so do would not be useful. In such cases statistical techniques are not sensible and hermeneutic approaches are preferable".

In other words, this type of research method tends to articulation more than numbers. According to Hague and Jackson (1996), the roots of the words "qualitative" and "quantitative" indicate the main difference between the two approaches they designate. Qualitative research is therefore usually inductive, i.e. general principles are derived from specific observations. It can produce new ways to think about problems, whereas quantitative research usually means examining problems using theories and ideas that already exist. Therefore, the role of qualitative research has become recognized in management literature, because it can be used to answer 'how' questions (Steckler, McElroy, Goodman, Bird, and McCormick, 1992). In this research, the interview process was designed to test the propriety of a new factor, which is 'communication', in perceiving and evaluating the nature and practice of the IAF with other factors. In addition, to supplement and enhance the knowledge gained from questionnaires in regard to analysing the views and attitudes of participants in more depth (analysis of the existing significant differences in perceptions and evaluations of participants). Therefore, the next section discusses the interview as a qualitative method and its types.

4.7.2.1 Interviews

Interviews are commonly used for research or enquiry purposes, possibly in part because they appear to be a quite straightforward and non-problematic way of discovering things. Collis et al., (2003, p.167) argued that interviews are associated with positivist and phenomenological methodologies. They viewed interviews as "a method of collecting data in which selected participants are asked questions in order to find out what they do, think or feel". Accordingly, positivist limitations and realism approaches suggest the use of the structured interview, as it deals with close-ended questions that represent the main focus of positivists. While the phenomenological approach is to use the unstructured or semi-structured interview, as they concentrate on open-ended questions and are used to explore questions in depth. May (1997, p.109) viewed interviews as a method of maintaining and generating conversations with interviewees on a specific topic or range of topics. He suggested that interviews yield rich insight into respondents' experiences, opinions, aspirations, attitudes and feelings.

Sekaran (2003) explained that there are many options in the interview approach. This research interviewed 8 subjects. In order to achieve this, the researcher employed semi-structured interviews. For greater explanation, the researcher used semi-structured interviews with the first stage of interview for a new factor, while the unstructured interview method used with the second stage of interview regarding the findings of questionnaire in terms of differences in perceptions of participants about the research variables. The next two sections will discuss these two types of interviews.

4.7.2.2 Types of Interviews

4.7.2.2.1 Semi-Structured Interviews

The semi-structured interview is

> "a process in which the interviewer focuses on a limited number of questions on some limited number of points. It may range quite widely around a point, but this would be done only as a means of getting the required information on that particular point" (Smith, 1972, p.119).

Bryman (2004) argued that the term semi-structured interview covers a wide range of instances. This type of interview involves the interviewer preparing a series of questions that are in the general form of an interview schedule, but it is recommended that the

interviewer should be able to vary the sequence of questions. However, semi-structured interviews provide the interviewees with the opportunity to speak frankly about what they believe. Moreover, this method was considered to be appropriate to conduct exploratory discussions in the order not only to reveal (what) and (how) but also to place more emphasis on (why) (Saunders et al., 2000). Semi-structured interviews give the potential for discovering issues that have been considered before. Furthermore, it allows the questions covered to vary from one interview to another, and on the flow of the conversation. As additional advantages of semi-structured interview, May (1997) explained that the interviewer, who can seek clarifications during the course of the interview, could record qualitative information about the topic discussed, and the questions specified.

4.7.2.2.2 Unstructured Interviews

Saunders et al. (2000) viewed unstructured interviews as an informal method of data collection. However, it is used to explore in depth a general area of interest of the researcher. Unstructured interviews are so labelled, because the interviewer has no planned sequence of questions to be asked of the respondent.

> "The main objective of the unstructured interview is to bring some preliminary issues to the surface so that the researcher can determine what variables are needed for further in-depth investigation" (Sekaran, 2003, p.225).

It is argued that this type of interview enables interviewees to answer questions within their own frame of reference, as interviewees are given the opportunity to talk freely about the topic under investigation in terms of events, behaviour and beliefs; this type of interaction is called non-directive (May, 1997; Saunders et al., 2000). From the researchers' point of view, it might be a disadvantage that respondents answer questions within their own frame of reference, as it may provide unnecessary information. However, at the same time, researchers may need this information and ideas about a topic to explore their ideas. As a result, this type of interview might equip them with needed information. Furthermore, it provides a greater understanding of the subjects' point of view. Moreover, the unstructured interview involves the researcher having an aim when conducting the interview, but the subjects interviewed are free to discuss the topic. As a result, it provides room for flexibility (May, 1997).

Denscombe (2001, p.167) argued that the main difference between unstructured and semi-structured interviews is the degree and means of control exercised by the researcher over the response and length of answers provided by the respondent. In addition to the above advantages of unstructured and semi-structured interviews, Easterby-Smith et al. (1991) added that both methods are suitable to be used when issues are of highly confidential or commercially sensitive nature or the interviewee may be reluctant to be truthful about this issue other than confidentially in a one-to one position.

Although interviews have many advantages, there are several associated problems. Collis et al., (2003) explained that the whole process is time-consuming and expensive. Furthermore, the researcher should ensure that all interviews are conducted in the same way. This means that researchers should ask the same questions and pose them in the same way. Sekaran (2003) added that respondents might feel uneasy about the anonymity of their responses when they speak to the interviewers.

4.8 Summary

This chapter provides the methodology, approach and methods adopted to attain the objectives of the study. It described the research philosophies, namely positivistic, phenomenological, post-positivism and realism paradigms. This study was a combination of both quantitative and qualitative approaches. In order to implement this approach, a questionnaire survey and interviews were used as the methods for data collection. Moreover, the research questionnaire and obtainable data were designed as the variables of the study, and also to test the perceptions of the study's participants. In addition, the interview process was designed to test the propriety of new factor, which is 'communication', in perceiving and evaluating the nature and practice of the IAF with other factors. In addition, to supplement and enhance the knowledge gained from questionnaires in regard to analysis the views and attitudes of participants. In the next chapter, the design of the research instruments is also presented.

CHAPTER 5: RESEARCH INSTRUMENTS DESIGN

5.1 Introduction

This chapter focuses on the design of the research instruments, i.e. the questionnaire and interviews, which formed the basis of the empirical research work. Here, the process of constructing the questionnaire and interviews is discussed. This began with developing relevant questions to satisfy the research objectives, which provided the sources of ideas for the study's questionnaire. The pre-study investigation of the study questionnaire, conducted with academic personnel in Libya, students studying in UK universities, and with company top management and internal auditors, is also presented. The chapter as well reports on the findings of the interview programme. As well as the chapter Presents report on the findings of the interview programme. The programme involved face-to-face interviews conducted in Libya, in the period January to February 2010. The interview programme aimed to evaluate the validity of communication as a factor, and so achieve the aims of the study. Finally, the chapter highlighted the difficulties of conducting interviews in Libya compared to administering questionnaires.

5.2 The Relevance of Questions to the Research Objectives

The wording of the questions is considered one of the most important problems in designing a questionnaire. In this sense, it is suggested that all usable questions must be relevant to the objectives of the study. Therefore, the researcher examined whether each item in the questionnaire has a role in the study. In other words, the purpose of each question should be clear in achieving its goal. In addition, each group of questions was designed to test a particular variable, using a five-point scale.

Before an item is included in the questionnaire, how it is to be analyzed, the statistical techniques used, and the way it is to be published or presented, are also determined.

5.2.1 Sources of Ideas for the Questionnaire

The ideas for questions were mainly derived from main sources consisting of a detailed examination and analysis of the literature concerning the following issues:

1- Independence and objectivity of internal auditors.
2- Role and scope of internal auditors.

3- Competence of internal auditors.

4- Work performance of internal auditors.

5- Communication of internal auditors.

6- Reliance on the work or function of internal auditors by top management.

7- Degree of agreement with recommendations to improve the practice of IAF.

Many materials used in the study questionnaire were adapted from the instruments of Haimon (1998) and Obeid (2007).

5.2.2   The Rationale for Questions

The final version of the questionnaire was divided into four sections. The first section gathered demographic data, while the second was designed to test the five main factors of interest in the study. These are independence and objectivity, role and scope, competence, work performance and communication. The third section was designed to evaluate the degree of reliance of top management on the work of IAF. Finally, the fourth section was designed to evaluate good practice. The main purpose of the survey was to:

1. Collect the opinions of internal auditors, boards of directors and SM (CEO and CFO) in Libyan oil and gas companies, regarding the five factors of the model.

2. Find out how these five factors affect the reliance of top management on the work of IAF to fulfil the company's objectives.

The first section in the questionnaire serves to characterize the respondent and gather demographic data. The data collected includes classification of the respondents' levels, i.e. director, SM (CEO or CFO), or IA, their experience in the areas of IA, management, or both, and their qualifications. The section also gathers other information related to the IAF in the companies; for example, whether they have an audit committee, to whom the IA report is directed, the number of internal auditors in the company, and IAF carried out by members of staff inside or outside the company.

The objective of the second questionnaire section was to investigate the attitude of respondents regarding the nature and practice of the IAF in Libyan oil and gas companies. This section contained five parts, with each part focusing on one of the factors, i.e. independence and objectivity, role and scope, competence, work performance and

communication; a set of statements was presented to measure the variables or factors that indicate the nature and practice of IAF.

The first part in this section attempted to examine the participants' views regarding the company IAF's independence and objectivity, by taking the views of one member of the board of directors, SM, and internal auditors. In this part, the independence and objectivity factor was addressed by:

- Administrative and reporting levels of the internal audit department.
- Freedom of internal audit staff from conflict of interest.
- Free access to all the information, and employees considered qualified to conduct the audit process.
- The authority approving the appointment and removal of the head of the internal audit department.

Previous research, for example Abdel-Khalil et al. (1983), Burnaby et al. (1994), Haimon (1998), and Obeid (2007) concluded that the reporting level of the internal audit department was an important factor in determining the corporate governance parties' evaluation of the IAF. This questionnaire differentiates between reporting level and administrative level. Reporting level refers to the highest level in the company to which the department reports. Administrative level refers to the level of the IAD in the management hierarchy of the company.

The second part of the second questionnaire section attempted to test the participants' perceptions regarding the role and scope of the IAF by taking the views of the board of directors, SM and internal auditors. The contemporary IA considers that the scope of its work takes in all aspects of the procedures within organizations that are technical, accounting, financial or administrative, in relation to all transactions. The evaluation of the adequacy of the procedures is done in terms of economy, efficiency and effectiveness, or the "3 Es" (Haimon, 1998). In this part of the questionnaire, role and scope was reflected by respectively evaluating, examining, reviewing, providing and appraising adequacy of control systems, reliability of information, compliance of operating systems with laws, procedures and so on; consultations regarding controls, operations and risks; and the resources employed. In addition, applying the same rules to all levels of the company, top management's own operations within the scope of audit were also evaluated. Previous

empirical studies had used this framework to evaluate the role and scope of the practice of the internal audit, such as Haimon (1998). The IIA as a professional body has clarified the role and scope of IA theory; for example, the statement of responsibilities of internal auditors, which was originally issued by the IIA in 1947, and the current revised statement issued in 1990. It embodies the concepts previously established, and includes such changes as are deemed advisable in light of the present status of the profession.

The third part attempted to test the participants' perceptions regarding the competence of internal audit departments by taking the views of members of the board of directors, SM, and internal auditors. In this part, competence was reflected by education, experience, and the certification status of the internal audit department staff. The supervision over the activities of the department staff was also evaluated.

The fourth part was designed to test the perceptions of individuals from the board of directors, SM, and internal auditors regarding work performance. Work performance was addressed in different ways to highlight the different concepts of internal audit practices. Performance is seen to be influenced by audit planning, review and evaluation of information, communication of results, and monitoring, to see if corrective actions were taken on the report of audit results. In this section, the research reused three dimensions selected by Obeid (2007) to evaluate the performance of the work of internal auditors. One dimension is the extent of internal audit coverage. The second dimension explains how the internal audit department is involved in audit practices. The third dimension is the degree to which the internal audit service is geared towards the operational control of financial control and evaluation of internal control.

The fifth part of the questionnaire was designed to test the views of one of the board of directors, SM and internal auditors towards communication of the practice of IA. This component is considered to be a new factor to evaluate the nature and practice of the IAF. The review of academic and professional literature contributed broadly to create a frame of statements for this component. In this study, communication was reflected by a set of statements, such as:

- internal auditors maintain satisfactory report relationships with auditees;
- convey effectively audit objectives and recommendations through written and oral communication;

- recommend improvements to correct deficiencies or irregularities;
- reports issued on-time; level and type of reports;
- attending management meetings; contents of the report.

The third section of questionnaire was designed to evaluate the views of the top management and internal auditors, regarding the degree of reliance on the work of IAF to contribute to achievement of the company's objectives. Therefore, the researcher used the independent variables, which were used in prior research (for example, Obeid, 2007; AL-Twaijry, Brierley and Gwilliam, 2004; Tiessen and Colson, 1990) and adapted them for this study. The idea was used in these studies related to the views of external auditors relying on the work of the internal auditors. Therefore, from here the idea of the current study has mutated to consider the perceptions of top management and internal auditors, in regard to the degree of reliance of management on the work of IAF to contribute in achievement of the company's objectives. In this section, the statements in the questionnaire attempted to test the relationship of specific role and scope, competence, objectivity, communication, and work performance criteria measures related to their overall evaluation. Thus the variables were:

- The organizational level to which the director of internal audit reports.
- The existence of a system of periodic internal audit reports.
- The internal audit staff competence, e.g. educational background, experience, training.
- The degree of control and supervision within the department.
- The ability of internal audit staff to have access to the company's records, documentation and personnel.
- The quality of internal audit programmes.
- The degree of internal audit coverage.
- The degree of response to internal audit reports issued by the departments.

The fourth Section of questionnaire was related to the good practices to improve the practice of the IAF in Libya, especially with the oil and gas companies. It includes good practices inspired by questions that appeared in the research literature on IA. Others were composed by the author, which can add value to the company during the audit process. As mentioned, the questionnaire was pilot tested before being sent to the sample of the target population.

5.3 The Process of Questionnaire Construction

The questionnaire design was based on an extensive literature review to evaluate and compare the questionnaire with other questionnaires developed by other researchers. However, the validity and reliability of data collection and response rate will largely depend on the design of questions, the questionnaire structure, and the rigor of pilot testing (Saunders et al., 2003). In this aspect, Sekaran (2003) explained that the design of the questionnaire should focus on three areas. The first is the formulation of questions. The second relates to the planning process, as the variables of the study were classified in scale, and receiving coded replies afterwards. The third concerns the general appearance of the questionnaire and the pre-test.

5.3.1   Formulating Questions

It is important that all survey questions will be taken into account to ensure that responses are valid. Sekaran (2003) suggested that the questions asked, the language used, and the formulation should meet the respondents' attitudes, and perceptions. Moreover, Collis et al., (2003) stated that it is necessary to bear the potential audience in mind. This is taken to mean that if the research sample is composed of intelligent people, who are likely to be knowledgeable and interested in the research topic, then it can aim for a fairly high level of complexity. Saunders et al. (2003) and Collis et al. (2003) suggested the following guidelines rules for wording questionnaires:

1. The questions should be clear, uncomplicated, and use simple language and common concepts; most importantly, words used in questions should be familiar. In this work, every effort was made to use simple, straightforward and familiar terms.

2. Spelling out exactly what was precisely required from each question, a set of questions or a scale. The study questionnaire considered this issue.

3. Avoidance of biased questions. A biased question is a question that makes one respondent response more likely than another, regardless of the respondent's opinion. Therefore, the study questionnaire avoids biased questions as far as possible.

4. Making sure that the questions are short and direct, because long questions are difficult to understand and consume the respondent's time, making them less willing to participate, while indirect questions increase the probability of the question being

misunderstood. This questionnaire used short and direct questions, and avoided indirect questions.

5. Avoidance of leading questions; this type of questions was defined by Kumar (1999: 120) as "one which, by its contents, structure or wording, leads a respondent to answer in a certain direction". Therefore, employing emotive suggestive language or the way a question is phrased can lead the respondents to answer questions in one way. Thus, this questionnaire attempted to ensure that questions are phrased so as not to be leading.

6. Avoidance of ambiguous wording, using familiar terms that allow all respondents to understand them in the same way. Every effort was made to use simple and familiar terms.

7. Avoidance of offensive questions or insensitive questions which could cause embarrassment.

8. Avoidance of vague, descriptive words such as 'large' and 'small'.

9. Including questions that serve as cross-checks on the answers to other questions.

On the one hand, questionnaires should avoid the usage of negative questions, because negative questions may confuse the participants, especially when asking them to indicate whether they agree or disagree. On the other, it was suggested by other authors, such as Sekaran (2003) to include some negative questions. In the study questionnaire, very few negative statements were used. In the context of all the above guidelines and rules, the current study has considered all of them, in the wording of questions for both the questionnaire and the interview.

5.3.2 The Order and Flow of the Questions

A well-sequenced questionnaire enables rapport to be built between respondent and researcher, as a result encouraging questions to be completed. The "funnel" approach should be followed in the questionnaire sequence, i.e. the sequence of questions should consider that the respondent is led from general to specific questions, and from relatively easy questions to those that are progressively more difficult (Sekaran, 2003). Therefore, in constructing the study questionnaire, a few rules had to be taken into account before the completion of the final draft. These included:

1. Grouping questions on similar topics into sections, in order to facilitate the process of structuring the questionnaire and providing a flow. Therefore, the questionnaire was

split into two parts; the first dealt with the demographic information. The second part consisted of seven sections detailed below.

2. Broad questions are followed by questions that were determined by the respondent's initial response.

3. Starting with questions that respondents prefer to answer.

4. Beginning with easy questions, and reflecting that the purpose of the questionnaire was interested in the respondent's views rather than testing their knowledge.

5. Making sure that the study questionnaire questions are relevant to the respondents.

6. Minimising the usage of open-ended questions, and placing them at the end of the questionnaire.

5.3.3   Question Types

One of the important steps in questionnaire designs is choosing the type of questions. Types of questions refer to whether the question will be open-ended or closed (Sekaran, 2003). Each type has its advantages and its difficulties. Remenyi et al. (2002) argued that open-ended questions are suitable for exploratory studies, where the researcher is not in a position or is not willing to pre-specify the response categories. Regarding the advantages of open-ended questions, it allows the respondents to give more information and provide their personal opinions in their own words. These questions allow respondents to answer questions in any way they want. In addition, open-ended questions are easy to ask. The main disadvantage of open-ended questions is that they require the respondents to spend time on giving a full answer to the question; therefore, this type of questions may deter busy respondents from replying to the questionnaire, because they need time and effort to answer. Moreover, they require more paperwork and make the questionnaire appear longer, and as a result may affect the response rate. Finally, the analysis of open-ended questionnaire is more difficult and the information collected may lead to a collection of worthless and irrelevant information (Remenyi et al., 2002; Sekaran, 2003; Collis et al., 2003).

In contrast, in closed-ended questions, respondents' answers are selected from a number of options. These questions would ask the respondents to make choices among a set of options given by the researcher. These types of questions require exploration before their construction, to take into consideration all possible answers. The difficulty is that closed-

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ended questions are not simple to design. Vaus (2001) explained that closed-ended questions may create false opinions in the form of providing a limited range of options from to which to choose or by encouraging the respondents to give acceptable answers. Moreover, respondents may become frustrated by not stating their views in the way they want (Denscombe, 2001). However, these questions are convenient for collecting data, and are easy to code, and analyse, as the range of answers is limited. Furthermore, a large number of questions can be asked; therefore, this approach to questions is useful when the motivation of respondents is not high. Moreover, this approach encourages respondents by giving the impression of timesaving.

Finally, the answers are standard and can be compared from one person to another. Notwithstanding the previous reasons, the main type of questions used in the construction of this study questionnaire was closed-ended.

5.3.4   The Purpose of Each Statement in Questionnaire

In order to achieve the research objectives, the respondents were asked to evaluate their level of agreement with each statement, according to their perception, on a Likert scale of 1 (strongly disagree) to 5 (strongly agree). The Likert scale is used in the current research for the following reasons: it is most commonly used as a five point scale; it provides a technique for the measurement of attitudes; it has strengths, such as being simple to construct; it is likely to produce a highly reliable scale; and, finally, it is easy to read and complete for participants. Therefore, questionnaire statements were divided into seven sets; five sets were relevant to the components of the model presented, plus one set for the degree of reliance on the IAF by top management for contribution in the achieving desired company objectives. The last set addressed the improvements that could be introduced to the Libyan companies, to improve the practice of the IAF. The following are the seven sets:

1- The independence of IAF (Table A).
2- The role and scope of IAF (Table B)
3- The competence of IAF (Table C)   (Section 2 of questionnaire).
4- The work performance of IAF (Table D)
5- IAF communication (Table E)
6- The degree of reliance placed by top management on the work of the IAF (Section 3 of questionnaire).

7- The good practice to improve the practice of IAF in Libyan oil and gas companies (Section 4 of questionnaire)

5.3.4.1 The Independence of IAF – Statements One to Fifteen

The statements in (Table A) of section two of study's questionnaire are related to the component evaluating the independence of the nature and practice of the IAF department in Libyan oil and gas companies (see Table 6.1 and appendix C).

Table 5-1: Statements relating to the independence of IAF

No	Statement
1	The organizational status of internal audit department is adequate for the fulfilment of its job.
2	Internal auditing members of staff carry out their work freely.
3	Internal auditing members of staff carry out their work objectively.
4	Internal auditing members of staff have access to all the information, which they consider to be pertinent to the conduct of their audit.
5	Internal auditing members of staff have access to all employees which they consider to be pertinent to the conduct of their audit.
6	The board of directors enhance the objectivity of internal auditors.
7	The internal audit function reports at a very senior level in this company (CEO, CFO).
8	The internal auditing members of staff are required to review all departments in the company.
9	The board of directors (audit committee if applicable) approve the appointment of the head of the internal audit department.
10	The board of directors (audit committee if applicable) approve the removal of the head of the internal audit department.
11	Conflict of interest is present in the work of internal auditors.
12	The senior management decides what subjects will or will not appear in the work plan of the
13	The internal audit department is under the authority of senior management.
14	The internal audit activity sometimes faces interference by management in determining its scope, and in communicating results.
15	The internal audit department directly reports to the board of directors (audit committee if applicable).

Independence, according to the literature review, is influenced by organizational status and objectivity, and also the reporting level, freedom of internal auditors work, the authority of appointment and removal of internal auditors, their ability to access information and employees of the company.

• Statement number (1) is about the organizational status of the internal auditor of companies, who heads the internal auditing department.

Through the organizational status of the company, the internal auditor in Libya is defined by commercial law and the legislative authority, the researcher considers it important to have the respondents' opinion. The organizational status may be different de facto from

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what the legislation intended, or it may be as intended, but perceived by the respondents as inadequate for the requirements of the job. So the researcher took into consideration the respondents' opinions.

- Statement numbers (2) and (3) are about the ability of the IA staff, in general, to operate in a free and objective way.

- Statement numbers (4) and (5) relate to the evaluation of the ability of the IAF in Libyan oil and gas companies to have the free access to all employees and information considered important.

- Statement numbers (6), (11) and (12) are concerned with the internal auditor's freedom from any situations that may lead to any conflict of interest, while they are doing their work, which compromises their objectivity. In addition are concerned with the perception of the respondents as to the extent of the senior management's involvement in deciding what items will appear in the work plan of the IAD. The items included in the plan are supposed to be the company internal auditor's own decision. The more the SM is involved, the more the independence of the company internal auditor is impaired.

- Statement numbers (7), (13) and (14), test the freedom enjoyed by the IAD from the executive management and the organizational level of the department in the company.

- Statement number (8) is about the ability of internal auditors to review all branches and departments of the company.

- Statement numbers (9) and (10) test whether the board of directors (audit committee) has the power to appoint or to remove the internal audit departments' directors.

- Statement number (15) is about the IAD's reporting level, whether the IAD is reporting to the highest level in the company or not.

5.3.4.2 The Role and Scope of IAF – Statements One to Eleven

The statements in (Table B) of section two of study's questionnaire are related to the component evaluating the scope of work of the nature and practice of the IAF in Libya oil and gas companies (see Table 6.2 and appendix C).

Scope of work, according to the literature review, encompasses the reliability and integrity of information; compliance with policies, plans, procedures, laws and regulations; the safeguarding of assets; economical and efficient use of resources; providing consultations

to the top management in relation to the internal control, operation management and risk management; and following-up and assuring that corrective actions are taken.

Table 5-2: Statements relating to the scope of work of IAF

No	Statement
1-	The scope of internal auditing includes evaluating the adequacy of the company's system of internal control.
2-	The internal auditing department examines the reliability of accounting information.
3-	The internal auditing department checks whether the systems operating in the company ensure compliance with policies, plans, procedures, laws and regulations.
4-	The internal auditing department reviews the systems used for safeguarding the company's assets.
5-	The internal auditing department provides consultation for top management in regard to adequate internal control systems.
6-	The internal auditing department provides consultation for top management in regard to the company's operations.
7-	The internal auditing department provides consultation for top management in regard to risk management.
8-	The internal auditing department applies the same rules to all levels of the company.
9-	The company's internal auditing department does not encompass the top management's own operations.
10	The internal auditing department appraises the economy and efficiency and effectiveness with which resources are employed.
11-	The internal auditing department is responsible for following-up and ensuring that corrective actions are taken.

- Statement number (1) checks the perception (in general) as to whether the IAD evaluates the adequacy of the system of internal control in the company.

- Statement number (2) is concerned with the perception about the role of IA in checking the reliability and integrity of information, such as accounting information.

- Statement number (3) is concerned with the question whether checks on compliance with policies, plans, procedures, laws and regulations are included in the scope of work of IA.

- Statement number (4) is about another facet of the scope of work: the review of the systems used for the safeguarding of assets.

- Statement numbers (5), (6) and (7) are concerned with the perception of IA as providing consultation to top management, in regard to adequate company control systems, operations management and risk management as an extensional role of the IAD in oil and gas companies in Libya.

- Statement number (8) checks whether the IAD in its operations is seen as impartial between the different levels of the company, through applying the same rules to all levels of the company's management departments.

- Statement number (9) is a continuation of the previous statement and focuses on the perception of the respondents. The company administrator expects the company internal auditor's scope of work to include the senior management's own operations. The statement is concerned with whether the different groups of respondents perceive that this is actually done.

- Statement number (10) checks whether the IAD is seen as checking the economy and efficiency with which resources are employed. In other words, it is not enough to look at the end product of an operation or financial operation; it is also important to ascertain that it has been achieved in an economic and efficient way.

- Statement number (11) reflects the subsequent role of IAs in following up the results of the audit process, and actions needed to be taken by top management.

5.3.4.3 The Competence of IAF – Statements One to Fourteen

The statements in (Table C) of section two of the study's questionnaire are related to the component evaluating the competence of the nature and practice of the IAF in Libya oil and gas companies (see Table 6.3 and appendix C).

Table 5-3: Statements relating to the competence of IAF

No	Statement
1-	The internal auditing members of staff possess the knowledge needed to carry out their responsibilities.
2-	The internal auditing members of staff possess the skills needed to carry out their responsibilities.
3-	The company management encourages the internal audit staff to develop their skills.
4-	Some of the internal auditing members of staff in the company have obtained a professional certification in auditing.
5-	Some internal auditing members of staff in this company are certified internal auditing.
6-	The company management only appoints persons with accounting or auditing qualifications as internal auditors.
7-	Internal audit department members of staff are given regular in-house training in auditing.
8-	Not all internal auditing members of staff in the company have the experience in the audit profession.
9-	All internal auditing members of staff in the company have prior experience in internal auditing.
10-	The internal members of auditors maintain satisfactory relationships with other employees in the company.
11-	The board of directors controls the competence of internal audit departments.
12-	The internal audit members of staff have the necessary professional competence.
13-	The company management only appoints experienced internal auditors.
14-	Allocating employees from other departments to work as internal auditors will negatively affect the professional competence of the department.

Competence, according to the literature review, is influenced by appropriate educational background (the individuals in the IAD), knowledge, skills, and disciplines (the IAD as a whole), properly supervised internal audits, mastering techniques and procedures of IA, experience in auditing in general, and more specifically in IA, technical competence of the staff, appointment of experienced internal auditors, besides the ability of the board of directors to manage the IAD competence. The following points providing a brief narrative for each statement or group of statements:

- Statement numbers (1), (2) and (3) are concerned with views of respondents as to whether the IAD staff possess the fundamental knowledge and skills needed to carry out their responsibilities, in addition to continued development of their knowledge and skills, in line with new methods and techniques.

- Statement numbers (4), (5), (6) and (7) aim to check the perceptions of the respondents regarding the educational background of the IA staff. For added clarification, statement number (4) was designed to check if some of the internal auditors have obtained professional certificates in auditing, while statement number (5) seeks whether some of the internal auditors hold any certification programme in the IA area. On the other

hand, statement number (6) investigates if the company management are following the policy of appointing qualified staff to work as internal auditors, namely with accounting or auditing qualifications. Lastly, statement number (7) examines the training opportunities provided by the management of the company, to ensure the competence of the IAD is constantly improving.

- Statement numbers (8), (9) and (13): Statements (8) and (9) are mainly concerned with the experience of IA staff in auditing generally, and the IA profession especially. In addition, experience is considered one of the determinants of the competence of internal auditors. Statement number (13) was designed to examine the extent to which the company management appoints experienced staff to work as internal auditors.

- Statement number (10) is about whether the nature of the relationship between the IA staff with the clients of audit is satisfactory, namely top management, executives and supervisors. A satisfactory relationship should be conducive to successful audit work. If the auditees' relationship with the auditors is satisfactory, this would lead to acceptance of the audit's findings and to making any needed corrections.

- Statement numbers (11), (12) and (14) are about the evaluation of the perceptions of the different respondents as to whether the IADs can call upon the necessary professional competence. How does the board of directors support the competence of the department, and what is the effect of allocating employees from other departments to work as internal auditors.

5.3.4.4 The Work Performance of IAF – Statements One to Twelve

The statements in (Table D) of section two of study's questionnaire are related to the component evaluating the work performance of the nature and practice of the IAF in Libyan oil and gas companies (see Table 6.4 and appendix C).

Table 5-4: Statements relating to the work performance of IAF

No	Statement
1-	The director of internal audit department supervises his/her staff through a system of defined responsibilities.
2-	The number of internal auditors in the company is not sufficient compared with the number of departments or branches they audit.
3-	There are audit schedules to audit the company's departments or branches.
4-	The internal audit department develops appropriate audit plans for established audit objectives.
5-	The company internal auditors examine the reliability and integrity of information.
6-	The internal auditors review the adequacy of risk management on a regular basis.
7-	The speed of corrective action on the findings of the company internal auditing is satisfactory.
8-	The internal auditors review operations to ascertain whether results are consistent with established objectives.
9-	There are follow-ups to corrective actions on the findings of the internal auditors.
10-	The director of the internal audit department regularly checks the quality of working papers.
11-	There is a regular evaluation of risk management procedures
12-	The internal auditing members of staff understand the nature of operational controls.

Performance, according to the model, and to previous studies, is influenced by:

Planning the audit examining and evaluating information and established objectives, quality of working papers; and the follow-up to check whether proper action is taken on reported audit findings.

- Statement number (1) is concerned with the perception of whether the internal audit directors in companies can supervise their staff in a proper way; in addition, it tests the degree of authority and responsibility within the department.

- Statement numbers (2) and (3) are concerned with the available numbers of internal auditors in the department, and whether this number of internal auditors is sufficient to conduct their work. (The researcher believes that if the numbers of the internal audit staff is sufficient, this will increase the efficiency of the department.) The third statement attempted to check that if the IAD at the company maintains audit schedules for the departments and branches of the company.

- Statement number (4) is linked to the conception that the IAD reviews operations or programmes and compares the results with the established objectives and goals of the company.

- Statement number (5) is connected with efforts carried out by the IAD to check the reliability and integrity of the company information.

- Statement numbers (6) and (11) are checking the perception as to whether the internal auditors in the companies review and evaluate the adequacy of risk management on a regular basis.

- Statement numbers (7) and (9) investigate the follow-up procedures performed by the IAD in the company after reports have been presented to the top management of the company. The purpose of following-up is to verify that corrective actions have been applied to any weaknesses pointed out.

- Statement number (8) checks the work performance of internal auditors in relation to their role in reviewing operations to ascertain that the results are in line with the established goals.

- Statement number (10) is concerned with the ability of the director of the IAD to conduct regular checks on the quality of the working papers used by his/her staff.

- Statement number (12) Checks the whether the IA staff understand the nature of the company's operational controls.

5.3.4.5 Communication of IAF – Statements one to Twelve

The statements in (Table E) of section two of the study's questionnaire are related to the component evaluating the communication of the nature and practice of the IAF in Libyan oil and gas companies (see Table 6.5 and appendix C).

Table 5-5: Statements relating to the communication of IAF

No	Statement
1-	The internal auditing department maintains satisfactory report relationships with auditees (people under auditing).
2-	The internal auditing department conveys effectively, in written communication, audit objectives and recommendations to top management.
3-	The internal auditing department conveys effectively, in oral communication, audit objectives and recommendations to top management.
4-	The company internal auditing department recommends improvements to correct deficiencies or irregularities.
5-	The company internal auditing reports are issued in a clear, concise and timely manner.
6-	The internal auditing department reports administratively to senior managers.
7-	The internal auditing department reports administratively to the broad of directors.
8-	The internal auditing department reports functionally to the audit committee.
9-	The internal auditing department members of staff attend meetings of the top management and the board of directors.
10-	Reports from the internal auditing department contain findings and recommendations related to the operations and control system of the company.
11-	Reports from the internal auditing department contain findings and recommendations related to risk management of the company.
12-	Reports from the internal auditing department contain findings and recommendations related to corporate governance.

Communication, according to the model, and to the literature review is influenced by the satisfactory reporting relationship with auditees, tools of communication, level of report, provision of various recommendations, attendance at meetings, and the content of reports.

- Statement number (1) is concerned with views of respondents as to whether the IA members of staff maintain satisfactory report relationship with auditees. Whereas exist like this relationship is important to achieve a high degree of communication.

- Statement number (2) and (3) these statements aim to check the perceptions of the respondents regarding the tools of communication which used by IAD to convey effectively audit objectives and recommendation to top management in Libyan oil and gas companies.

- Statement number (4) concerned to presentation the IAD recommendations to top management, in regard to correct deficiencies and irregularities.

- Statement number (5) is about whether the reports of IAD are issued in a clear, concise and timely manner. These characteristics related to the reports to reflect the effectiveness of contact for the internal audit department.

- Statement number (6), (7) and (8) concerned with the level of the IA report, whether administratively reports to the board of directors level or SM level. While functionally reports to the audit committee (if applicable). Moreover, the levels of the report reflect the power available to the IAD, allowing them to report any findings of the audit process.

- Statement number (9) regarding to what extent the IAD has contact with top management. Through attending the meetings of top management. In addition to the discussion of all matters and aspects relating to IA work in particular and the company in general.

- Statement number (10), (11) and (12) are concerned with the IA reports involving findings and recommendations related to the operations, control system, risk management and corporate governance.

5.3.4.6   The Degree of Reliance on the work of IAF

The following is section 3 of the study's questionnaire, which attempted to evaluate the degree of reliance placed by top management on the work of IAF. Statements from 1 to 16 in this part are designed to test the extent to which the top management rely on the work of IAF in the companies operating in the oil and gas sector (see Table 6.6 and appendix C).

Table 5-6: Statements relating to the degree of reliance on the work of IAF

No	Statement
1-	Company's management periodically requests a report from the Department of Internal Audit
2-	Information contained in the reports of internal audit department used by company management in the decision-making.
3-	Company management does not limit the scope of internal audit function to the financial aspects only.
4-	Company management does not limit the scope of internal audit function to assess control systems only.
5-	Company management does not limit the scope of internal audit function to assess management operations only.
6-	Company management does not limit the scope of internal audit function to assess risk management only.
7-	Company management provides a degree of independence and authority for internal audit function.
8-	Company management gives the necessary administrative support for the audit function to perform its responsibilities.
9-	Company management gives the opportunity to internal audit department staff to attend meetings with senior management
10-	Management of the company gives the opportunity to internal audit department staff to attend meetings with the board of directors.
11-	To ensure the efficient of internal audit department, company management employs auditors with qualifications in accounting and auditing.
12-	The company's management follow-up results of the work of internal audit.
13-	The degree of response to internal audit reports by senior management is satisfactory.
14-	The company's management considers performance of internal audit work to be satisfactory, which makes it possible for management to rely on it.
15-	Company's management is based on the internal audit department to monitor the internal control systems.
16-	Company's management considers that the existence of the internal audit department reduces the cost of external audit.

- Statement numbers (1) and (12) check the perceptions as to whether the company's management realizes the importance of access to internal audit reports on a regular basis. Therefore, they rely on the results of IAF work, and are in permanent contact with IA, to provide them with information on the status of internal controls, policies, procedures and plans.

- Statement numbers (2) and (13) check whether the company management uses and responds to the information that is contained in IA reports in its decision making process. Thus, it reflects that company management depends to some extent on IAF in achieving the objectives of the company.

- Statement numbers (3), (4), (5) and (6) verify that the company management give a broad range of roles and scope of the work of IAF. Hence, giving the IA several areas

to be under its evaluation. (The researcher believes that would contribute to achieving the objectives of the company.)

- Statement numbers (7) and (8) aim to make sure that the company management always stands behind the IAF, through providing necessary support and authority, to ensure achieving the desired objectives.

- Statement numbers (9) and (10) seek to ensure that the company management set the IAD at a level that allows it, or gives it the right, to monitor and discuss issues and plans with other departments, through the presence at SM and board of director meetings.

- Statement numbers (11), (14) and (15) check that the IAF is achieving the desired objectives. Company management employs auditors with qualifications in accounting and auditing and also considers that its work performance is satisfactory.

- Statement number (16) concerns whether the company's management considers the existence of the IAF reduces the costs of external audit, since the existence of IAD is considered to help top management discharge their responsibilities—as mentioned in the recent definition for the IA issued by the IIA (1999).

5.3.4.7 Good Practice in the work of IAF

This following part attempted to find out the good practices that could be introduced to the work of the IAF in Libyan oil and gas companies. The 'good practices' from 1 to 9 in this part are designed to see to what extent responders agree or disagree with these practices. These practices are:

1. Controlling self-assessment.
2. Risk management assessment.
3. Systems implementation review.
4. Continuous monitoring.
5. Conducting preventive auditing.
6. Using it as training ground for future managers.
7. Using computer assisted audit techniques.
8. Making audit activity more collaborative.
9. Sharing knowledge and technology with business units.

Participants were able to suggest other practices that they see as good practice also.

5.3.5   Scaling Process

Sekaran (2003: p.185) defined scale as: "a tool or mechanism by which individuals are distinguished as to how they differ from one another in the variables of interest to our study. The scale or a tool could be a broad one in the sense that it would only broadly categorised individuals on certain variables, or it could be a fine-tuned tool that would differentiate individuals on the variables with varying degrees of sophistication". The study questionnaire used different styles of close-ended questions. For example, the questionnaire used some of the closed questions, such as dichotomous questions that offer only two fixed alternatives that respondents must choose one of them. Such questions are about the respondents' gender, whether there is an audit committee or not, level of audit report and of IAF. Others were multiple-choice questions that offered a range of optional answers from which the respondent has to choose. These included functional level, experience in management and internal auditing qualifications, specialization and the number of internal auditors in the IADs.

In the main parts of the questionnaire, participants were asked, according to their insights and perceptions, to state the extent to which they agreed or disagreed with the statements provided in the five factors of the study (independence and objectivity, role and scope, competence, work performance and communication and the degree of reliance placed by top management on the work of IAF to contribute to achievement to requested goals of company). They were asked to circle or mark one of the five boxes on a five-point scale that ranged in agreement from (1) strong disagreement to (5) strong agreement. Therefore, an ordinal scale is found to be suitable for this study, and so a Likert-type scale is employed in this study. This type of scale suggests that every statement in the scale has the same attitudinal value, weight or importance in order to reflect an attitude towards the issues examined by the scale (Sekaran, 2003). In addition, this scale has been examined by previous studies, such as those of Obeid (2007) and Haimon (1998), who had used a 7-point Likert type scale. There was an incentive to employ it in this study.

5.4 The Procedures of Pilot Study Questionnaire

Remenyi et al. (2002) explained that pre-testing of the questionnaire should be conducted before the final administration. The main objective of pilot work of the questionnaire is to avoid any shortcomings in the design and administration of the questionnaire. However,

they argued that the approaches to pre-testing could be an informal one that involves consultation with friends, colleagues and experts, or it could be more formal involving a pilot study, which is a replication on a small scale of the main study. In line with Remenyi et al. (2002), Sekaran (2003) stressed the importance of pre-testing the instrument used in a survey to ensure that the questions are understood by participants, that there is no ambiguity in the questions, as well as there being no problems in wording and measurements used. Oppenheim (1992) listed the following aims for conducting a pilot study:

1. To test the reliability and validity of the instrument to avoid any future problems.
2. To ensure the accessibility to the study participants.
3. To confirm the future co-operation with the participants.
4. To test the methodological techniques.

A number of procedures were employed before conducting the final survey. The first step in piloting the questionnaire involved the first draft of the questionnaire being formulated in the English language. It was presented to the supervision team to give their comments on the questionnaire, as well as colleagues, who are PhD students and PhD holders. In the second stage, the questionnaire was translated into Arabic with the help of an expert friend in Arabic and English languages, and also another Arabic review carried out by researcher's wife, because she has a specialized in Arabic language with professional experience of more than seven years. The translated draft was discussed with PhD students whose native language is Arabic. The two copies, English and Arabic versions were sent to four academic staff in different universities. One in City University UK (Professor Georges); second in Zarqa University, Jordan (Dr Muather); third in Qatar University (Dr Ahmed Obeid); fourth in University of Gloucestershire (Dr Doaa). Some amendments were made to the Arabic version, such as Company instead of Organization; dividing a few questions into two or three questions to make them more simple. At a later stage, the Arabic translation of the questionnaire was then translated back into English by the same expert colleague in Arabic and English languages. After comparing the later English version of the questionnaire with the original, the researcher was satisfied as to the accuracy of the translated version.

The last step of pre-testing the questionnaire was the pilot study. The data used for this pilot study was collected from different sources, the internal auditors, the SM, and few

members of boards of directors'. For the internal auditors, the sample included directors of the departments and IA staff with different levels of experience in the department. The sample of top management included, managers, senior staff and junior staff in the accounting department. In a field visit to the six Libyan companies, the pilot study was conducted. The companies selected for the study were two public sector companies "owned by the government"; and four companies in the oil and gas sector.

All respondents reported as requested, giving the time taken to complete the questionnaire. Most of the respondents reported that it took between twenty to thirty minutes, with an average of twenty-five minutes (25 minutes).

In general, the findings on the layout and completion of the questionnaire can be summarized in the following three points:

1. There were no complaints regarding the length of the questionnaire from the respondents.

2. No complaints were passed to the researcher about the questionnaire's clarity and layout.

3. There were no complaints regarding the 5-point scale.

4. There were complaints regarding the modification of the word 'company' rather than 'organization', because in many cases, people do not use the word 'organization' in the Libyan cultural environment.

The data collected from the pilot study was analysed using the SPSS computer programme to test the appropriateness of these scales to measure the study variables.

5.5 Reliability Analysis

The reliability analysis is the first step in the quality control of conducting research relying on primary sources of data collection, such as a questionnaire. Reliability concerns the degree of stability and consistency when a scale is used repeatedly. It allows studying the properties of measurement scales and the items that make them up. Accuracy analysis of the research constructs includes reliability and validity analysis. Gronlund (1982) stated that "reliability is necessary to obtain validity", and it has been suggested by Spector (1992) that one should first establish the essential property of reliability before conducting scale validity.

Accordingly, the minimum acceptable level of reliability score is '0.5'; the conventional satisfactory level is '>0.7' and may be decreased to '>0.6' for exploratory purposes (Hair, Anderson, Tatham and Black, 1998). Therefore, the reliability analysis procedures calculate a number of commonly used measures of scale reliability, and also provide information about the relationships between individual items in the scale. Interclass correlation coefficients can be used to compute inter-rate reliability estimates. Hence, by using reliability analysis, the extent to which the items in the questionnaire are related to each other can be determined, so we can get an overall index of the reliability or the internal consistency of the scale as a whole. Using the reliability analysis can identify problem items that should be excluded from the scale. In this analysis, Cronbach's Alpha was used, because of its relevance to a questionnaire based on the Likert five-point scale; it measures the internal consistency of the questionnaire, based on the average inter-item correlation of the items.

5.5.1 Reliability Analysis using Cronbach's Alpha

Within this section, the Item-Total Statistics reliability analysis of the pilot study is summarized in the following table.

Table 5-7: Reliability analysis using Cronbach's Alpha

Measurement Items of	No of items	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Cronbach's Alpha After Deleting Some Items	Total Items After Deleting	Items Deleting
1-Independence	15	0.741	0.764	-----	-----	----
2-Role & Scope	11	0.896	0.902	-----	-----	-----
3- Competence	14	0.722	0.731	-----	-----	-----
4- Performance	12	0.807	0.844	-----	-----	-----
5- Communication	12	0.838	0.831	-----	-----	-----
6- R.D*	16	0.857	0.853	-----	-----	-----
7- Good Practices	9	0.700	0.743	-----	-----	-----

*R.D mean: degree of reliance.

As can be seen in Table 6.7 above, values were higher than 0.7, Therefore, no item was removed from any of the scales.

5.6 The Survey Sampling Unit, Final Questionnaire Procedures, Difficulties Encountered and Response Rate

5.6.1 The Survey Sampling Unit

One of most important issues affecting the quality of data produced from a questionnaire is the choice of research participants who respond to the questions. It is recommended that researchers choose the right respondents to complete the questionnaire (Denscombe, 2001). Sarantakos (2005, p152) pointed out an important point, which is that investigators have to consider when designing a project the type and number of the people who are to be included in the study. In this regard, he highlighted the diverse options. One option is complete coverage of the population (saturation survey), whereby all units of the target population will be studied. In this case, the target population is also the survey population. Another option, and the most common, is sampling, whereby the target population is investigated by studying a small part of it, namely a sample. In accordance with the previous options, the first option was applied in this study. Moreover, Sekaran (2003, p.265) defined the population as "the entire group of people, events, or things of interest that the researcher wishes to investigate". In other words, the sampling unit means the respondents from whom the data should be collected, and accordingly the questionnaire

should be directed. Ahmed (1999) viewed the sampling decision as a critical one, because asking the right questions to wrong respondents could mislead the whole research process. Therefore, the survey sample includes companies operating in the oil and gas sector. Larger companies were more likely to have an IAF, and be more organized; they play a key role in supporting the Libyan economy. In addition, they have qualified members of staff, which helps in achieving the objectives of the research. The survey included both national and international companies, but only those which operating in the Libyan oil and gas sector. Thirty companies were selected from the above sector, because these companies have an IAD. As result of the small number of the companies working in this sector that have an IAD, the researcher decided to conduct a survey of all these companies. Israel (2009) pointed out that "a census is attractive for small populations (e.g., 200 or less)". He states that a census eliminates sampling error and provides data on all the individuals in the population.

In addition, the aim of the survey was to find out how these organizations or companies viewed the nature and practice of the IAF. In order to gain an overall picture, the decision of the choice of sampling unit should be directed to two groups of people were targeted within each organization or company, which are the top management group (that involves one or more of board directors members, senior managers (also represented by CEO and CFO) and the head of the internal auditing department or his/her representative group, were chosen as responders in this study. In other words, they are survey populations of the present study, and their opinions will be analysed and compared. The target population selected for this study is composed of users of the IA services in the Libyan companies operating in oil and gas sector. In particular, the users within the companies, or more specifically, the users in top management such as board of directors, SM and the head of the IAD itself.

The reason behind that choice is that these four different levels of management are required to verify whether the management position and their characteristics of the auditees influence on their views and perceptions of the practice of IAF. Through verifying whether there is a difference in views or not. This survey population is more pertinent to the services provided by the IAD. In addition, the last definition of the IA issued by IIA (1999) has given this target group more importance. These people have greater responsibilities, and the authority to make decisions, and to explain the situation of their company to the

others, such as shareholders, government and creditors. Moreover, there is an increased need for reliable and appropriate information about the internal control, risk assessment, operations management, and corporate governance. Consultations are also provided to this group by the IAD. There is a sensitive role played by the internal auditor, as the previous points illustrate. Thus their views and perceptions about the nature and practice of the IAF are important to test.

It is important to mention that the oil and gas sector has been selected for this study for several reasons. First, it is considered to be the most important economic activity in Libya at present. This is because it has become the major source of revenue for the government budget, contributing to the bulk of total resources. It dominates foreign trade and the balance of payments in Libya, contributing to 95% of its exports (Mousa, 2005). It has also been used beyond the scope of economic and social development in Libya. Secondly, the researcher expected that the companies working in the oil and gas industry sector would have established effective systems for IAF, which might help in one way or another in developing its practice and evaluating effectiveness. Thirdly, some of the previous studies about IA in Libya have concentrated on other activities, such as industrial activities (Daruish, 1990), the banking sector (Elmsalati, 2008) and the commercial sector. However, the oil and gas sector has not been addressed, despite its importance and the fact that it is considered to be a good field for practising IA. Moreover, the study has concentrated only on the companies operating in the oil and gas industry sector, in order to provide a homogenous group, thereby avoiding and minimising the variability, which may exist between other industries. Fourth, the researcher's experience and interests are strongly rooted in, and directed towards the oil and gas industry sector.

5.6.2   The Questionnaire Procedures

Considering the objectives of the study, as well as the high reliability of the questionnaire design provided by the pilot study results, the researcher found that the suitable method for collecting the primary data is the questionnaire, besides the interviews conducted to serve new factors that needed to be in the questionnaire, i.e. the communication factor. This factor was considered to be one of factors used to evaluate the nature and practice of the IAF in the present study. The first face of the interview proved that the factor of communication is suitable for use in assessing the nature and practice of the IAF.

Before conducting the final survey, and following the discussion of the aims of the study with few of the board directors, senior managers and internal audit directors at the companies, the personally administered questionnaire was found to the most efficient way of collecting data for the target population in companies, because it gave the researcher the opportunity to introduce the research topic to the participants, and the sample was not geographically separated. In particular, other types of questionnaires cannot be used in Libya, as mentioned before (see Section 4.7.1.2).

In the context of that mentioned above, the majority of participants are located within the head offices of the companies, and all of the head offices are located in the capital city, Tripoli. However, there are also quite a few companies located outside the capital. The questionnaire was sent to them through the existing service offices in the capital city, and collected from them after a certain time.

In order to get permission to carry out the current study, the general managers of the companies were shown the letter of field study issued by the Libyan Cultural Affairs Office in London. Management of the companies gave oral consent to conduct the survey study in the place of work (see appendix A).

For the companies' senior managers and internal auditors, the researcher preferred to introduce the topic to them in every company selected as a sample, due to the differences in terms of their experience and educational background. In other words, the researcher used self-administered questionnaires, where the researcher approached the subjects personally, and handed the questionnaires under the supervision of the director of the IAD and one of the senior managers (CEO or CFO). Even though the board of directors level were always very busy in meetings with others, inside and outside the company. The researcher relied upon the director of the internal IAD, and one of the senior managers (CEO or CFO) to introduce the topic and questionnaire to the board of directors. Since this was one of the frequent difficulties faced by the researcher to gain access to the board of director's level. Indeed, these circumstances had an impact on the response rate of board of directors. In order to avoid this problem, and enhance the response rate of board of directors, the researcher distributed more than one copy of the questionnaire to them. Furthermore, after a certain time (agreed with the senior managers and the directors of IA), the questionnaires were gathered personally as well. However, the researcher kept a record

of the questionnaires to know the number of questionnaires distributed to and coming back from each company group of senior managers and internal auditors.

5.6.3 Difficulties Encountered

As in any other research, several problems were encountered during the data collection process. The first was that people proved unfamiliar with research—not unsurprisingly, as Libya is a developing country. Therefore, the co-operation of few of the executive managers was not guaranteed. Merely giving them a letter from the Libyan Cultural Affairs Office in London, and the letter from the University confirming the researcher's status and assuring confidentiality of data was considered insufficient. However, other managers were sympathetic in dealing with the subject.

The second problem was that most of the people at the board director level were those who tend to be continuously engaged in meetings and other business. This had an impact on their response rate.

The third problem was the time to go back to collect questionnaires. The researcher went three or four times to participants in order to collect questionnaires, but found some of them uncompleted and needing more time, while others were not available in their office, for instance, they were in meetings with other managers or with the national oil organization.

5.6.4 The Response Rate

The response rate is considered one of the most important issues discussed in the advantages and disadvantages of questionnaire surveys. Bryman (2004) argued that the notion of a response is a common one in social research. However, he defined the response rate as "the percentage of a sample that does, in fact, agree to participate" (Bryman, 2004, p.98). Regarding this issue, Collis et al., (2003) and Saunders et al. (2003) explained that the main disadvantage of questionnaire surveys is the low response rates. Saunders et al. (2003) argued that the most common reason for non-response is that the respondents refuse to answer questions, or to be involved in the survey. Sometimes, the selected respondents may not meet the research requirements and will not be eligible to participate. Furthermore, Vaus (2001) categorized the major problems associated with low response as, creating an unacceptable reduction of sample size, and also ends in bias.

Considerable effort was given to avoid the problems of non-response, and to ensure the completeness of the questionnaire. The questionnaire was designed with a majority of close-ended questions that enabled the respondents to complete it easily. According to the results of the pilot study, the questionnaire wording was simple, of reasonable length, and brought no complaints regarding the questionnaire clarity and layout. All the questionnaires were personally administered; where 30 questionnaires were administered to CFOs, 30 to CEOs, 30 to board directors, and 30 to internal auditors.

Regarding the questionnaire response rate, the overall response rate was 74% (see Table 6.8). Remeniy (2002) suggested that a response rate above 60% is considered to be exemplary. The response rate for companies' board directors was 40%. This is considered to be low when compared to that for internal auditors, CFOs and CEOs at 96%, 76%, and 73% respectively. Based on that, the researcher used personally administered questionnaires with the survey population. As can be seen from Table (6.8), the response rate of internal auditors is high when compared with CFOs and CEOs. These results refer to the fact that most internal auditors realized the importance of this research more than others, because internal auditors are the core of the IA profession.

Table 5-8: Response Rate for the questionnaire survey

Group	Distributed Questionnaires	Unusable Questionnaires	Usable Questionnaires	Response Rate
1-Board of directors	30	(3)*	12	3%
2- Senior managers (CEO)	30	(4)*	22	73%
3-Senior managers (CFO)	30	(2)*	26	86%
Top management together (1+2+3)	90**	(9)*	60**	66%**
4-Internal auditors	30	--	29	96%
Total	120	(9)*	89	74%

*This means the number out of response rate.
** The collection of the above boxes. (Means 1, 2 and 3)

5.7 The Sampling Unit and Interview Procedures

As mentioned earlier in Chapter Four the semi-structured and unstructured interview format was used, as questions were designed to obtain open answers. Interviews were conducted in order to approach some issues that could not be captured properly or analysed through a quantitative approach. In general, most of the issues in corporate governance and particularly in IA are confidential and sensitive to some extent. This can be approached

more easily in a one-to-one discussion. Internal auditors and top managers (CEO, CFO and board directors) represent the sample of interviewees, and were expected to provide information in private meetings. They expected to explain issues related to communication, as a new factor to evaluate and perceive the nature and practice of the IAF in companies operating in the oil and gas sector in Libya, on one hand. On the other hand, they expected to explain the existing difference in perceptions related to the five factors (independence and objectivity, role and scope, competence, work performance and communication of IAF). The same may apply to top managers, who may identify issues that cannot easily help them to determine the degree of reliance placed on the work of internal auditors.

Thus, interviews were thought to be appropriate to offer guidance in extensions of research findings and interpretations of the quantitative study (Leventis, 2001). Due to the narrow and limited time, the researcher conducted the interviews to determine the validity of communication as a factor in assessing the nature and practice of IAF by quantitative method, and also to support the results of questionnaires, irrespective of the problems of carrying out an interview in a country like Libya. Fifteen individuals were initially targeted as potential interviewees, namely 5 top managers and 10 directors of internal auditing at companies. In practice, eight of them were interviewed, which represents a 53% response rate. The main reason for the decline was time constraints, and the answers from whose had interviewed were closed and identical, in addition to the administrative problems of conducting interviews in Libya.

A letter explaining the objectives of the study, and assuring the anonymity of responses was sent in advance to the respondents. The themes of the questions were given in advance, as a reminder to the interviewee about the meeting, and also to allow the interviewee time and scope to prepare for the meeting. Telephone calls and personal visits one day before the meeting were also made to confirm the interviews.

At this stage, two groups of interviewees were approached, namely directors of internal auditing and top managers in companies in the oil and gas sector. In the first stage, eight interviews were conducted, five with internal auditors and three with top managers. Whereas four interviews were conducted, two with internal auditors and two with top managers in the second stage of interviews. The aim of these two stages of interviews was for two different purposes. The aim of the first phase of interviews was to test the validity

of communication as a new factor to evaluate the nature and practice of IAF, while the aim of the second phase was to analyse the interesting differences between views and perceptions of participants on the five factors, and the degree of reliance on the work of IAF. In addition, these two groups have a direct influence on the issues related to IA and the degree of reliance on the IAF.

The interviews took approximately 45-60 minutes, including the introduction and explanations. At the commencement of each interview, interviewees were asked if they would allow the interview to be recorded on tape. In order to ensure that each interviewee felt relaxed about the use of the tape recorder, it was explained to each of them that the tape recorder was only being used to enhance the accuracy of the recording of the interview. In two interviews, interviewees refused to record the interviews. It seemed that respondents would be anxious at being recorded. However, the researcher took the notes during these interviews, and immediately after the interview, the full text of the interview was written down in Arabic using these notes.

All questions were covered in the interviews and the sequence of questions was to some extent the same from one interview to another see appendix D1. Interviewees were invited to mention any other matters not covered by the interviewer's questions. All of the sensitive questions were left to the end of interview in order to build trust and confidence between the researcher and interviewees; however, for consistency purposes, the interviews were organized again according to the sequence of questions that was set by the researcher.

5.7.1   Interview Analysis

The interview process was designed to enhance and supplement the knowledge gained from the questionnaire survey as to the nature and practice of IAF in companies working in the oil and gas sector in Libya. This is represented in two things; the first is to test the validity of communication as a new factor; the second is to analyse the differences in perceptions and views of participants regarding the five factors. Moreover, the degree of reliance placed by top management on the work of IAF. The researcher conducted eight face-to-face interviews in the first phase of interviews, while telephone interviews were used in the second phase of interviews. In order to analyse the interviews, the researcher summarized the content according to the interviewees' answers; thereafter, the key themes emerged.

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Participants in the interviews might not use the same terms to express their opinion. In other words, one interviewee might use different words compared to other interviewees to explain his opinion on certain points. Therefore, this study will include these points: data reduction, data display, and extraction of conclusions. In order to analyse the interviews in this research, content analysis was used to analyse the interviews; this is one of the most important techniques used in analysing qualitative data in research. Content analysis gives the chance to use raw data through coding and categorising. According to Denscombe (2001, p.221), content analysis is a research method, which helps the researcher analyse the content of documents; basically, it can be used with any text whether it is written, or in the form of sounds or pictures, to quantify the contents of that text. Krippendroff (1980, p.21) defined content analysis as: "a method of codifying the text of writing into various groups or categories based on selected criteria. It assumes that frequency indicates the importance of subject matter".

For effectiveness of content analysis, all answers were grouped together from the different interview transcripts by topic, according to the interview guide, and allowing the guide to act as a descriptive framework for analysis. Once answers had been grouped by topic, they were analysed using content analysis. Guthrie and Mathews (1985) identified four technical requirements that should be met. First, the categories of classification should be clearly and operationally defined. Second, the requirement of objectivity stipulates that the categories of analysis should be defined clearly that an item either belongs or does not belong to a particular category. Third, the information needs to be quantified. Finally, a reliable coder is essential for consistency. In this work, all these requirements were considered.

In order to conduct the content analysis, the selection of the unit of analysis is essential. In accounting literature, it is common to use words, sentences or portions of pages as the basis for the coding (Gray, Kouchy, and Lavers, 1995). The current research used sentences as a method of coding; this method is preferred for written communication, if the task is to infer meaning. Using sentences for both coding and measurement is likely to provide complete, reliable, and meaningful data for further analysis (Milne and Alder 1999). For the analysis and interpretation of the data, however, this step mainly depends on the orientation of the researcher and the objectives of the study.

Finally, to highlight the contents of the interviews, the grouped and summarized answers were compared and contrasted, showing the degree of agreement/disagreement between the interviewees. Their quotations have been used in order to bring out their thoughts and ideas about the topics discussed.

5.7.2 Key outcomes from interviews

Interviewees explained the items affecting the reliability of communication as a new factor to evaluate the nature and practice of IAF. They realized that communication is one of the most important factors, which should be considered when evaluating and perceiving the nature and practice of IAF. In regard to the degree of reliance placed by top management on the work of IAF, the results of interviews indicated that participants considered all the components as most important, when they rely on the work of IAF excepting competence. The following sections will explain the interview outcomes.

5.7.2.1 The definition of communication

The purpose of this section is to present the views of top managers and internal auditors in Libyan oil and gas companies regarding the concept of communication. The concept of communication was addressed by exploring the simple idea of communication and the process of communication.

The first point discussed under the communication of IAD was the concept of communication, or the process of communication. In other words, what is your definition of communication? According to the survey results, almost all of the interviewees (7 out of 8) defined communication as "How to be in contact with others". This communication might be between units, or managements and individuals. This communication includes the exchange of information, ideas and opinions within the company or organization. Without a doubt too, it could be in the form of direct or indirect communication. In addition to that, it could be in oral or written form.

However, all the respondents showed a very close understanding of the communication concept; some interviewees typically mentioned the following concepts:

> "The communication is: how to be in contact with others, for the exchange of information" (IA-1)

> "We considered the communication is one of the important factors for success of any function. It starts from direct contact between members of staff in the same unit or department to the others in different departments and staff." (TM-1)

In the context of the communication concept, one of interviewees pointed out the fact that the contact article has to contain accurate details, to achieve effective communication. He said:

> "Communication is: con tact with others in direct or indirect form to convey and exchange information. This communication is either in written or oral manner, therefore it has to contain accurate detail to achieve effective communication." (IA-4)

The scope of communication of the IAF is not limited to financial domains only, but also involves all the company's activities. Some of interviewees mentioned that:

> "Communication is: internal communication between company departments, while communications of internal audit are not restricted to financial aspects only but to exceed that, to audit the company's activity in full."
> (IA-5)

In addition, two other interviewees added to the previous definitions of communication.

> "It is a necessary process to facilitate the performance of work within a company, which will affect the following work steps."
> (IA-6 & IA-7)

It could be understood from the last sentence that any overall management strategy needs a communications plan, or the whole operation might fail. Moreover, a communications audit analyses an organization's practices to reveal how effective they are - throughout a whole company or in specified parts of the organization or company. Based on the above results, it seems that there is a common perception of the concept of communication among the interviewees. This was clear as all definitions of communication were very close.

5.7.2.2 Communication Tools Utilized

The objective of this section is to highlight the views of interviewees in Libyan oil and gas companies regarding the tools of communication that are used between the auditors and top managers. This point was addressed to determine the more common tools of communication.

In general, the interviews showed that there was agreement among the respondents that there are two forms of communications, oral and written, comprising reports, correspondence, telephone, meetings, and email.

The respondents explained that the communication tools varied according to the purpose of communication, and the department and person to be contacted. In addition, most interviewees indicated that face-to-face contact is a vital way of communication. This type of contact is usually used in informal, and also in urgent circumstances, when the subject of communication is confidential.

> "There are oral and written communications. The oral communication can be carried out by phone or face to face, while the written communication is a correspondence or report".
> (IA-7)

Additionally, 4 out of 8 interviewees confirmed that direct communication is used in urgent circumstances, which can be achieved through personal communication. This view is supported by another interviewee, who stated that:

> "Communication tools between individuals could be direct verbal forms, such as face to face meeting or conversation on the phone."
> (IA-6)

It was mentioned by some interviewees that the main tools of communication are written reports and correspondence. They stated that:

> "The main communication tools are correspondence and reports. These correspondences contain the results of the internal audit work."
> (IA-1, IA-7) & (TM-2)
> "The main communication tools for the internal audit department are telephone, email, meetings, correspondence, as well as reports."
> (IA-5)

It could be argued that for most interviewees, the common communication tools used are reports and correspondence in the first place; in the second place comes telephone, meetings and oral face to face communication; and the final place is communication by email. Regarding the importance of the communication tools, most interviewees considered them all as important. However, they indicated that only one of them is more important that is a communication by reports. IAD reports clarify significantly any unclear point. On the other hand, communicating by email was considered less important; the weakness of the Internet network in Libya was the main reason for that.

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5.7.2.3 The Elements of Good Communication of Internal Audit Function (IAF)

The main objective of this section is to present the opinions of internal auditors and top managers in Libyan oil and gas companies according to their evaluation to what extent the current position in communication satisfies the elements of good communication. This issue was addressed in the interviews by the following question: Does IAF communication contain the elements of good communication; such as good receiver, good sender, good tools, and suitable time and so on?

According to outcome of the interviews, there were some differences in the views of interviewees. Commonly, IA communications were initiated by the IAD in the company, and under the supervision the head of IAD, sometimes with follow up from the board of directors. Usually, these audit communications were written and documented, in order to facilitate the procedures for the IA staff to help them in carrying them out with appropriate follow up procedures. Regarding the quality of IAF communication, it was strongly felt that the quality of audit communication was reasonable, but interviewees criticised the degree of implementation of these audit communications; they referred to the degree of qualifications, experience and communication skills of internal auditors, and the control and supervision environment in the IAD. In addition, it was not easy to judge whether the elements of good communication were present or not. Here, the elements of communication suffer from some problems. At the same time, there were efforts to develop these elements. These problems centred on the mechanism and time to deliver information.

In line with the above, it was indicated by some interviewees that:

> "To some extent, the elements of communication are available. But there are some barriers on the receiver side of contact. This is due to lack of awareness of the importance of communication, which is played by the internal audit department for the success of the company's plans. In addition, there is scepticism about this contact" (IA-7)

In regard to the link between the possibility of applying good communications, and the availability of the communication elements, it was pointed out that there is a lack of skills in applying good communication, as well as the transfer of information at an inappropriate time. Furthermore, including the elements of communication those were available to work on.

"Regarding [this] the element of communication is available. However, it needs from whoever is using it, enough skills and abilities to help him/her to use it in contact with others." (TM-1)

"In this regard, of course we could not easily say yes or no in regard to elements being available. Because, the communication depends on how to get information, while the communication in Libyan companies is suffering from the mechanism and an appropriate time to deliver information. Especially, as we know the world grows rapidly in this part, consequently it allows the transfer of information in real time."
  (TM-2)

In summary, it can be argued that communication tools to some extent are available. Given that the means of communication suffers from some of the problems associated with those who use it. This includes the skills and experience of connected people, as well as the mechanism and a fitting time to convey information. Therefore, the IA reports and communication are the next point.

5.7.2.4   The Internal Audit Reports and Communication

The main objective of this section is to present the opinions of the heads of IADs and top managers related to their evaluation of IA reports and communication from the IADs of Libyan oil and gas companies. Regarding this issue, three points were addressed in the interviews:

- Whether or not the IA reports are the main tool of contact with managers and departments, for the IAF.
- The subjects contained in the reports of the IADs.
- Time for issuing IA reports.

Regarding the first point, there was strong agreement among the interviewees, 7 out of 8, that the IADs in Libyan oil and gas companies have written IA reports. These IA reports were prepared and written by the IAD's staff in the companies, with high level supervision given by heads of IAD to these reports. These written reports represent the main tool of contact with managers and departments.

In addition, there are other communication reports parallel to the reports of IADs. Such reports are financial statements and budgets, which are also the most important factors to disclose any incorrect practices and errors within the company. Therefore, IA reports are considered as a guide and stimulus to evaluate some of the actions.

"Yes, definitely internal audit reports are a key communication tool. In addition, there are contact reports parallel to them. Such as financial statements and budgets, and also the most important factors to disclose on the incorrect practices and errors within company. Accordingly, the internal audit reports are a guide and stimulus for us in evaluation of some actions. Especially as we are human beings, [we] may shorten our understanding or appreciation for certain things and conditions that may occur." (TM-1)

One of the interviewees also added that communication is achieved at great benefit between the parties:

"Yes, it is necessary to consider the internal audit report, which is the main method of communication. In particular, internal audit communication is considered the basic guidance to senior management or decision-makers. Because the internal audit function is the right hand of the administration. Thus, the existence of internal audit enhances the implementation of policies, procedures and regulations. However, its connection with others and contact by others will bring great benefit to the callers." (IA-4)

Given the role played by the IA reports, and for communication to increase the effectiveness of the practice IAF, it was pointed out that contact by using audit reports represents concrete evidence on the effectiveness and the stages of the work of IAF.

"Naturally as a result that the internal audit reports are available for reading by many parties and different administrative levels within the company. Moreover, [these] could be used as evidence of the stages of the work and effectiveness of internal audit." (IA-6)

The second point addressed by the IA reports and communication in Libyan oil and gas companies involved the subjects contained in the reports of the IADs.

Interviews also gave insights into the concentration of IAF in covering primarily the company's financial and administrative aspects. In this aspect, more than three-quarters of interviewees (7 out of 8) agreed that there is no other focus for IA reports, such as risk management and technical aspects. In addition, one of interviews argued that the concentration of IA reports turned recently to include risk management with the key financial and administrative aspects. The following quotations illustrate the point:

"The reports of internal audit usually concentrate on the financial and administrative sides. More recently, the concentration of the reports has been extended to also involve risk management." (IA-6)

According to the nature of the IAF, and how it should be, it was pointed out that the scope of IA should not be focusing only on the financial aspect, or be held responsible for the accountability of others. This is because, when others are accountable to internal auditors, this creates sensitivity and conflict between the IAD and people within the company. This contrasts with the aim of the existence of the IAF, which is to instruct and aid management and staff. Consequently, dealings between management and officers within the company should be complementary to each other.

> "In general, in our consideration in regard to the internal audit activity should not just focus on the financial aspect or take the role as inspector of others. Where the aim of internal audit activity is to provide assurance and consultations to management and staff. Given that, carrying out an inspector role could raise sensitivity and conflict between department and individuals; therefore, feeling between staff and managers should be there, that they are complementary to each other within a company." (TM-1)

Moving to the third point in this section related to the time for issuing IA reports. There was also agreement among most respondents that time for issuing IA reports should be periodic. Furthermore, interviewees generally insisted that a good IA report is when that is issued periodically according to the regulations of the companies. They added that reports of IADs are issued regularly, but sometimes things happen, which require reporting immediately to the concerned authority. Note that these reports are issued over successive periods; in other words, they are monthly, quarterly or on annual basis.

> "The reports of internal audit department are introduced to us as top management at the end of month. In addition, there is another type of report, which is urgent or prompt report. This report results from events or circumstances that cannot wait for the communication of it until the end of month." (TM-2)

> "The internal audit department seeks always to submit its reports to top management periodically." (IA-3)

According that mentioned above, it can be summarised that reports of IADs are issued periodically. These reports are issued at specific times, in accordance with the regulations of companies, with the exception of some events that require the issuance of an urgent report. These reports are displayed to top management at the end of each month and at the end of each quarter, additionally in a report at the end of the year. In addition, the key

contents of the internal audit reports are confined just to financial and administrative aspects. Consequently, reports of IAF are considered the main tool of contact of the IADs with top managers, in addition to correspondence with other departments.

5.7.2.5 The Effect of Communication on the Nature and Practice of Internal Audit Function (IAF)

This section relates to dimensions of communication of the IADs. Therefore, the main objective of this section is to gauge the effect of communication on the nature and practice of IAF. This objective was addressed by a few points that were discussed with interviewees. These points are as follows:

- The role of communication in performing audit work.
- Limits of communication for the IAD.
- The possibility of the IAD attending all meetings with top management. In addition, motives behind the presence of the IAD in such meetings.
- Providing proper feedback.

All the participants believed that the communication factor has a positive role in performing IA work. The participants indicated that the internal auditors have good communication skills, which makes them able to work effectively and easily with other people, and present their ideas in a way that makes them clearly understood. In their capacity as internal auditors, they were going to be in contact with a large number of different people, and their success or failure is largely dependent on whether or not they can obtain the trust and cooperation of others. One manager commented as follows:

> Internal auditors are required to have good communications with employees subjected to auditing. They should do their best to understand the personality and conduct of the employees being audited. In addition, they ought to lead the auditing operation in a constructive manner and avoid any tendency towards destructive criticism. (TM-1)

It was also commented by one of auditors that the communication role in performing audit work depends on how others perceive the communication. When others perceive the action of contact of IAD with them as a sergeant and dominant, so that will affect auditing work. In contrast, the communication process generally contains insight and sophistication. In particular, the internal auditor should equip himself with this to encourage others within the company that he is working to protect them, and the interests of the company. Hence, the role of communication is an effective dimension in performing audit work.

Regarding the first point, there was strong agreement among the interviewees (8 out of 8), that the IADs in Libyan oil and gas companies have an open communication. Furthermore, support is provided to the IAF by the board of directors for contact with them. Open communication provides a broad degree of contact of the IADs with other departments and individuals within the company. In addition, it allows IADs to access any information, and conduct any investigation; therefore, interviewees believed that this is substantial and needed to accomplish their work. For example, one of interviews stated that:

> "Internal audit department has an unlimited communication with all administrative levels. This communication is supported by the board of directors." (IA-2)

In respect to the second point regarding the effect of communication on the nature and practice of the IAF; one is the possibility of the IAD to attend all meetings with top management, in addition to the motives of such a presence in these meetings.

The participants put considerable emphasis on attending such meetings and the motives behind that. In fact, all of them identified that attendance by the IADs of these meetings with top management was one of the most important factors for the IAF to be in contact with all administrative levels. They indicated the significant motivations relative to attending such meetings. Significantly, these motives have been associated chiefly with the need of top managers for critical information about the condition of their companies regularly. Additionally, they consider that IAF serves the company management in applying the policies, plans and regulations of companies. On the other hand, IAF is the eyes and ears of company's management.

In reference to some of the statements made by interviewees, one internal auditor stated:

> "Internal audit department attends most administrative meetings. This attendance is derived from the vital role that the internal audit function plays within the company, in response to activate and monitor the control systems." (IA-4)

In addition, this was also pointed out by one of top managers, who stated that:

> "Yes, internal audit department attends all the meetings with top management, even the special ones. In addition we want the internal audit department to be the source of knowledge and science on the system of the company and development."(TM-1)

Besides, one of the internal auditors indicated that personal competence has a role in attending meetings. He stated that:

"The personal efficiency may play a significant role in increasing the importance of attending these meetings". (IA-2)

In order to obtain more understanding about this point, IA-2 was asked to explain what is the meant by personal efficiency; the interviewee said that IAF is a very important and sensitive function within the company, which can serve top management in different ways. Therefore, this function requires internal auditors to have at least a high academic degree or professional qualification in this area, good communication skills, experience and furthermore, wisdom. In this sense, it seems that there is recognition of the relation or link between internal communication and competence, in relation to evaluating and perceiving the nature and practice of the IAF.

Given the third point of this section, the importance of degree of communication in having an adequate role to provide feedback was addressed by 7 out of 8 of the participants. "Adequate" provides a poor definition, but those interviewed were able to provide more insight. There was a strongly held belief that the audit process should involve more than checking samples of documents and crosschecking bookkeeping entries. In other words, the audit process should involve greater action, more than traditional ones, i.e. to provide more compatible feedback. One top manager stated that:

"The IA work should not be restricted to information checking but should extend to the analysis of it. In addition, we as top management provide the power for internal auditing to achieve its role and responsibilities and reaching well-suited feedback." (TM-1)

The participants also added another dimension in regard to the degree of communication. They mentioned that good feedback would help IAD staff perform their work correctly. In addition, it would reduce negative findings of operations within the company. One internal auditor stated:

"… good feedback would help members of staff inside the company to carry out their responsibilities, as well as affect the outcome of company operations to be less negative." (IA-1)

When he was asked to explain what he meant by 'negative outcomes', he said it was the increase in disorder; breaking laws and regulations; and stealing. According to the suggestions of some participants, the IAD should hold monthly meetings with top

management and with other members of the general office management group to obtain useful responses. These meetings should be devoted to discussion of the impressions and opinions of the internal auditors regarding some facts, especially matters which are not included in the written report. Internal auditors also believe that the purposes of the monthly meetings are: (1) to give top management an opportunity to get direct cognition on the internal auditors, to evaluate them and be familiar with their responsibilities and progress; (2) to outline any problems and to establish good communications; and (3) to give top management an opportunity to report general company activities that are of interest to the internal auditors or that may affect their work.

In conclusion, according to the above, it seems that communication has a significant effect on the nature and practice of the IAF. Each IAD maintains useful communication with management and staff, more specifically with top managers. In the same way, IAF has unlimited communication inside the companies supported by the board of directors. In addition, there is the possibility for each head of IAD or a deputy to attend the administrative and financial meetings with top management. Indeed, there are diverse motives behind attending these meetings; one of these motives is the need of top managers for critical information about the condition of their companies regularly. Moreover, the available degree of communication provides useful feedback for success of their work. However, this effect of communication on the nature and practice of IAF could be positive or negative. This depends on how people within the company perceive the communication of IAD with them.

5.7.2.6   Communication as Factor for Evaluation

The objective of this section is to highlight the views of top managers and internal auditors in Libyan oil and gas companies regarding communication as factor to evaluate the nature and practice of IAF in oil and gas companies. This issue was addressed by asking the following question: How do you see communication as a factor to perceive and evaluate the nature and practice of the IAF?

Regarding communication as a factor to perceive and evaluate the IAF, there was strong agreement among the interviewees that communication is a very good factor to be used as a component to perceive and evaluate the nature and practice of IAF. In addition interviewees indicated that communication is fully valid, when it is open between IAD and

other departments. Concerning the quality of IA communications, it was strongly felt that the quality of audit communications was reasonable but they criticised the degree of implementation of these audit communications. Moreover, they referred to the degree of qualifications, personality and experience of internal auditors, and the levels of communication within the companies' environments.

> "Communication is one of the important elements that can be used to evaluate the effectiveness of internal audit" (IA-4)

One top manager explained that meeting the need for information, and providing it on time by internal audit reflects the effectiveness of IAD.

> "As I am general manger, when I get the information that I need and the report on IA department comes up on time, this is evidence that the internal audit has high effectiveness and the opposite is true. " (TM-3)

5.7.2.7 Communication Compared with other Factors

The objective of this section is to compare the communication factor with other factors that are used in the current study. These factors are the independence, role and scope, competence and performance; all were used in perceiving and evaluating the nature and practice of IAF. In order to achieve this objective, the opinions of participants were taken through asking the following question:

> "How do you see to the importance degree of communication factor comparing with other factors such as (independence, role and scope of work, competence and work performance) if you have given a line of degrees from 1 to 10 could define a degree?"

All the participants without exception believed that all these components are very important in perceiving and evaluating the nature and practice of IAF. This perception has been interpreted through the average of the degree of importance of each factor, which is not less than 8 degrees as clarified in table 5.9.

Table 5-9: The degree of importance of each factor

No	Independence	Role & Scope	Competence	Work Performance	Communication
IA-1	9	9	8	8	9
IA-2	9	8	9	8	8
IA-3	10	9	8	8	8
IA-4	10	8	9	9	8
IA-5	10	9	10	8	8
TM-1	8	8	7	7	8
TM-2	9	9	9	9	8
TM-3	8	7	8	7	8
Average	9.1*	8.4***	8.5**	8.5**	8.1****

It can be seen from table 5.9 that there is no significant difference between factors in terms of degree of importance. While, setting up ranking between them is possible. Thus, independence is in the first rank, followed by competence and work performance sharing the second rank, then role and scope coming in third rank; while the final rank was communication.

5.8 Questionnaire vs. Interviews

For the research to be described in this thesis, it is necessary to consider whether interviews or the questionnaire should be used to evaluate and perceive the nature and practice of the IAF in Libyan oil and gas companies, and therefore the degree of reliance placed by top management on the work of IAF in contributing to achieving the desired objectives. Interviews are considered as an effective means of collecting more depth and details about the data needed, but there are several difficulties in conducting interviews in the present research. As in Western countries, they would be more time-consuming, and therefore costly in terms of resources. Furthermore, interviews are intrusive, which may reduce the participants' willingness to participate, in addition to the difficulties of translating the interviews. Furthermore, there are some problems that apply specifically to Libyan interviewees.

1. The researcher noticed that some interviewees were afraid to address a few points outspokenly. The researcher attributed this to the routine and culture of the company mainly, and to the person's culture secondarily.

2. Some of the interviewees had the impression that the interviews may reflect information regarding their institutions, which might threaten their positions in the companies (conflict of interest).

3. Some interviewees have a sensibility towards the subject of IA, because they see IA as a restriction on their work.

In line with what had been provided for the conduct of each of the questionnaires and interviews, both data gathering instruments faced some difficulties. This made the researcher balance between them to achieve a particular purpose, aiming to complement each with the other. In this sense, the two methods were essential to achieve the research objectives. In this study, questionnaires were, therefore, used to highlight the views and perceptions of internal auditors and top managers in Libyan oil and gas companies, regarding independence and objectivity, role and scope, competence, work performance, and communication of IAF. In addition, evaluating the degree of reliance placed by top management on the work of IAF to contribute to accomplish the desired objectives of the company. Moreover, to determine good practices to improve the IAF practice. However, interviews were used to examine communication as a new factor to evaluate and perceive the nature and practice of the IAF. Moreover, to analyse the reasons behind these differences in views and perceptions of internal auditors and top managers raised from questionnaire. See figure 6.1 for a full overview of the research methodology.

Figure 5-1: Summary of research methodology   (Source: Author)

Research methodology

Research Aim and Objectives

The main aim of this study is to examine the perceptions that the Libyan managerial class presently have regarding the nature and the practice of IAF in Libyan oil and gas companies, as well as the degree of reliance placed by top management on the internal audit function to achieve the company's goals. To achieve this main aim, the following objectives were set for the study:
1- To compare the perceptions amongst top managers and internal auditors (in selected Libyan oil and gas companies) of the IAF to determine:
a)The extent to which that there are differences between the current perceptions.
b) The components which have more influence on the nature and the practice of the IAF;
2- To examine the degree of reliance placed by top management on the IAF in Libyan oil and gas companies to accomplish the companies' objectives.
3- To determine improvements that could be introduced to improve the practice of the IAF in Libyan oil and gas Companies.

Research Questions

1- How do top managers perceive the practice of the IAF in Libyan oil and gas companies?
2- How do internal auditors perceive the practice of the IAF in Libyan oil and gas Companies?
3- To what extent do top management in selected Libyan oil and gas companies depend on the IAF to achieve corporate objectives?
4- What improvements could be introduced to improve the practice of the internal audit in Libyan Companies?

Research Population

The present study perceives and evaluates the nature and practice of IAF in 30 local and foreign companies operating in the oil and gas industry in Libya. Given the small size of the population of the study, the researcher surveyed the entire population.

Methods of data collection

Face-to-face

Process

Structure and wording of interview questions

The pilot study of the interview and revision in light

8 Interviews to verity the validity of Communication.

Questionnaire

Process

The first pilot study in UK, Where some modifications were made

Translation into Arabic

The first pilot study in Libya and revision

Distributed 120 questionnaires to answer

Telephone

Process

4 Interview to find out the recons behind the existing the differences in perceptions

C

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5.9 Triangulation

The theoretical stances on the realism paradigm, which was discussed earlier in this chapter, led the researcher to believe that business and management researches are often a mixture between the two methods. Therefore, combining the methods has been advocated as leading to a type of validity that has been called triangulation (Bryman, 2004). However, Hussey and Hussey (1997) encouraged the use of both quantitative and qualitative methods for collecting the data, and considered it as an advantage for the research. Considering the advantages of triangulation, Webb, Campbell, Schwartz and Sechrest (1966) considered triangulation as an approach to the development of measures of concepts, whereby using more than one method in developing measures will result in more confidence in the result. While Saunders et al. (2000, p.98) mentioned that triangulation would give confidence that researchers are addressing the most important issues.

In this way, since the nature and objective of this study was to examine the nature and practice of IAF, and accordingly the relationship between IA and top management in terms of degree of reliance on the work of IAF, combining questionnaires and interviews seems to be appropriate to fulfil these objectives.

5.10 Summary

This chapter provides a comprehensive description of the process of administering questionnaires and conducting interviews, as was explained. The pilot test for the questionnaire survey was introduced. Generally, the idea of using both interviews and questionnaires, and the problems facing the researcher in conducting the questionnaires and interviews, was reviewed and the purpose of combining the two methods was justified. The results from interviews have been presented in this chapter. The interviewees were of a similar profile, in terms of approach taken, work experience and positions within their organizations, and responding to the same questions. The interviews were conducted individually with 8 interviewees, 3 top managers and 4 internal auditors in companies in the oil and gas sector. The interviews covered many points that are related to communication as a new factor to evaluate and perceive the nature and practice of IAF.

In conclusion, the results from the interviews revealed that the communication factor is an important factor for perceiving and evaluating the nature and practice of the IAF. This should be considered when evaluating the nature and practice of the IAF.

The following chapters explain the statistical description of the data gathered by the questionnaire survey, and discussion of the results in comparison with the professional and academic literature review.

CHAPTER 6:   DISCRIPTIVE ANALYSIS OF QUESTIONNAIRE DATA

6.1 Introduction

The main aim of this study is to examine the perceptions that the Libyan managerial class presently has regarding the nature and practice of IAF in Libyan oil and gas companies, as well as the degree of reliance placed by top management on the work of the IAF. This chapter reports the results of the empirical analysis of the data collected from the questionnaire survey conducted in Libya in the period April to July 2010. It concentrates on the perception and attitude of top managers and internal auditors, regarding the nature and practice of IAF in Libyan oil and gas companies. The chapter presents the descriptive analysis of the data gathered by questionnaire.

Diamantopoulos and Schlegelmilch (1997, p.73) listed the purpose of descriptive analysis as follows:

a) It provides preliminary insights as to the nature of the responses collected, as reflected in the distribution of the values for each variable of interest.
b) It helps in detecting errors when coding the data.
c) Its use of graphs and tables will help in presenting the data in a digestible way.
d) It provides an early opportunity for checking whether the distributional assumptions of the subsequent statistical tests are likely to be satisfied.

6.2 Analysis Approach

Before proceeding to the analysis of the data, it is worth mentioning that most questions were constructed on a five-point Likert scale (appendix C): seen by some as an ordinal scale, whereas others see it as an interval scale. In the current study, the Likert scale is considered an ordinal scale, in line with requirements of tests that have been used. In the Likert scale, the location of the zero point (cut-off-point) is not fixed (Malhotra and Birks, 2007; Sarantakos, 2005). Malhotra and Birks (2007, p. 340) stated that:

> "Both the zero point and the units of measurement are arbitrary. Hence, any positive linear transformation of the form y=a+bx will preserve the properties of the scale".

In this instance, "y" means the transformed scale value, "x" means the original scale value, while "a" and "b" are both constants. In the transforming equation, both constants drop out in the computations.

Accordingly, for data analysis, it is worth defining the extension of coding regarding responses to items of dimensions. In this study, typical scales, which consisted of "strongly disagree=1" to "strongly agree=5", were followed (see Appendix C). Hence, the extension of this scale is determined by 5-1=4, in order to identify the length of each scale "b" was computed; b=4/5 = 0.80. Accordingly, the upper limit for each cell is determined by using the equation "y= a+bx", whereas "a=1" (the constant "a" represents the difference between any two adjacent scale value), "b= 0.80" (as mentioned above), and "x= 1, 2, 3, 4 and 5". As a result of using this equation, Table (6-1) shows the range of scales used in this study.

Table 6-1: The range of scales for questionnaire responses for sections two, three, and four

Likert Scale	Scale	The range of scale
Strongly disagree	1	From 1.00 to 1.80
Disagree	2	From 1.81 to 2.60
Neutral	3	From 2.61 to 3.40
Agree	4	From 3.41 to 4.20
Strongly agree	5	From 4.21 to 5.00

Based on the above, measures of central tendency, i.e. mean and median, were computed for all statements included in the questionnaire. They will be interpreted according to the range of each scale.

6.3 Outcomes of the Discriptive Analysis Process

6.3.1 Results of Reliability Test of Data

This section considers the results of Cronbach's Alpha test that was applied to assess the reliability of the seven dimensions researched by the study questionnaire, as seen in Table 6-2. The table displays the results of the test for the field and pilot study.

Table 6-2: Cronbach's Alpha test results

Measurement	Scale total number of items	Total number of cases	Cronbach's Alpha (field study)	Cronbach's Alpha (pilot study)
Independence	15	89	0.70	0.74
Role & Scope	11	89	0.82	0.90
Competence	14	89	0.73	0.72
Work Performance	12	89	0.84	0.80
Internal Communication	12	89	0.85	0.84
Reliance	16	89	0.87	0.86
Good Practice	09	89	0.83	0.70

The reliability test was conducted for all retained items (89 items), i.e. independence and objectivity (15 items), role and scope (11 items) competence (14 items), work performance (12 items), communication (12 items), managements' degree of reliance on the IAF (16 items) and good practice (9 items). According to Sekaran (1992, p. 173): "the reliability of a scale indicates the stability and consistency with which the instrument is measuring the concept and helps to assess the goodness of a measure." After re-coding all negatively worded items in the questionnaire and reversing them, the reliability test using Cronbach's Alpha was conducted. Table 6-2 presents the final results of this test. As can be seen from the table, Cronbach's Alpha for the seven measurements was over 0.70. Reliabilities over 0.60 are generally considered to be acceptable. Thus the Inter-item Consistency Reliability of the measures used in this study can be considered to be very acceptable. Moreover, Table 6-2 also shows that the Cronbach's Alpha reported in the pilot study was over 0.70. When these two Alpha values are compared, no large deviation is found between measurements; thus it can be suggested that the study instruments' reliability is stable over time.

6.3.2   Respondents Information and Characteristics

As mentioned previously, the questionnaires were distributed to individuals within companies in the oil and gas sector that had an IAD. A number of questions were included in section one of the questionnaire in order to acquire general information about each respondent, which could provide some indication as to the reliability of the responses given. Therefore, the first part of the questionnaire dealt with general information and

characteristics about the respondents in terms of their job titles, length of experience, academic and professional qualifications, area of specialisation, and number of people working in IAD. In addition, another three questions related to the existence of an audit committee (or not), as well as how the IAD reports to the audit committee or top management. Finally, it asked whether the IAF was performed by members of staff within or outside the company.

6.3.2.1 Respondents' Job Title

The respondents from the four groups were asked to indicate their job position in their companies or organizations. As shown in Table 6-3, all respondents within these groups were associated with their position, mainly as members of the board of directors (12%), CEOs (25%), CFOs (29%), or as internal auditors (34%). As the three management groups, directors, CEOs and CFOs, were fundamentally involved in managing the company's activities, monitoring and keeping them under control, it can be expected that the data provided by such a group is highly relevant to the issues raised in this study.

Table 6-3: Respondents' job title

Group	Job title	Number	% rate
Top managers includes 1- Board of Directors level	Member of Board of Directors	11	12
2- Senior management level	CEO*	22	25
3- Senior management level	CFO*	26	29
Sub-Total		59	100
4-Internal audit	Internal auditors	30	34
Total		89	100

*CEOs & CFOs are not always members of the Board of Directors in Libya.

6.3.2.2 Respondents' Work Experience in Management

This section relates to the work experience in management of each group, as stated in Table 6-4. 53% (47) of respondents had more than ten years of experience in management. Ten of them were internal auditors, which might have caused their perceptions to be somewhat convergent. Some internal auditors had experience of at least five years, as can be seen from Table 6-4. This table also illustrates that the majority (73%) of the members of boards of directors had more than ten years working experience. Moreover, more than

half the senior managers, 59% of CEOs and 69% of CFOs, had at least ten years of working experience, while, the remainder had no less than five years working experience.

Table 6-4: Working experience of respondents in the management field

Levels of management	BD		CEO		CFO		Internal auditor		Total	
Levels of experience	No	% rate	No	% rate	No	% rate	No	% rate	No	% rate
No experience	0	0%	0	0%	0	0%	20	67%	20	23%
Less than 1 year	0	0%	0	0%	0	0%	0	0%	0	0%
1-5 years	0	0%	7	32%	2	8%	0	0%	9	10%
5-10 years	3	27%	2	9%	6	23%	2	7%	13	14%
More than 10 years	8	73%	13	59%	18	69%	8	27%	47	53% *
Total	11	12%	22	25%	26	29%	30	34%	89	100

6.3.2.3 Working Experience of Respondents in the Internal Audit Field

This section relates to work experience in IA for each group, as presented in Table 6-5. Respondents from each group were asked about the length of their experience working as an internal auditor. As can be seen from Table 6-5, a majority of respondents among top managers (51%) did not have working experience in the IA field. On the other hand, 24.7% of respondents had experience in the IA field of more than ten years, with board of directors members constituting (1.1%), CEOs (1.1%), CFOs (4.5%) and IAs (18%). Furthermore, 10.1% of respondents had experience of more than five years, while 11.1% had experience from 1 to 5 years in the internal audit field. Regarding the working experience of internal auditors, 6.7% had between 1 to 5 years, and 2.2% less than one year's experience.

In conclusion, it can be seen that the majority of respondents had extensive experience in the field of business, which enabled them to understand the nature of the subject of this study, and answer the questions of the questionnaire appropriately.

Table 6-5: Working experience of respondents in internal audit field

Levels of management	Members of board of director		Senior management- CEO		Senior management - CFO		Internal auditor		Total	
Levels of experience	No	% rate	No	% rate	No	% rate	No	% rate	No	% rate
No experience	10	91%	20	91%	16	62%	0	0%	46	51%
Less than 1 year	0	0%	0	0%	0	0%	2	8%	2	2%
1-5 years	0	0%	0	0%	4	15%	6	20%	10	11%
5-10 years	0	0%	1	5%	2	8%	6	20%	9	10%
More than 10 years	1	9%	1	5%	4	15%	16	53%	22	25%
Total	11	12%	22	25%	26	29%	30	34%	89	100

6.3.2.4 Percentage Distribution of Respondents by Education

In terms of educational background, Table 6-6 shows the academic and professional qualifications of each group, showing that most respondents had studied at least to high school level. The majority of respondents, 66.3% (59) held a first university degree, followed by 19.1% (17) with a Master's degree; 10.3% (9) held a professional qualification in accounting, while the remaining 2.2% (2) held a PhD and 2.2% (2) a high school certificate. This might indicate that, in general, the respondents had an adequate and reasonable level of knowledge in terms of academic education, but not necessarily professional qualifications. As noted previously, professional qualifications of accounting and auditing did not exist in Libya, (see chapter 3, p. 80).

Table 6-6: Percentage distribution of respondents by education

Levels of management		BD		CEO		CFO		Internal auditor		Total	
Education		No	%	No	%	No	%	No	%	No	%
1-	Doctoral (Ph.D.)	0	0%	1	4.5%	1	3.8%	0	0%	2	2%
2-	Master Degree	2	18.2%	1	4.5%	4	15.4%	10	33.3%	17	19%
3-	First Degree(BA)	9	81.8%	17	77.3%	15	57.7%	18	60%	59	66%*
4-	P.Q1	0	0%	3	13.6%	5	19.2%	1	3.3%	9	10%
5-	High School	0	0%	0	0%	1	3.8%	1	3.3%	2	2%
	Total	11	12%	22	25%	26	29%	30	34%	89	100%

1: P.Q means profession qualification.

6.3.2.5 Percentage Distribution of Respondents by Specialization

Table 6-7 shows the academic specialisations of respondents within each group. The specialisation of respondents centred on accounting; 52 (58%) of them were qualified in accounting, comprising 23 internal auditors (76%), followed by 20 CFOs (77%), and 8 CEOs (36%). In addition, those specialised in management represented 17 (19%), and in financial matters, 11 (12%). The specialisation in economics for respondents was not much different from the financial specialisation: there were 9 (10%). Regarding other specialisations for board of directors' members, this shows that they mainly came from an engineering background, such as industrial engineering, petroleum engineering and management engineering, comprising 7 respondents (8%), due to the nature of activities of the sector. Generally, the concentration of most respondents in accounting and management reflects a favourable probability of understanding the subject of the questionnaire and giving practical answers.

Table 6-7: Percentage distribution of respondents by specialization

Levels of management		BD		CEO		S CFO		Internal auditor		Total	
Specialization		No	%	No	%	No	%	No	%	No	%
1-	Accounting	1	9%	8	36%	20	77%	23	77%	52	58%*
2-	Financial	2	18%	0	0%	4	15%	5	17%	11	12%
3-	Management	1	9%	13	59%	2	8%	1	3%	17	19%
4-	Economy	0	0%	1	5%	0	0%	1	3%	9	10%
5-	Law	0	0%	0	0%	0	0%	0	0%	0	2%
6-	Other	7	64%	0	0%	0	0%	0	0%	7	8%
Total		11	12%	22	25%	26	29%	30	34%	89	100%

6.3.2.6 Percentage Distribution of People Working in the Internal Audit Department (IAD)

Table 6-8 presents the distribution of numbers of internal auditors in IADs. The results in this table indicated that 50% of the internal auditors worked in small size IADs, not exceeding more than 4 internal auditors, with 26% in other departments having 5-8 internal auditors. Of the remaining internal auditors, 12% worked in IADs with 9-12 members and 12% with more than 13 internal auditors.

Table 6-8: Distribution of internal auditors by IAD group size numbers

No	No. of internal Auditors	No of cases	Percent	Cumulative Percent
1-	Less than 4	44	50%	50%
2-	5 to 8	23	26%	75%
3-	9 to 12	11	12%	87%
4-	More than 13	11	12%	100%
Total		89	100	

6.3.2.7 The Audit Committee and the Internal Audit Function (IAF)

This section presents the results of questions 8 to 10 in part one of the questionnaire, which relates to the companies in the oil and gas sector, and whether they had an audit committee or not. In addition, it investigated whether the IAD reported to an audit committee or top

management. Finally, the focus was on who performed the IAF, and whether they were from within or outside the company. Table 6-9 shows that 73 respondents (82%) indicated that most of the companies did not have an audit committee, while 16 (18%) of the respondents reported that some companies had an audit committee. In fact, when the respondents were asked about the existing audit committees in these companies, it was found that they were not like existing committees in other parts of the world, in terms of objectives and constituent members. Such committees are known as 'monitoring committees' in the Libyan context.

Regarding the IA reports, Table 6-10 of the survey result shows that 85 respondents (95%) indicated that most IADs in oil and gas sector companies submit reports to top management, rather than to the audit committee. However, according to 5 respondents (5%), IADs present their reports to both top management and the audit committee, or what in Libyan practice are called 'monitoring committees'.

Table 6-9: Existence of an audit committee

Does your company have an audit committee?	Frequency	Per cent	Cumulative per cent
Yes	16	18%	18%
No	73	82%	100%
Total	89	100	

Regarding the IA reports, Table (6-10) of the survey result shows that 85 respondents (95%) indicated that most IADs in oil and gas sector companies submit reports to top management, rather than to the audit committee. However, according to 5 respondents (5%), IADs present their reports to both top management and the audit committee, or what in Libyan practice are called 'monitoring committees'.

Table 6-10: IA reports submitted to whom

Does IAD report to	Frequency	per cent	Cumulative per cent
Audit committee	4	5%	5%
Top management & A committee	85	95%	100%
Total	89	100	

On the subject of who carries out the IAF, Table 6-11 shows that in all of the IADs (100%), IAF is performed by employees within the companies. As such, companies depend on their own staff to perform the IAF, and no other outside sources.

Table 6-11: Who performs the IAF

Is internal audit performed by employees?	Frequency	per cent	Cumulative per cent
Within the company	89	100%	100%
Out the company	0	0	100%
Total	89	100.0	

6.3.3 Section Two of the Questionnaire

Section two of the questionnaire was divided into five parts. Each part related to one of the five components (independence, role and scope, competence, work performance, and communication, all relating to the IAF), which form parts of the model. Each part of the questionnaire is composed of statements relating to activities connected to the relevant component. The respondents were asked to evaluate each statement on a scale of 1 to 5, the value 1 being "strongly disagree" and 5 being "strongly agree" with 3 "neutral".

For the sake of clarity in the descriptive analysis, the responses were divided into three categories, "disagree" replacing values 1-2, "neutral" replacing value 3 and "agree" replacing values 4-5. The distribution of the responses is presented per statement and for each part separately, followed by an analysis of the results.

However, the following tables will show the distribution of the responses collected, this distribution represents descriptive analysis as seen in the tables below. The response percents have been divided and mean averages for each statement are calculated, as well as the standard deviation, as explained in the following section.

6.3.3.1 Independence of Internal Auditing Function (statements 1-15)

The survey results in table 6-12 indicate that the great majority of respondents (between 63% and 95%) agreed with statements 1 to 10, and statement 15. Most respondents accept the organizational status of the IADs as adequate for the fulfilment of their job sample

mean score (3.87) (see table 6-12). In fact all of the oil and gas companies investigated had IADs headed by a director. The results also suggest that the respondents perceived that the IAD members of staff were able to carry out their work freely and objectively (statements 2 and 3), and also had free access to information and employees, which they considered to be pertinent in the conduct of their audit without any interference from the company management (statements 4 and 5). In other words, internal auditors in companies had the power to review all departments of the company, (sample means scores 4.04, 3.86, 4.22, and 4.25 respectively) (see table 6-12).

Statement 6 addressed whether there was appropriate support to enhance the objectivity of the internal auditors by the board of directors that would allow the IADs to function in an objective manner; the majority of respondents (81%) agreed (sample mean= 4.18), as opposed to 4% who disagreed, while 15% remained neutral. In relation to statement 8, most respondents (90%) confirmed that IAD staff members were required to review all departments in the company (sample mean= 4.08). This is further supported by statements 6, 11 and 12, which relate to IAD staff members being free from any situations that may lead to any conflict of interest and compromise their objectivity, while they were doing their work. Statement 12 implies that the SM decides what subjects will appear in the work plan of IADs, with which more than half the respondents, about 54%, disagreed (sample mean=2.64). Furthermore, statements 7, 13 and 14 test the freedom enjoyed by the IAD from the executive management and the organizational level of the IA department in the company. The results show that 63% of respondents agreed that the IADs reported to a very senior level, while 51% of respondents disagreed that IADs were under the authority of SM. This reflects a reasonable degree of freedom that internal auditors enjoyed. In addition, the responses to statement 14 clearly show that quite a high percentage, 39% as opposed to 33%, of the respondents perceived that IA staff may encounter a situation involving interference by management in determining the scope of work, and communicating results; this could undermine the objectivity of the IADs.

Table 6-12: Distribution of the perceptions and evaluations given by the different statements regarding the independence of IAF

No	Statements	Disagree		Agree		Neutral		Min*	Max*	Mean	Std. Dev*
		N	%	N	%	N	%				
1-	The organizational status of internal audit department is adequate for the fulfilment of its job	10	11	72	81	7	8	1.00	5.00	3.87	.914
2-	Internal auditing members of staff carry out their work freely.	3	3	80	90	6	7	1.00	5.00	4.04	.767
3-	Internal auditing members of staff carry out their work objectively.	6	7	75	84	8	9	1.00	5.00	3.86	.756
4-	Internal auditing members of staff have access to all the information, which they consider to be pertinent in the conduct of their audit.	3	3	81	90	6	7	1.00	5.00	4.22	.794
5-	Internal auditing members of staff have access to all the employees which they consider to be pertinent in the conduct of their audit.	2	2	84	95	3	3	2.00	5.00	4.25	.631
6-	The board directors enhance the objectivity of internal auditors.	4	4	72	81	13	15	1.00	5.00	4.07	.881
7-	The internal audit function report at a very senior level in this company (CEO, CFO).	18	20	56	63	15	17	1.00	5.00	3.53	1.011
8-	The internal auditing members of staff are required to review all departments in the company.	7	8	80	90	2	2	2.00	5.00	4.08	.778
9-	The boards of directors (audit committee if applicable) approve the appointment of the head of the internal audit department.	6	7	78	87	5	6	1.00	5.00	4.37	.909
10-	The boards of directors (audit committee if applicable) approve the removal of the head of the internal audit department.	8	10	74	83	7	8	1.00	5.00	4.25	.983
11-	Conflict of interest is present in the work of internal auditors.	25	28	31	35	33	37	1.00	5.00	3.13	.943
12-	The senior management decides what subjects will or will not appear in the work plan of the internal audit function.	49	54	20	23	20	23	1.00	5.00	2.64	1.014
13-	The internal audit department is under the authority of senior management.	51	57	35	40	3	3	1.00	5.00	2.87	1.371
14-	The internal audit activity sometimes faces interference by management in determining its scope, and communicating results.	39	34	30	33	20	23	1.00	5.00	2.88	1.132
15-	The internal audit department directly reports to the board of directors (audit committee if applicable).	11	12	78	88	-	-	1.00	5.00	4.04	.964

Statements 9 and 10 test whether the board of directors (audit committee) had the power to appoint or to remove the IADs' directors. The responses to statement 9 and 10 show clearly that a very high percentage, 87% and 83% respectively, of the respondents agreed that the authority of appointment and removal the head of IAD was in the hands of the board of directors. The responses to statement 15 show that a very high percentage (88%) of IADs submit their reports directly to the board of directors.

If one compares the responses to statement 15 with those to statement 2, where 90% agreed on the objectivity of the IADs, there appears to be a contradiction. In explanation, it may be supposed that statement 2 describes the actual situation, while statement 11 describes a potential situation. The question remains whether the company IAD avoids certain subjects in order not to find itself in a conflict of interest situation.

Table 6-12 also shows the results of means for independent variables. However, the results of mean scores over 3.40 indicated that respondents were agreed on the independence variables for the IAF of Libyan oil and gas companies, with the exception of a few statements (11, 12, 13 and 14).

6.3.3.2   Role & Scope of Internal Auditing Function (Statements 1-11)

As can be seen in Table 6-1), the survey results related to the role and scope of IAF in the current research indicate that the majority of the respondents, between 70% to 93%, agreed with statements 1, 2, 3, 6, 8, 9 and 10. The exceptions were statements 4 and 5, which were quite different compared to the last statements, with which the respondents (57% and 56% respectively) generally disagreed.

Statements 1, 2 and 3 were concerned with checking the perceptions and evaluations of respondents as to whether the IADs evaluated the adequacy of the internal control system, the reliability and integrity of information and compliance with policies, plans, procedures, laws and regulations, and that these were included in their scope of work. The survey result revealed that most respondents (86%) accepted that the scope of IADs' work includes evaluating the adequacy of the internal control system, in relation to statement 1 (sample mean=3.84, table 6-13). The results also suggest that the respondents (78%) agreed with statement 2 in that the role of IADs involves examining the reliability of accounting information (sample mean= 4.17, table 6-13). Also, most

respondents (70%) agreed with statement 3, where checking whether the systems operating in the companies ensured compliance with policies, plans, procedures, laws and regulations lying within the role and scope of IADs (sample mean=3.98), as opposed to (11%) who disagreed. In contrast, 57% of respondents disagreed with statement 4 that IADs review the systems used for safeguarding the company assets (sample mean=3.95), whereas the sample mean of statement 4 locates it at the agree point.

In regard to the role of the IADs to provide consultations to top management, in terms of adequacy of internal control systems, company's operations and risk management, the results for these points were dissimilar from one another. Where statement 5 was relevant to reviewing adequate internal control, 56% of respondents disagreed with it, while (30%) agreed with it, and the remaining respondents preferred to remain neutral (sample mean= 3.85).

In respect to statement 6, which related to providing consultation regarding the company's operations, 93% of the respondents agreed with it, while 7% disagreed (sample mean= 3.47). In the final role of IADs as providers of consultations to top management with regard to risk management, 53% of respondents agreed with statement 7, while 16% disagreed and 25% were neutral (sample mean=3.14); therefore, the perceptions and evaluations of respondents associated with this role are located at a neutral position.

The majority of respondents, 72% to 82% respectively, agreed with statements 8 and 9. Statement 8 tests whether the IAD's operations are seen as impartial across the different levels of the company, through applying the same rules to all levels of the company's departments. The result reveals that a high percentage (82%) of respondents agreed with this, while 9% disagreed and 9% were neutral (mean sample=3.65). The situation of statement 9 is different, as the ordinance of commercial law is that the IAD should encompass the top management's own operations, and one would expect that the majority of respondents would disagree with statement 9, but this was not the case. Most respondents (72%) agreed with statement 9, as opposed to 12% who disagreed (mean sample= 2.55). The results of statement 9 may also be surprising, if one looks at

the high percentage (82%) of respondents who agreed with statement 8, declaring that the "IAD applies the same rules to all levels of the company".

The results also revealed that a majority of the respondents (76%) agreed with statement 10 as opposed to (5%) who disagreed, and (16%) who were neutral (mean sample=3.40), that within their role, the IADs appraise the economy, efficiency, and effectiveness with which resources are employed. This role for the IAD in the organization or company will improve performance, making it more effective and efficient.

Statement 11 had a relatively high (29%) percentage of respondents who preferred to tick the neutral box; a high proportion were executives and directors board members, who are more familiar with the IAD; also (36%) of respondents agreed and (35%) disagreed with the statement (mean samples=3.95). It is assumed that respondents who ticked the Neutral box did so, not because they are unaware that IA is supposed to be responsible for following-up and ensuring that corrective actions are taken, but rather because they do not know to what extent it is actually being done. In contrast, those who disagreed, justified this in that they have a specialist department to do so. According to the mean sample (3.95), the respondents are in an agreed position. However, to function effectively, the IA must be functionally separated from the day-to-day management of a company, at the same time providing input to top management to ensure findings and recommendations result in corrective action.

Table (6-13) also shows the results of the mean score for the variables of role and scope of IAD. However, the most result overall mean over (3.40) indicated that respondents in general agreed to the role and scope variables for IADs in Libyan oil and gas companies, with the exception of two statements (7 and 9) the average means were less (3.40).

Table 6-13: Distribution of the evaluations given by the different statements regarding the role and scope of IAF

No	Statements	Disagree N	Disagree %	Agree N	Agree %	Neutral N	Neutral %	Min	Max	Meanb	Std. Dev
1-	The scope of internal auditing includes evaluating the adequacy of the company's system of internal control.	7	8	77	86	5	6	2.00	5.00	3.84	.781
2-	The internal auditing department examines the reliability and integrity of information, such as accounting information.	11	12	69	78	9	10	2.00	5.00	4.17	.747
3-	The internal auditing department checks whether the systems operating in the company ensure compliance with policies, plans, procedures, laws and regulations.	10	11	62	70	17	19	2.00	5.00	3.98	.665
4-	The internal auditing department reviews the systems used for safeguarding the company assets.	51	57	34	38	4	5	2.00	5.00	3.95	.824
5-	The internal auditing department provides consultation to top management in regard to adequate internal control systems.	50	56	27	30	12	14	2.00	5.00	3.85	.762
6-	The internal auditing department provides consultation to top management in regard to the company's operations.	6	7	83	93	-	-	2.00	5.00	3.41	.954
7-	The internal auditing department provides consultation to top management in regard to risk management.	14	16	53	59	22	25	1.00	5.00	3.14	1.113
8-	The internal auditing department applies the same rules for all levels of the company.	8	9	73	82	8	9	2.00	5.00	3.65	.854
9-	The company's internal auditing department does not encompass the top management's own operations.	11	12	64	72	14	16	1.00	5.00	2.55	.941
10-	The internal auditing department appraises the economy and efficiency and effectiveness with which resources are employed.	5	6	68	76	16	18	1.00	5.00	3.40	.961
11-	The internal auditing department is responsible for following-up and assuring that corrective actions are taken.	31	35	32	36	26	29	1.00	5.00	3.95	.890

6.3.3.3 Competence of Internal Auditing Function (statements 1-14)

A descriptive discussion of the competence scales was conducted. Table 6-14 provides the results of percentage of tendency responses and means test for the competence scale; two thirds of overall mean score of statements were over 3.40 revealed that the respondents were between neutral and dissatisfied with the competence of IADs.

The distribution of the responses, as appears in Table 6-14, shows that the great majority of respondents, ranging from 70% to 93%, agreed with statements 1, 2, 3, 6, 8, 9, 10 and 12. This gives the impression that, generally, the respondents were quite satisfied with the competence of the IADs. It is interesting to point out that the highest percentage (93%) agreed with statement 6, in that company management was interested in appointing those qualified in accounting or auditing as internal auditors. This shows that top management within the companies seeks to maintain high competence among IADs. The study results also indicated that 86% of respondents agreed that IA members of staff possessed the knowledge needed to perform their job and meet their responsibilities (statement 1), with (sample mean=3.94). In addition, 78% of respondents agreed that IA members of staff possessed the skills needed to perform their job and responsibilities (statement 2), with (sample mean= 3.74). This means that the level of knowledge and skills that IAD staff members possessed, was to some extent acceptable to participants. However, it does not mean that staff members possessed all the professional knowledge and skills they needed.

The study results also indicated that 57% of respondents were not satisfied with their companies' IAD staff certification programmes, i.e. statement 4 (sample mean=2.83, Table 6-14). Moreover, 56% of them also agreed that there was no qualified internal auditor working in IADs in Libyan oil and gas companies, referring to statement 5 (sample mean=2.76, Table 6-14). Furthermore, 93% of respondents agreed on the basic qualifications of internal auditors working as companies' head of IAD, or as internal auditors, i.e. statement 6 (sample mean=4.12, Table 6-14).

Regarding the training of IA staff in Libyan oil and gas companies, the study results showed that 70% of respondents agreed with the interest of company management to encourage IAD staff to develop (sample mean=3.71) as included in statement 3. As for statement 11, equal proportions of respondents were neutral with regard to the proposition that the board of directors controls the competence of the IAD (sample mean=3.06).

However, 59% of participants indicated that companies' internal auditors were subject to in-house training, but with more focus on non-IA training courses, such as IT training and accounting (sample mean=3.59, Table 6-14).

For the competence scale in terms of the experience of IA staff, the mean results (table 6-14) indicated that the respondents were satisfied with the level of experience of internal auditors in Libyan oil and gas companies; referring to statement 8, 82% of respondents (sample mean=3.78) agreed that the level of experience was adequate. In relation to the experience of IA staff in the IA profession, mean results revealed that participants did not completely disagree with the experience of IA staff in IA, as put to them in statement 9 (sample mean=3.70); 73% indicated that they agreed with the experience of internal auditors working in Libyan oil and gas companies. Furthermore, the results indicate that 45% of the respondents reported that company management appointed inexperienced and incompetent internal auditors in Libyan oil and gas companies, referring to statement 13 (sample mean= 2.78). In addition, at universities in Libya, IA is not a separate specialty chosen by the student. Furthermore, 78% of respondents agreed, that IA members of staff possess professional competence (sample mean=3.78), which may have meant behaviour with others within a company. Moreover, 77% of respondents were satisfied that internal auditors maintained a satisfactory relationship with employees (sample mean=3.80). However, the participants were not satisfied with the practice of allocating employees from other departments to work as internal auditors, which was felt to negatively affect the professional competence of the department (sample mean = 2.60).

Table 6-14: Distribution of the evaluations given by the different statements regarding the competence of IAF

No	Statements	Disagree		Agree		Neutral		Min	Max	Meanb	Std. Dev
		N	%	N	%	N	%				
1-	The internal auditing members of staff possess the knowledge needed to carry out their responsibilities.	7	8	77	86	5	6	1.00	5.00	3.94	.774
2-	The internal auditing members of staff possess the skills needed to carry out their responsibilities.	11	12	69	78	9	10	1.00	5.00	3.74	.911
3-	The company management encourages the internal audit staff to develop.	10	11	62	70	17	19	1.00	5.00	3.71	.916
4-	Some of the internal auditing members of staff in the company have obtained a professional certification in auditing.	51	57	34	38	4	5	1.00	5.00	2.83	1.189
5-	Some internal auditing members of staff in this company are certified internal auditing	50	56	27	31	12	13	1.00	5.00	2.76	1.138
6-	The company management only appoints persons with accounting or auditing qualifications as internal auditors	6	7	83	93	-	-	1.00	5.00	4.12	.809
7-	Internal audit department members of staff are given regular in-house training in auditing.	14	16	53	59	22	25	1.00	5.00	3.59	1.008
8-	Not all internal auditing members of staff in the company have experience in the audit profession.	8	9	73	82	8	9	2.00	5.00	3.78	.682
9-	All internal auditing members of staff in the company have prior experience in internal auditing.	11	12	64	73	14	15	2.00	5.00	3.70	.828
10-	The internal auditors maintain satisfactory relationships with other employees in the company.	5	4	68	77	16	19	1.00	5.00	3.80	.736
11-	The board of directors is controlling the competence of internal audit departments.	31	35	32	36	26	29	1.00	5.00	3.06	1.009
12-	The internal audit members of staff have the necessary professional competence.	7	8	69	78	13	14	2.00	5.00	3.78	.714
13-	The company management only appoints experienced internal auditors.	40	45	21	23	28	32	1.00	5.00	2.78	1.027
14-	Allocating employees from other departments to work as internal auditors will negatively affect the professional competence of the department.	54	61	22	25	13	14	1.00	5.00	2.60	1.164

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6.3.3.4 Work Performance of the Internal Auditing Function (statements 1-12)

Table 6-15 reflected the results of means test for work performance scale; the overall mean score (over 3.40) revealed that the respondents were satisfied with the work performance of IADs in Libyan oil and gas companies, with the exception of statement 2.

For the statement No.3, (table 6-15), 46% of the respondents agreed that there were clear IA schedules for auditing companies' branches and departments, as opposed to 27% who disagreed, and 27% neutral (sample mean=3.20, table 6-15). For statement No 5, (table 6-15) 83% of the respondents indicated that they were satisfied with the role of internal auditors in companies, to examine the reliability and integrity of information. These results were supported by a high sample mean score for the statement (3.85). The statement, No.9, (table 6-15) showed that 76% of the respondents supported the statement that follow-up of corrective actions on the findings of IADs was satisfactory; the sample mean score for this statement was (3.73). Regarding IAD directors reviewing the quality of working papers, 67% of the respondents agreed that the director of the department usually checked the working papers on a regular basis to ensure quality. However, this statement revealed a satisfactory attitude towards work performance of IADs, with a sample mean score (3.59).

Statement 2 (table 6-15) examined whether the numbers of internal audit in Libyan oil and gas companies was sufficient for the number of branches covered by their departments or not. Results revealed that 65% of the surveyed respondents agreed that the number of internal auditors was not sufficient when compared to the number of departments and branches, (sample mean 3.46). This result was confirmed in the first part of the questionnaire (table 6-7) in that 50% of the internal auditors working in small size IADs did not exceed more than 4 internal auditors. However, 74% of surveyed respondents agreed (sample mean= 3.89) that oil and gas companies in Libya maintain a well-defined system of responsibilities within the IADs.

With regard to internal auditors performance reviewing and evaluating operations, and the adequacy of their risk management and operational controls, the majority of respondents ranging from 65% to 82%, agreed with statements 6, 8 and 12, with sample

mean scores of 3.46, 3.62, and 3.86 respectively. For statement 11, 37% of respondents agreed as opposed to 35% who disagreed and 28% who remained neutral.

Table 6-15: Distribution of the evaluations given by the different statements regarding the work performance of IAF

No	Statements	Disagree		Agree		Neutral		Min	Max	Meanb	Std. Dev
		N	%	N	%	N	%				
1-	The director of internal audit department is supervising his/her staff through a system of defined responsibilities.	3	3	75	74	11	12	1.00	5.00	3.89	.640
2-	The number of internal auditors in the company is not sufficient when it is compared with the number of departments or branches they audit.	21	22	56	65	12	13	1.00	5.00	3.46	1.000
3-	There are audit schedules to audits the company's departments or branches.	24	27	41	46	24	27	1.00	5.00	3.20	1.002
4-	The internal audit department develops appropriate audit plans for established audit objectives.	17	19	50	57	22	24	1.00	5.00	3.43	.916
5-	The company internal auditors examine the reliability and integrity of information.	6	7	74	83	9	10	1.00	5.00	3.85	.762
6-	The internal auditors review the adequacy of risk management on a regular basis.	22	23	56	65	11	12	1.00	5.00	3.46	1.023
7-	The speed of corrective action on the findings of the company internal auditing is satisfactory.	24	27	53	59	22	24	1.00	5.00	3.49	.906
8-	The internal auditors review operations to ascertain whether results are consistent with established objectives.	24	27	62	69	13	14	1.00	5.00	3.61	.923
9-	There are follow-up to corrective actions on the findings of the internal auditors.	7	8	67	76	15	16	1.00	5.00	3.73	.779
10-	The director of the internal audit department regularly checks the quality of working papers.	10	11	58	67	21	22	1.00	5.00	3.59	.849
11-	There is a regular evaluation of risk management procedures	31	35	33	37	25	28	1.00	5.00	3.01	.982
12-	The internal auditing staff understands the nature of operational controls.	3	4	73	82	13	14	2.00	5.00	3.86	.587

6.3.3.5   Communication of Internal Audit Function (statements 1-12)

For the purpose of the descriptive discussion, table 6-16 reflects the results of mean tests for the communication scale, where the overall mean score over 3.40 revealed that the respondents were satisfied with the communication of IADs in Libyan oil and gas companies, with the exception of two statements, 8 and 11, which were less than 3.40.

Regarding the reporting relationship maintained by internal auditors with their auditees, statement No.1, (table 6-16), 80% of the respondents agreed that the IAD maintained satisfactory reporting relationships with auditees (people being audited), as opposed to 6% who disagreed and 14% who were neutral, and the sample mean score was 3.80 (table 6-16). Regarding the tools and features of IAD communication, three statements were tested in this dimension. For two statements, 2 and 3, 84% and 70% respectively of the respondents agreed with them, meaning the IADs conveyed information effectively, using written and verbal communication tools, while for the audit objectives and recommendations to top management, the sample mean score were 3.93 and 3.64 respectively. The survey results show that there was satisfaction regarding the communication tools used by IADs to impart the objectives and results of their work to top management. Furthermore, 60% of respondents agreed with features of IADs' communications in report form, in terms of it being issued in a clear, concise, accurate, and timely manner, with a sample mean score of 3.58 (table 6-16). Increasingly, audit reports are being recognised for what they are used. Timely communication tools provide appropriate information at an adequate level of detail to the operational managers, who are in a position to solve a problem, and to senior managers who are responsible for ensuring that the problem does, indeed, get solved. In terms of the level at which the IAD reports, the questionnaire tested whether it reported administratively to the directors at board level or SM level, or reported functionally to the audit committee (if applicable). Three statements tested this dimension of communication, in regard to reporting administratively to senior managers, for statement 6, 73% of respondents agreed, with a sample mean score of 3.77 (table 6-16), and 69% of respondents also agreed that they reported administratively to the board of directors, with a sample mean score of 3.85 for statement 7 (table 6-16). It is clear that the sample mean of statement 7 is slightly higher than the sample mean of statement 6. Consequently, the tendency of participants to report administratively to board of

directors was more common than for senior managers. The survey result for the IAD reporting functionally to the audit committee was tested by statement No.8. This indicated that 80% of respondents did not agree with this level of reporting.

Another responsibility of IADs is providing various recommendations and attending meetings; two statements were used to test this dimension. The first was statement 4, relating to the company's IAD offering recommendations and improvements in regard to the correction of deficiencies and irregularities; 83% of respondents agreed that this occurred, with a statement sample mean score of 4.02 (table 6-16). The second statement was statement 9, regarding the head of IAD or a representative attending a meeting held with SM and/or the board of directors. The survey result indicates that a high percentage (67%) of respondents agreed with this, with a sample mean score of 3.51, (table 6-16). In accordance with this result, it could be argued that the development of this communication channel with top management and/or board of directors should lead to audit results being more relevant and providing opportunities for promoting the role of audit.

The content of IAD reports was addressed in three statements testing this dimension. For the first statement No.10, (table 6-16), 73% of respondents agreed that IAD reports involve findings and recommendations related to operations and the control system in a company, with a sample mean score of 3.77. The report on the effectiveness of the internal control system and operations by the IAF are another stage in the process of examination and evaluation of control system and operations within a company. It seems clear from the survey result that IADs in Libyan oil and gas companies were in contact with top management in order to identify the actual weaknesses in control system and operations that are being addressed via the audit report. The second statement No.11, related to reports from the IAD containing findings and recommendations regarding risk management in the company. A high percentage (42%) of respondents did not agree, while 30% agreed and 28% were neutral, giving a sample mean score of 2.91. Statement No.12, which was concerned with reports from the IAD containing findings and recommendations related to corporate governance. The survey result indicated that 67% of respondents were satisfied with statement 12, as opposed to 19% who disagreed, and 14% were neutral, giving a sample mean score of 3.55.

Table 6-16: Distribution of the evaluations given by the different statements regarding the communications of IAF

No	Statements	Disagree		Agree		Neutral		Min	Max	Mean b	Std. Dev
		N	%	N %		N	%				
1-	The internal auditing department maintains satisfactory report relationships with auditees (people under auditing).	5	6	71	80	13	14	2.00	5.00	3.80	.637
2-	The internal auditing department conveys effectively, in written communication, audit objectives and recommendations to top management.	8	9	75	84	6	7	2.00	5.00	3.93	.780
3-	The internal auditing department conveys effectively, in oral communication, audit objectives and recommendations to top management.	16	18	62	70	11	12	2.00	5.00	3.64	.920
4-	The company internal auditing department recommends improvements to correct deficiencies or irregularities.	6	7	74	83	9	10	1.00	5.00	4.02	.878
5-	The company internal auditing reports are issued in a clear, concise and timely manner.	11	12	53	60	25	28	1.00	5.00	3.58	.926
6-	The internal auditing department reports administratively to senior managers.	16	18	65	73	8	9	2.00	5.00	3.77	.997
7-	The internal auditing department reports administratively to the broad of directors.	12	13	61	69	16	18	1.00	5.00	3.85	1.071
8-	The internal auditing department reports functionally to the audit committee.	53	60	17	19	19	21	1.00	5.00	2.60	.936
9-	The internal auditing department staff attending the meetings of the top management and board of directors.	24	26	59	67	6	7	1.00	5.00	3.51	1.207
10-	Reports from the internal auditing department contain findings and recommendations related to operations and control system of the company.	11	12	65	73	13	14	1.00	5.00	3.77	.913
11-	Reports from the internal auditing department contain findings and recommendations related to risk management of the company.	38	42	26	30	25	28	1.00	5.00	2.91	1.029
12-	Reports from the internal auditing department contain findings and recommendations related to corporate governance.	17	19	59	67	13	14	1.00	5.00	3.55	.965

In order to examine whether there were significant differences between the four groups of research participants, the analysis of variance (K-W) test was used to test the relationship between the position of the participants and their perception and evaluation toward the communication of IADs. The analysis of variance reveals that there was a difference in the overall sample mean ($p < 0.05$) (table 8.16, see row No.13). Thus, there was a significant difference in the perception and evaluation of the communication of the companies' IADs between the different levels of participant groups within the companies.

6.3.4 Section three: Top management's degree of reliance on the IAF (statements 1-16)

Section three of the questionnaire addressed one point. This was related to gathering the views of top management and internal auditors regarding the extent of reliance on the IAF to achieve the company's objectives. This part is composed of statements relevant to the fifth component. Descriptive analysis and discussion of the responses is presented for each statement and for each component separately.

Table 6-17 reports the results of means for management's degree of reliance on the work of the IAF; the overall mean score (over 3.40) revealed that the respondents were satisfied with the IAF in Libyan oil and gas companies.

First, regarding the degree of reliance in terms of independence and objectivity of IA, more specifically the degree of independence and authority of the IAF, 88% of participants were satisfied to statement No.7, (table 6-17), and the mean score for the same statement was 4.05. It can be inferred from this result that IADs in Libyan oil and gas companies had a degree of freedom, and were authorised to carry out their responsibilities and gain access to any part of their company.

In relation to the extent that company management gave the administrative support necessary for the audit function to perform its responsibilities, statement 8 of scale related to IAD staff receiving administrative support; mean scores of 4.00 are reported in table 6-17, where 80% of the respondents agreed with the statement.

Table 6-17: Distribution of the evaluations given by the different statements regarding the degree of reliance on IAF

No	Statements	Disagree		Agree		Neutral		Min	Max	Meanb	Set. Dev
		N	%	N	%	N	%				
1-	Company's management expects to receive a regular periodical reports from the Department of Internal Audit (e.g. quarterly)	17	19	58	66	14	15	2.00	5.00	3.61	.971
2-	Information contained in the reports by the internal audit department is used by the company management in its decision-making.	22	24	50	57	17	19	1.00	5.00	3.40	1.063
3-	The Management of the company does not limit the scope of the internal audit function only to the financial aspect.	7	8	71	80	11	12	2.00	5.00	3.87	.766
4-	The Management of the company does not limit the scope of the internal audit function only to assessing control systems.	6	7	69	78	14	15	2.00	5.00	3.83	.726
5-	The Management of the company does not limit the scope of the internal audit function only to assessing management operations.	5	6	72	81	12	13	2.00	5.00	3.87	.687
6-	The Management of the company does not limit the scope of the internal audit function only to assessing risk management.	5	6	63	71	21	23	2.00	5.00	3.77	.734
7-	Company management supplies the degree of independence and authority to the internal audit function.	6	7	79	88	4	5	1.00	5.00	4.05	.830
8-	Company management gives the administrative support necessary for the audit function to perform its responsibilities.	7	8	71	80	11	12	1.00	5.00	4.00	.929
9-	The degree of response to internal audit reports by senior management is satisfactory.	9	10	69	78	11	12	1.00	5.00	3.80	.837
10-	Company management gives the opportunity to internal audit department staff to attend meetings of Board of Director and senior management.	9	9	70	79	10	11	1.00	5.00	3.48	1.119
11-	To ensure the efficiency of the internal audit department, company management employs auditors with qualifications in accounting and/ or auditing.	22	24	52	60	15	6	2.00	5.00	3.78	.760
12-	The company's management follow-up results of the work of internal audit.	8	9	57	65	24	27	2.00	5.00	3.64	.772
13-	The company's management considers that the director of the internal audit department can control and supervise his staff.	15	6	59	68	15	16	1.00	5.00	3.58	.914
14-	The company's management considers that the performance of internal audit work is satisfactory, enabling the management to rely on it.	11	12	53	60	25	28	2.00	5.00	3.52	.784
15-	Company's management is based on the internal audit department to monitor the internal control systems.	11	12	65	74	13	14	1.00	5.00	3.69	.884
16-	Company's management considers that the existence of the internal audit department reduces the cost of external audit.	13	14	51	58	25	28	1.00	5.00	3.48	.930

In addition, company management did not restrict the scope of IAF in a certain area, and a high percentage (71% to 81%) of respondents agreed with statements 3, 4, 5 and 6 with mean scores of 3.87, 3.83, 3.87 and 3.77 respectively (table 6-17). This reflects top management's recognition of the role of IAF in contributing to achieving company objectives.

With regard to top management's degree of reliance on the role and scope of IAF, according to the scale results, 74% of respondents believed that company management relied on the IAF to monitor internal control systems in Libyan oil and gas companies, with a sample mean score of 3.69 (table 6-17) for statement No.15.

As was mentioned in the first point above, the scope of the IAF was not restricted by top management, but covered many areas and activities, such as the financial aspect, which was the main but not only activity for the IAF in Libyan companies, along with operating controls, internal control system and lastly risk management.

The third issue was top management's degree of reliance on the competence of IAF, which was addressed by three statements. According to the scale results, 57% of respondents believed that information contained in the IAD reports was used in decision-making by management in Libyan oil and gas companies, with a sample mean score of 3.40 for statement No.3. Moreover, to ensure the efficiency of the IAD, 60% of respondents agreed that company management employed auditors with qualifications in accounting and/or auditing, with a sample mean score 3.78 for statement 11. In terms of the of the IAD's ability to reduce the cost of external audit, asking whether they achieved cost reduction efficiency and effectiveness, 58% of respondents considered this acceptable, as opposed to 28% neutral, while 14% disagreed, giving a sample mean score of 3.48 for statement No.16 (table 6-17).

The fourth issue addressed by the scale was the degree of reliance placed by top management on the work performance of IAF. Responses to statement No.12 reflected that 65% of participants considered that the company's management followed-up results of the work of IAF in Libyan oil and gas companies. Furthermore, the mean score for the same statement (12) was 3.64, leading to the same result.

Statement 13 tested the degree of reliance placed by top management on the way the directors of IA supervised and controlled their staff, to which about 68% of respondents replied that management relied on the control and supervision mechanism applied by the IA directors to their departments, giving a sample mean score of 3.58. Moreover, this control and supervision mechanism was accompanied by the existence of IA programmes and IA working papers maintained by IADs. Regarding whether the performance of IA work was satisfactory and enabled the management to rely on it, 60% of participants accepted this, and considered the work performance of IAF to be one of the significant determinants of top management's decision to rely on the work of IAF, (sample mean score of 3.52 for statement No.14, table 6-17).

The final issue addressed by the scale was the degree of reliance placed by top management on IAF communication, which was addressed by three statements. According to the scale results, 66% of respondents expected to receive regular and periodic reports from the IAD, giving a sample mean score of 3.61 for statement No 1, (see table 6-17). Statement No.9 reflected that 78% of respondents considered that SM responded satisfactorily to IA reports, with a sample mean score of 3.80,, which means that satisfactory communication channels were opened between IAD as a sender of information, and SM as a receiver. The extent that internal auditors in Libyan oil and gas companies had the opportunity, provided by the company management, to attend meetings with the board of directors and senior managers was put to survey participants. A high percentage (79%) of respondents agreed that management of companies gives the head of IAD or a representative the opportunity to attend meetings with the board of directors and senior managers, (sample mean score of 3.48 for statement No.10, table 6-17).

6.3.5   Section Four of Questionnaire: Improving the practice of IAF

The objective of this part was to examine how surveyed participants perceived and rated the practices of IAF. Internal auditors have long sought greater prominence for their roles, but along with this increased focus and attention is the responsibility to deliver on heightened expectations. The participants were asked to indicate the extent to which they agreed that IAF delivered these practices. A summary of the auditors' and

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managers' perceptions about these practices is shown in Tables 6-18 and 6-19 respectively.

The level of agreement around these practices allowed them to be categorised, based on the mean and participants' percentages, into two sets: the first set consists of two proposed practices, numbered 1 and 2. The first practice, i.e. performing 'systems implementation review', obtained the "strong agreement" of all internal auditors in the sample (100%), while for the second practice, 'conducting preventive auditing', 86% of internal auditors "agreed" and also "strongly agreed" (see table 6-18..

Table 6-18: Internal auditors' rating of good practices to improve IAF

No	Statements	Disagree		Agree		Neutral		Meanb	Rank
		N	%	N	%	N	%		
1-	Systems implementation review	0	0	29	100	0	0	4.31	1
2-	Conduct preventive auditing	0	0	25	86	4	14	4.24	2
3-	Using computer assisted audit techniques	1	3	26	90	2	7	4.17	3
4-	Make audit activity more collaborative.	0	0	26	90	3	10	4.13	4
5-	Control self-assessment	1	3	25	86	3	10	4.13	4
6-	Continuous monitoring	0	0	25	86	4	14	4.10	5
7-	Risk management assessment	0	0	24	83	5	17	4.03	6
8-	Share knowledge and technology with business units	1	3	25	86	3	10	3.96	7
9-	Using it as training ground for future managers	1	3	21	72	7	25	3.86	8

'Systems implementation review' was perceived to be a very good practice and ranked first with a mean score of 4.31, while to 'conduct preventive auditing' was ranked second (mean = 4.24). Regarding the second set of practices, i.e. 3, 4, 5, 6, 7, 8 and 9, internal auditors "agreed" to their contribution to good practice, with mean scores of 4.17, 4.13, 4.13, 4.10, 4.03, 396 and 3.86 respectively, whereby 90%, 90%, 86%, 86%, 83%, 86% and 72% of internal auditors "agreed" and "strongly agreed" respectively.

As for top managers' perceptions, the outcome appears to be somewhat similar to that for internal auditors. Table 6-19 shows that managers "agreed" overall with practices numbering from 1 to 8, where between 93% to 71% "agreed" and "strongly agreed".

However, top managers were "neutral" regarding practice number 9 as sample mean score shows (3.38).

Table 6-19: Top managers' rating of proposed good practices to improve IAF

N o	Statements	Disagree		Agree		Neutral		Meanb	Rank
		N	%	N	%	N	%		
1-	Using computer assisted audit techniques	3	5	51	85	6	10	4.06	1
2-	Make audit activity more collaborative.	3	5	56	93	1	2	4.05	2
3-	Continuous monitoring	3	5	54	90	3	5	4.03	3
4-	Conduct preventive auditing	3	5	46	77	11	18	3.98	4
5-	Share knowledge and technology with business units	3	5	52	87	5	8	3.98	4
6-	Systems implementation review	5	8	50	84	5	8	3.95	5
7-	Risk management assessment	4	6	42	71	14	23	3.76	6
8-	Control self-assessment	10	17	43	72	7	11	3.70	7
9-	Using it as training ground for future managers	17	28	30	50	13	22	3.38	8

In a similar way to internal auditors' perceptions regarding practice (7) "Risk management assessment", and (9) "Using it as training ground for future managers", these statements received a low level of agreement (mean = 3.76, 3.38) from managers. Moreover, both auditors and managers perceived these two practices "as not good practices for IAF".

6.4 Summary

This chapter presented general information on the survey participants, and the descriptive analysis of scales (percentages and mean scores) related to the nature and practice of IAF, as well as the degree of senior management reliance on the work of IAF in Libyan oil and gas companies. Findings are based on the perceptions of the participants, who responded to the study's questionnaire. With regard to the general information on participants, most in the four groups had the necessary job positions, academic qualifications, and experience that make them familiar with the nature and practices of IAF in Libyan oil and gas companies; consequently, their perceptions are assumed to be relevant and effectively serving the research objectives.

This chapter commenced by discussing the results related to the independence and objectivity of IADs in Libyan oil and gas companies, by considering the views of internal auditors, board directors, CEOs and CFOs. Regarding independence, the overall evaluation given by participants indicated that they were satisfied. Furthermore, this chapter discussed the results of evaluations given by internal auditors, board directors, CEOs, and CFOs in relation to role and scope of work of the IAF in Libyan oil and gas companies; however, it seems that participants were satisfied with the variables encompassing the role and scope of the work scale. In addition, the results showed the perceptions and evaluations given in relation to IAD competence; it seems that participants were not sufficiently satisfied with variables of the competence scale. Moreover, the results of evaluations regarding the work performance of IAF were discussed. According to the mean scores of work performance, scale results suggested that the participant groups believed that this function was conducted reasonably. Furthermore, the results of evaluations addressed regarding IAF communication were discussed. According to the mean score of each communication scale results, it seems that participants were satisfied with the variables explained by the communication scale of IAF.

With regard to section three of the questionnaire, the degree of reliance placed by top management on the work of IAF was discussed. The participants were satisfied to place a reasonable degree of reliance on the work of IAF.

Finally, the responses of the two groups, i.e. internal auditors and managers, regarding the good practices of the IAF imply that the function can serve a wide range of objectives that aim to promote good practices in the IAF for Libyan oil and gas companies, allowing them to improve their administration and monitoring.

CHAPTER 7:   STATISTICAL ANALYSIS OF THE DATA AND DISCUSSION OF THE FINDINGS

7.1 Introduction

In order to investigate the topic of this research, a methodology was designed to answer the research questions and achieve the study's objectives, on the basis of earlier research, as well as theoretical analysis regarding the perceived and evaluated nature and practice of IAF with regard to its relationship with top management (see chapter two). The five factors of the original model of the nature and practice of the IAF, as designed by the author, comprised of: independence, scope of work, competence, work performance and communication. The data analysis in this chapter will refer to those five factors, which are considered as a framework of the IAF and a guide to the degree of reliance on the IAF. To get measurement values for the data related to these factors, a specific statistical test was used.

The statistical test was the Kruskal-Wallis (K-W) One-way Analysis of Variance, which was used to test and analyse the variance in the responses to statements for each component. The Mann-Whitney test was also applied to explore whether the differences in the responses of the two participating groups in rating good practice of the IAF in the Libyan oil and gas sector were statistically significant or not.

In order to apply this arrangement, the K-W test was used first. It is an alternative test to a one-way between-groups analysis of variance, and is applicable when examining multiple group variances (i.e. three or more groups) in relation to continuous measures. This test applies a similar analysis approach to the Mann-Whitney U test. This type of non-parametric test is suitable for this research, because the sample is based on a convenience sampling technique (census sample), though the respondents met the criteria for the target population. In addition, a normality test was done for the study data; it detected that the data did not meet fundamental assumptions concerning parametric tests, i.e. data normality. Therefore, non-parametric tests were considered preferable. Compared with parametric techniques, non-parametric tests require less strict assumptions on whether the sample data is randomly selected and normally distributed (Pallant, 2005). The set of data in this research met these less strict more basic assumptions. The questionnaire was distributed at 'certain points' within each

company, giving a convenience sampling approach. This data contains some elements of selection, in that respondents were stratified within a small overall population.

In addition, ordinal data is suited to performing non-parametric tests (Field, 2005). This research provided ordinal data and non-parametric tests was adopted. Thus, care has to been taken when interpreting results, because non-parametric tests have some disadvantages compared with parametric tests. Non-parametric techniques are less powerful or less sensitive in terms of statistical significance (Pallant, 2005) when the assumptions of the (competitor or equivalent) parametric test are met. Because of the non-normal nature of the populations to which they may be applied, non-parametric tests do not fully serve the requirements for generalization of classical parametric tests in relation to assertions of generalizability.

7.2   Inferential statistics arising from the data and discussion of the findings

The main aim of this study is to examine the perceptions that the Libyan managerial class had regarding the nature and practice of IAF in Libyan oil and gas companies, as well as the degree of reliance placed by top management on the work of the IAF. Comparison between perceptions and evaluations of participants was conducted, to see whether the perceptions and evaluations were different or not. The following sections will show the inferential statistics of the data and discussion findings, for each component of the conceptual framework of the study as explained in chapter 5; it is also supported by Tables and Figures to clarify that the findings.

7.2.1   Inferential statistics from the data and discussion of findings for the independence of IAD

The independence of IAD was discussed in the context of three dimensions. Therefore, discussion findings for the independence will be based on these dimensions: firstly, the organizational status of the IADs; secondly, the process of appointing and removing the IAD directors; and finally, the reporting level of the IAD.

Organizational status is considered one of the factors affecting the independence and objectivity of IA. However, the professional literature, (the Statement of Responsibilities, 2000; the Standards of Internal Auditing "Standard 1110", 2004; and

Statement of Auditing Standards SAS, 1997, p. 65) stresses that the importance of organizational status of the IAD should be sufficient to accomplish the cardinal responsibilities of audit. The survey results table (7-1) indicates that most respondents accept the organizational status of the IADs as adequate for the fulfilment of their job. These levels of organizational status for the IADs are reflected in many other points, such as IADs having access to all information needed, and having access to all employees and departments to conduct an audit, in addition to support being provided by top management to IAD to be objective.

In addition, the board of directors had the power to appoint and discharge the IADs' directors; this would support the independence of the IADs. The result was in line with academic and professional literature, for example, AI-Twaijry, Brierley and Gwilliam (2003) and Standard 1110 (2004). On the other hand, there is some contrast with other studies, especially in terms of the absence of audit committees in Libyan oil and gas companies, where studies conducted in more developed economies, for example Joseph and Raghunandan (1994) and Raghunandan, Rama and Scarbrough (1998) indicated that involvement of audit committees in appointing and removing IAD directors strengthens their independence.

As a result, in the absence of an audit committee in the structural management of Libyan oil and gas companies, IADs submit their reports directly to the board of directors, which tends to enhance the independence of internal auditors. Moreover, the professional literature, for example SAS 65 (1997), highlighted the importance of the organizational independence of IA staff, as an essential factor for their independence and objectivity. In addition, previous studies (e.g. Clark et al., 1981; Abdel-Khalil et al., 1983; Burnaby et al., 1994) found that the level to which the IAD reports is a significant determinant of its independence and objectivity. Ideally, IADs should report directly to the highest level within the organization; in other words, the board of directors and the audit committee if applicable.

Test were conducted to measure whether there were significant differences or not between the responses of the four groups of respondents examined, who consisted mainly of members of board of directors, senior managers (CEOs and CFOs), and heads of IADs. The analysis of variance, Kruskall-Wallis test, was used to test the relationship

between managerial locations of the respondents, and their perception and evaluation of IAF independence.

Table 7-1: Inferential statistic of the perceptions and evaluations given to the different statements regarding the independence of IAF

No	Statements	Mean a				Sig
		B of D	CEO	CFO	IArs	
1-	The organizational status of internal audit department is adequate for the fulfilment of its job	4.16	3.81	3.46	4.17	.93
2-	Internal auditing members of staff carry out their work freely.	4.16	3.90	3.76	4.34	.025*
3-	Internal auditing members of staff carry out their work objectively.	3.91	3.63	3.61	4.24	.003*
4-	Internal auditing members of staff have access to all the information, which they consider to be pertinent in the conduct of their audit.	4.25	4.31	4.00	4.34	.699
5-	Internal auditing members of staff have access to all the employees which they consider to be pertinent in the conduct of their audit.	4.16	4.27	4.15	4.37	.537
6-	The board directors enhance the objectivity of internal auditors.	4.50	4.22	3.73	4.10	.067
7-	The internal audit function report at a very senior level in this company (CEO, CFO).	3.75	3.40	3.38	3.68	.683
8-	The internal auditing members of staff are required to review all departments in the company.	4.16	4.04	3.80	4.34	.175
9-	The boards of directors (audit committee if applicable) approve the appointment of the head of the internal audit department.	4.50	4.13	4.42	4.44	.182
10-	The boards of directors (audit committee if applicable) approve the removal of the head of the internal audit department.	4.50	4.00	4.34	4.37	.384
11-	Conflict of interest is present in the work of internal auditors.	3.50	3.18	3.11	2.96	.480
12-	The senior management decides what subjects will or will not appear in the work plan of the internal audit function.	2.91	2.40	2.76	2.58	.379
13-	The internal audit department is under the authority of senior management.	2.58	2.63	3.11	2.96	.592
14-	The internal audit activity sometimes faces interference by management in determining its scope, and communicating results.	2.41	2.95	3.30	2.65	.052
15-	The internal audit department directly reports to the board of directors (audit committee if applicable).	4.33	3.59	4.19	4.13	.282

*Significant K.W at 0.05 level, Min= Minimum, Max= Maximum, and Std. Dev= Standard Deviation.

The analysis of variance found no difference in most of the means scores, (p>0.05) (see table 7-1). Thus, there was no significant difference in the perceptions and evaluations in most of the statements that were related to the independence of the companies' IADs between the different levels of respondent groups, with the exception of statements 2 and 3, where (p<0.05) (see table 7.1).

These differences in statements 2 and 3 could be interpreted as showing that what was perceived and evaluated by internal auditors represented a factual image in terms of carrying out their work freely and objectively, whereas what was perceived and evaluated by the board of directors and senior managers represented a normative image. This might be associated with a restricted understanding of the role and scope, and responsibility of the IAF. In other words, there is gap in understanding the meaning that internal auditors should be objective and free in performing audits, as clarified by the IIA (1995). The means of statements 2 and 3 (as seen in table 7-1) illustrate that the internal auditors group had a higher mean than other groups. This indicates that the perceptions and evaluations by the group of internal auditors were at a higher level than the other groups. This could be due to two reasons: first, the absence of official and organizational bodies to sponsor and promote the concept and position of the practice of the IA profession; second, the lack of IA practitioners, or those with professional certification. This view was supported by Mousa (2005), and the survey result of the current research (see table 6-7).

In order to investigate the reason behind the existing difference in views and attitudes of respondents, telephone interviews were conducted with some survey participants. The interview results revealed that the reason behind the difference was the diminution of independence of IADs. This may have been happening because the IA activity sometimes faced interference by management in determining its scope and communicating results of work, as shown in statements 13 and 14 (table 6-12) in chapter 6. In addition, there was a severe lack of understanding of the nature and how to perform IAF by administrations. Some of the interviewees reported that the subordination of IAD to company management posed a real threat to the independence of IADs. In cases, there were practices by the company management that affected the objectivity and freedom of IAD staff members in performing their audits. Furthermore, interviewees considered that the IAF should be performed by bodies or individuals not subordinate to the management of the company being audited; feeling that this would enhance the independence of IADs.

As can be seen in figure 7-1, the mean scores for statements from 1 to 10 as well 15 were over 3.5; it is notewortht that the mean score for CFOs came at the lowest level. On the other hand, the mean scores for statement 4 and 5 were very close. This result indicated that two groups, internal auditors and directors' board members, had the highest perception and evaluation, and CFOs the lowest perception and evaluation, while the CEOs stood between them in respect to independence and objectivity of the IADs in Libyan oil and gas companies. However, the mean scores for statements from 11 to 14 were less than 3.5, which shows that the mean score for CFOs were at the highest level, as seen in figure 7-1. This might indicate that CFOs believed IADs should stay under their influence, because these perceptions and evaluations come from the side that is more in a conflict of interest with the role and scope of IAF. However, the result showed that the internal auditors group perceived that IADs had more independence and objectivity than the other groups in their evaluation of independence and objectivity. This result is consistent with Haimon (1998), who found that the respondents from IA units gave a higher evaluation of independence than any other respondent groups.

Figure 7-1: Mean scores of independence scales
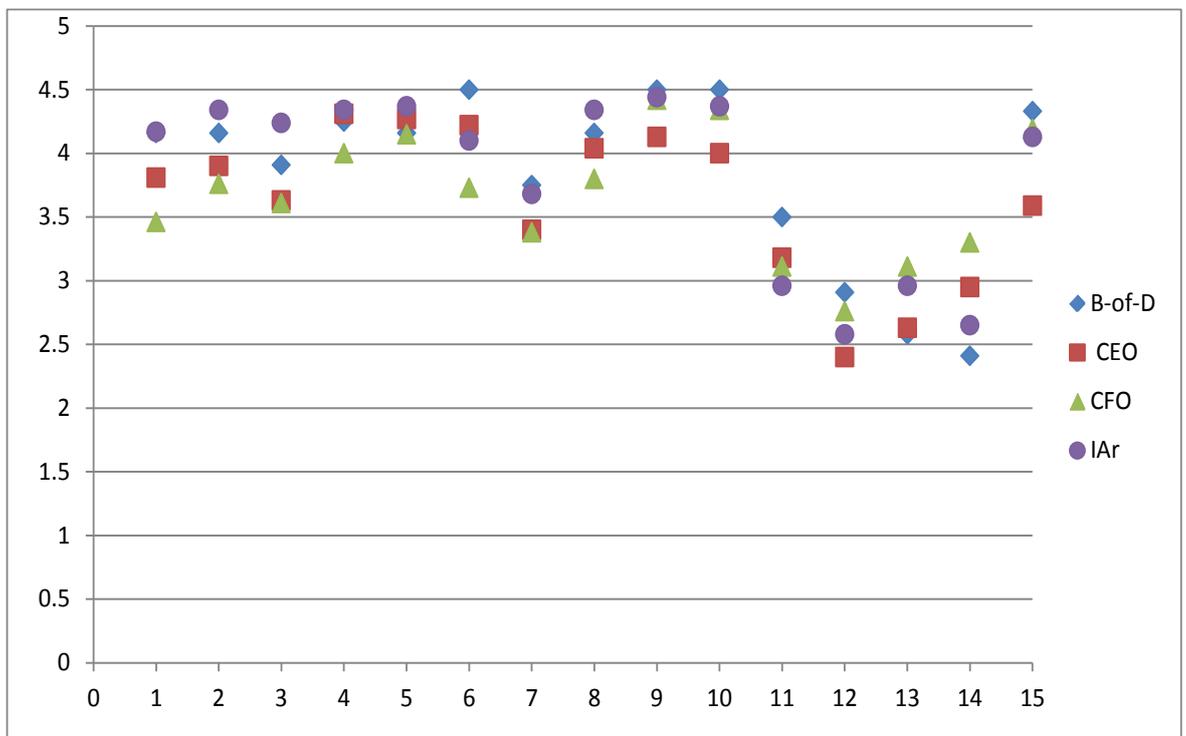
7.2.2 Inferential statistics from the data and discussion of findings for the role and scope of IAF

The role and scope was addressed by many dimensions. These dimensions focused to examining: first, the adequacy of internal control; second, the reliability and integrity of information; tired, compliance with policies, plans, procedures, laws and regulations; fourth, the safeguarding of assets; fifth; providing consultation to the top management in regard to the internal control, operation management and risk management; and finally; economical and efficient use of resources. All of these dimensions were inside of the role and scope of IAF. Therefore, findings and discussion of the role and scope will be based on them.

The survey result revealed that most respondents accepted that the scope of IADs' work included evaluating the adequacy of the internal control system, and examining the reliability of accounting information. In addition, it should check whether the systems operating in the companies comply with policies, plans, procedures, laws and regulations. The results to some extent reflect the traditional role and scope of IADs, which is compatible with professional and academic literature (see for instance, IIA, 1997-300 & 300.08.1; Mathews, Cooper, and Leung, 1995; Galloway, 1995; Goodwin & Seow, 2002). In contrast, respondents disagreed that IADs review the systems used for safeguarding the company assets.

With regard to the role of the IADs to provide consultations to top management, in terms of the adequacy of internal control systems, company's operations and risk management, the results for these points were dissimilar from one another. In addition, the results also revealed that a majority of the respondents agreed that it was within the role of IADs to appraise the economy, efficiency, and effectiveness with which resources were employed. This role for the IAD in the organization or company improves performance, making it more effective and efficient. Auditing internal activities was part of the company's culture, structure, record systems, policies and procedures; this enabled IADs not only to provide a quick response to contentious issues, but also to regularly appraise services and operations to ensure economy, efficiency, and effectiveness in utilising company resources.

Regarding whether there were significant differences or not between the responses of the respondents groups related to the role and scope of IAF, the results of variance of Kruskall-

Wallis test reveal that there were no differences in most mean scores of statements, as seen in table 7-2 (p > 0, 05). However, the means scores for statements 1, 6 and 7 showed that there were significant differences between the respondents (p < 0, 05).

In order to investigate the reason behind these differences, related to the statements mentioned above, the results of telephone interviews revealed that the reason behind the differences was primarily due to a reduction in the independence of the IAF, and severe lack of understanding of the role and scope of the IA department by administrators. Furthermore, some interviewees reported that the IADs did not have written policies and procedures manuals that explained and clarified the role and responsibility of IAF within a company, which was in addition to the lack of systematic experience in the audit field. Perhaps all of these gaps are reflected in the existence of these differences. With reference to Tables 6-4 and 6-5 in chapter 6, it seems clear that most participants were more experienced in the management area than the auditing area. This in turn supports what was referred to by those interviewed.

Regarding the distribution of the mean scores for all statements for each group, (as can be seen in figure 7-2, the results show that the mean scores of most statements were between 3.5 and 4.5, for all groups. In fact, the results indicated that the internal auditors group had the highest perception and evaluation, while CFOs had the lowest perception and evaluation. On the other hand, the board of directors and CEOs groups were much lower than internal auditors and slightly greater than CFOs in their perception and evaluation of the role and scope of IADs in Libyan oil and gas companies. This result was consistent with Haimon (1998), who found that the respondents from IA units had a higher evaluation of the role and scope than other respondent groups, and that significant differences existed among the groups. In addition, Zanzig (1998) found that in comparison to the operations of management group, the internal auditors group expressed significantly greater agreement with the concept that "all systems, processes, operations, functions, and activities within the organization should be subject to internal auditors' evaluations". Rupsys and Staciokas, (2005) clarified that different customers of IA services may have different initial concerns, and that potentially conflicts may arise in serving these customers. Thus, this explains the relative difference (high\low) in the perceptions and evaluations of participating groups.

Table 7-2: Inferential statistics of the perceptions and evaluations given to the different statements regarding the role & scope of IAF

No	Statements	Meana				Sig
		B of D	CEO	CFO	IArs	
1-	The scope of internal auditing includes evaluating the adequacy of the company's system of internal control.	4.00	3.36	3.76	4.20	.010*
2-	The internal auditing department examines the reliability and integrity of information, such as accounting information.	4.16	4.36	3.84	4.34	.078
3-	The internal auditing department checks whether the systems operating in the company ensure compliance with policies, plans, procedures, laws and regulations.	3.83	4.18	3.76	4.10	.185
4-	The internal auditing department reviews the systems used for safeguarding the company assets.	4.08	3.95	3.61	4.20	.131
5-	The internal auditing department provides consultation to top management in regard to adequate internal control systems.	4.00	3.81	3.53	4.10	.062
6-	The internal auditing department provides consultation to top management in regard to the company's operations.	3.83	3.13	3.23	3.79	.024*
7-	The internal auditing department provides consultation to top management in regard to risk management.	2.66	2.95	2.92	3.68	.011*
8-	The internal auditing department applies the same rules for all levels of the company.	3.33	3.54	3.53	3.96	.105
9-	The company's internal auditing department does not encompass the top management's own operations.	2.08	2.72	2.42	2.72	.099
10-	The internal auditing department appraises the economy and efficiency and effectiveness with which resources are employed.	3.66	3.31	3.00	3.72	.121
11-	The internal auditing department is responsible for following-up and assuring that corrective actions are taken.	3.75	4.31	3.73	4.10	.284

Figure 7-2: Mean scores of role and scope scales
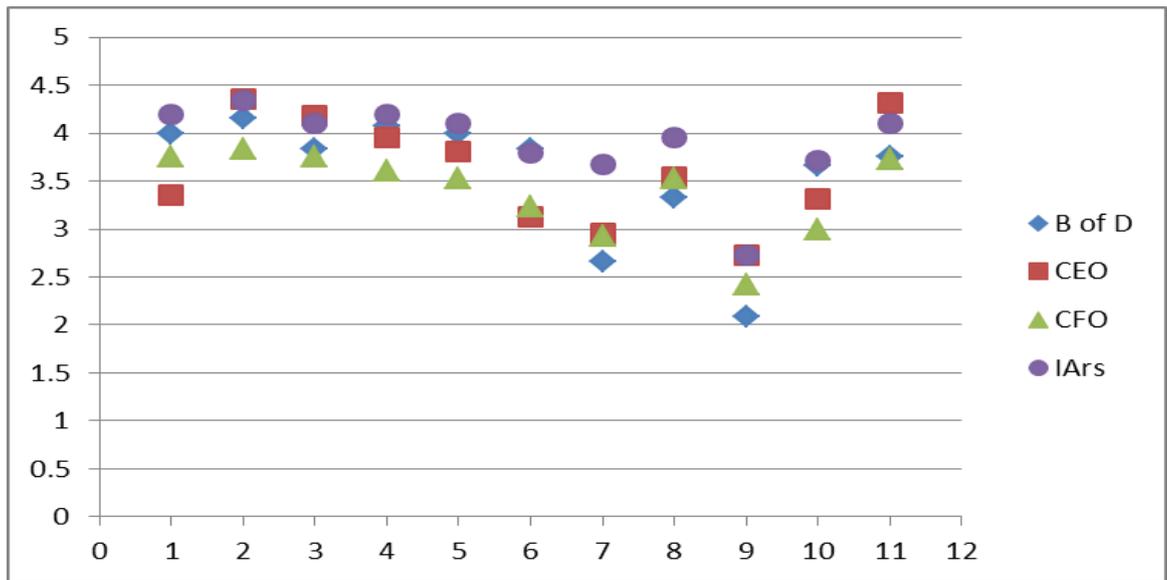
It seems that internal auditors within their company defined their own scope of work. Within this framework, they felt they could operate effectively, despite the limitations, which might differ from one company to another. In other words, this does not mean there was no interference by senior managers. In fact, senior managers were able to neutralise the company's internal auditors if they wished, by not providing the tools needed to perform their job. Therefore, it is reasonable that senior managers should be able to monitor the IAF.

7.2.3 Inferential statistics from the data and discussion of findings for the competence of IAF

The issue of competence was addressed through the educational background, experience, training, and qualifications of IA staff. All these variables have been found by prior research to be important for evaluating IA competence; for example, Messier and Schneider (1988), Tiessen and Colson (1990), Maletta (1993), Haimon (1998), Krishnamoorthy (2002) and Obeid (2007). The professional literature suggested that the competence of the IAD was dependent on the company and the IAD's operations, processes and procedures, and the quality and quantity of supervision available in the IAD (SAS 65, 1997, p. 322).

In addition, the professional auditing literature stressed the importance of competence; for example, the Professional Internal Auditing Standards (2004) (Proficiency Standards) discussed issues such as staffing, knowledge and skills of IA staff. In the USA, SAS 65 (1997) highlighted the importance of competence for IA staff, in light of their educational background and qualifications. The academic literature suggested that competence of internal auditors should be one of the top priorities of an organization (Engle, 1999). Furthermore, other researchers have investigated the benefits of Certified Internal Auditors for their organizations' competence in terms of education and training; for example, see Agrawal and Siegel (1989) and Myers and Gramling (1997).

Regarding the knowledge and skills needed to carry out their responsibilities, the survey result revealed that most respondents indicated that the knowledge and skills of members of staff of IAD to some extent were sufficient to accomplish their work and responsibilities. However, the result indicated that most members of staff working in IADs in Libyan oil and gas companies were not qualified as internal auditors, referring to statement 5. In the other word, they did not have specific professional qualification, such as ACCA, ACA or membership in the IIA. Most notably, in Libya, there was no specific body that provided certification programmes in IA (for more details see chapter 3). However, a few certified internal auditors obtained their degrees from the UK and USA at an early stage of their careers, and their experience was the basis of the practice of the IA profession in Libya. In addition, Libya has adopted its financial system from foreign companies and workers who work there.

The results showed that 60% (see table 6-6) of internal auditors working in Libyan oil and gas companies had undergraduate university degrees. This percentage was considered to be high in a developing country like Libya; however, working as internal auditors, especially in complex business environments, requires internal auditors to be more qualified and specialised. This may be the primary motive behind the creation of centers or specialised bodies, such as an IIA branch, for the training of IA staff. In fact, this was also one of the motivations behind the current study.

Table 7-3: Inferential statistics of the perceptions and evaluations given to the different statements regarding the competence of IAF

No	Statements	Meana				Sig
		B of D	CEO	CFO	IArs	
1-	The internal auditing members of staff possess the knowledge needed to carry out their responsibilities.	4.08	3.72	3.80	4.17	.325
2-	The internal auditing members of staff possess the skills needed to carry out their responsibilities.	4.08	3.27	3.53	4.13	.005*
3-	The company management encourages the internal audit staff to develop.	3.75	3.95	3.30	3.89	.076
4-	Some of the internal auditing members of staff in the company have obtained a professional certification in auditing.	2.66	2.59	2.76	3.13	.355
5-	Some internal auditing members of staff in this company are certified internal auditing	2.75	2.72	2.53	3.00	.463
6-	The company management only appoints persons with accounting or auditing qualifications as internal auditors	4.16	4.09	3.92	4.31	.658
7-	Internal audit department members of staff are given regular in-house training in auditing.	4.25	3.45	3.15	3.82	.010*
8-	Not all internal auditing members of staff in the company have experience in the audit profession.	3.91	3.95	3.84	3.55	.157
9-	All internal auditing members of staff in the company have prior experience in internal auditing.	3.08	4.00	3.80	3.65	.019*
10-	The internal auditors maintain satisfactory relationships with other employees in the company.	3.75	4.00	3.61	3.86	.204
11-	The board of directors is controlling the competence of internal audit departments.	3.00	3.27	3.00	3.00	.814
12-	The internal audit members of staff have the necessary professional competence.	3.66	3.72	3.61	4.03	.202
13-	The company management only appoints experienced internal auditors.	3.00	2.59	2.61	3.00	.271
14-	Allocating employees from other departments to work as internal auditors will negatively affect the professional competence of the department.	2.33	3.00	2.46	2.55	.329

Following educational background, the experience of IAD staff was tested as a second dimension of IAF competence. Within this point, experience is defined as encompassing two types: first, experience in auditing generally; second, experience in the IA. Very little research has previously addressed the issue of internal auditors' experience; however, for example Abdolmohammadi and Wright (1987) studied the effects of experience on the decision-making process by examining experienced/inexperienced staff. Results showed only limited significance for the effect of experience. In terms of experience in auditing generally, the survey result indicated that the level of experience of internal auditors in the audit profession in Libyan oil and gas companies was not satisfactory, compared with the level of services provided and the role played. On the other hand, the survey result revealed the most of members of staff in IAD have prior experience in IA. It should also be noted that their experience grew and escalated by working for long periods in the departments within the companies, such as the department of Finance and Administration, and accounting department. This was also supported by statement No.12 (mean score 3.78), which shows that the IA staff had the necessary professional competence. Here, professional competence was not only restricted to knowledge and skills, but included functional behaviour with others within a company.

Regarding the training necessary to keep competence high, the Basel Committee on Banking Supervision (2000) emphasised the need for continuing training for IA staff. Johnson (1991) and Pickett (2000) highlighted the importance of training for internal auditors and stressed in-house training, as it is the lowest in cost. The results of this study reflected that respondents agreed with the interest of company management to encourage IAD staff to develop. However, the result was neutral in that the board of directors controlled the competence of the IADs. This may raise some concern that less attention was been given to the competence of IAD by the board of directors. In addition, the result indicated that companies' internal auditors were subject to in-house training, but this training did not focus on specific IA training courses, but focused on courses such as IT training, computing and accounting. Thus, this does not mean that the administration was not aware of the need for specialised training, but that the absence of IA training may have been because there was no specific body for IA that provided training for Libyan internal auditors, as the process of training internal auditors requires well-established specialised institutions to carry out this type of training. The study seeks to bridge the current gap caused by the absence of a professional role played by institutions and universities in

Libya. This result was in line with Obeid (2007), who found that training programmes for IA staff in Sudanese banking did not consider specific training needs. In contrast, the companies' management considered qualification in accounting or auditing was required for those who were appointed as internal auditors.

The final point in terms to the competence of the IADs was the qualification of the IA members of staff. The outcome of the survey indicated that most of staff in the companies did not have a professional certification in auditing (mean score 2.83). Moreover, they were not certified as internal auditors, such as certified from IIA. However, the high perception of the IADs results revealed that IADs maintain satisfactory relationships with other employees in the company.

Regarding whether there were significant differences or not between the responses of the respondent groups related to the competence of IAF, the results of variance of K-W test revealed that there were no differences in most of the mean scores of statements, as seen in table 7-3 (p > 0, 05). However, the means scores for statements 2, 7 and 9 showed that there were significant differences between the respondents (p < 0, 05).

The result of the K-W test (see table 7-3) indicated the existence of significant differences, as has just been mentioned. These differences were associated with different points. These points related to the possession of skills, training and prior experience in the IAF for staff of IAD. In terms to the possession skills for the staff of IAD, the difference was significant, because there was a consideration that the work in the IAD is an exile of the undesirable staff. Moreover, the financial management of some companies transferring employees did not want them within the financial department staff due to the lack of professional and technical experience in their potential. With respect to the differences related to training, some respondents believed that SM dis not realize the need for departmental internal audit to attend specific training programmes. In addition to that, some internal auditors believed they were less likely than others at the same level of financial departments to attend training programmes. In contrast, the management of some companies considerd that the implementation of certain programmes required specialised centers and the Institute. This in turn was a good reason for improvements in training facilities, as on the one hand Libya does not have this kind of organization. On the other hand, it is even more necessary to implement internal training programmes. These reasons   were also behind the existing

difference in prior experience in the IAF for staff of IAD. In addition, some companies' management decided to neutralise their IADs from participating or planning the initial or annual audit process, claiming the exclusiveness to financial management under the pretext of confidentiality of information.

The academic literature discussed IA competence from different angles. For example, the Basel Committee Survey (2002) considered training of internal auditors as an essential factor for IA competence, in addition to the rotation of internal auditors within the department. Furthermore, some researchers have investigated the benefits of IA certification programmes (Myers and Gramling 1997; Agrawal and Siegel 1989). Moreover, Steam and Impey (1990) discussed competence from the point view of qualifications of IA staff. Additionally, Johnson (1991) identified the types of training that internal auditors can benefit from, and Pickett (2000) suggested training strategies for internal auditors. Harrington (2004) stressed that internal auditors, in order to address the change of mass and complexity of the operations of the public and private sector, need a broader set of skills and experience. Belay (2007) emphasised an attention to the academic level, experience, skill and the effort of staff in continued professional development. The current study primarily considered that possessing skills, giving regular training to internal auditors, and having prior experience in IA were essential factors for IAD competence.

Figure 7-3: Mean scores of competence scales
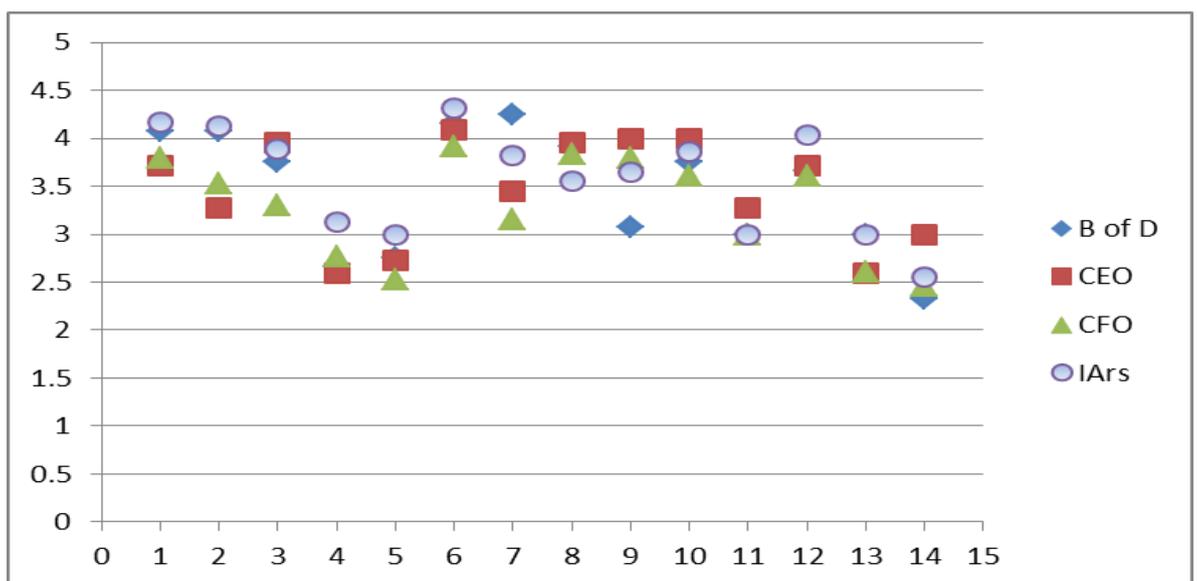
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Regarding the distribution of the mean scores of all statements for each group (as can be seen in figure 7-3), the results show that the mean scores of most of the statements was between 2.5 and 4.30 for all groups. In fact, the results indicated that the internal auditors and CEOs groups had the closest and the highest perception and evaluation, while the board of directors and CFOs groups were lower than internal auditors and CEOs groups in their perception and evaluation of the competence of IADs in Libyan oil and gas companies. This disparity between the groups reflected on the existence of differences in perceptions and evaluations of the participants, which was associated with the possession skills, training and prior experience in the IAF for staff of IAD. This result was consistent with Haimon (1998), who found no significant difference between councillors and other auditees groups, including internal auditors, regarding the competence of municipality IA units in Israel; although councillors provided the lowest means in their evaluations. In addition, this result is consistent with Obeid (2007), who found that there was significant difference between internal auditors and external auditors in perceptions of overall evaluation of competence of IAD in the Sudanese bank sector. In Obeid's study, the competence scale overall mean score reflected that respondents were not highly satisfied with the competence of IADs in Sudanese banks.

7.2.4 Inferential statistics from the data and discussion of findings for the work performance of IAF

Inferential statistics of the data and discussion findings for the work performance of IAF The work performance of IAF in Libyan oil and gas companies was examined by presenting some points highlighting the work performance. The first point addressed IA programmes and their quality. The second point addressed the ability of internal auditors to cover the companies' branches and departments. The final point addressed performing reviews and evaluating operations, and the adequacy of risk management and operational controls. All these issues had been found by prior research to be important for evaluating IAF work performance; for example, see Margheim (1986), Tiessen and Colson (1990), Maletta (1993), Haimon (1998), Krishnamoorthy (2002), Al-Twaijry et al. (2004), and Obeid (2007).

Table 7-4: Inferential statistics of the perceptions and evaluations given to the different statements regarding the work performance of IAF

No	Statements	Meana				Sig
		B of D	CEO	CFO	IArs	
1-	The director of internal audit department is supervising his/her staff through a system of defined responsibilities.	4.08	3.86	3.92	3.82	.684
2-	The number of internal auditors in the company is not sufficient when it is compared with the number of departments or branches they audit.	3.50	4.04	3.30	3.13	.009*
3-	There are audit schedules to audits the company's departments or branches.	3.00	3.04	3.00	3.58	.087
4-	The internal audit department develops appropriate audit plans for established audit objectives.	3.00	3.13	3.38	3.89	.006*
5-	The company internal auditors examine the reliability and integrity of information.	3.91	3.86	3.46	4.17	.015*
6-	The internal auditors review the adequacy of risk management on a regular basis.	2.75	3.50	3.26	3.89	.006*
7-	The speed of corrective action on the findings of the company internal auditing is satisfactory.	3.58	3.45	3.34	3.62	.900
8-	The internal auditors review operations to ascertain whether results are consistent with established objectives.	3.41	3.54	3.34	4.00	.047*
9-	There are follow-up to corrective actions on the findings of the internal auditors.	3.91	3.72	3.42	3.93	.217
10-	The director of the internal audit department regularly checks the quality of working papers.	3.83	3.63	3.26	3.75	.280
11-	There is a regular evaluation of risk management procedures	2.83	2.81	2.84	3.37	.125
12-	The internal auditing staff understands the nature of operational controls.	4.08	3.90	3.57	4.00	.023*

In terms of the IA programmes being performed by internal auditors and their quality, the result indicated that many IADs maintained audit schedules to audit company departments and other branches. These schedules were designed to examine the reliability and integrity of information and follow-up of corrective actions on the findings of IADs, in ways that would further the objectives and purposes of the IAF. In addition, the result of perceptions that the director of the department usually checked the working papers on a regular basis to ensure quality was satisfactory. It seems that the IA programmes and their quality in Libyan oil and gas companies to some extent were acceptable and reflected the work performance of IADs.

In terms to the ability of internal auditors to cover the companies' branches and departments, results revealed that the number of internal auditors was not sufficient when compared to the number of departments and branches. This in turn illustrates the relative weakness in the ability of the internal auditors to cover all branches and departments of companies, in line with the result of Brierley et al. (2001), who found that IADs of public sector organizations suffered from poor audit coverage due to shortage of IA staff. This was also in line with Obeid (2007), who also found IADs in the Sudanese banking sector suffering from the small number of internal auditors working within the banks. This is due to the very expensive cost of wide-ranging audit, in terms of transportation and expenses for allowances for work conducted outside the main departments, and led to delays in auditing branches, which in turn led to fraud and embezzlement. In the researcher's opinion, large branches should be audited more than once in a year, and a snap check should be conducted regularly for other branches. In addition, in terms of the responsibility of IA directors for supervising their staff through a well-defined system, the result indicated that oil and gas companies in Libya maintained a well-defined system of responsibilities within the IADs. According to this result, it seems that the IADs in the companies were well supervised and the IAD directors have the power and ability to supervise and control their staff. This result is consistent with previous literature, for example, the Basel Committee (2002), Ratliff et al. (1988).

With regard to the responsibility of internal auditors to perform reviews, and evaluate operations, and the adequacy of risk management and operational controls, the result revealed that the respondents considered the responsibility of internal auditors in reviewing and evaluating operations, adequacy of risk management and operational controls in

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Libyan oil and gas companies was reasonable in terms of with objectivity, role and scope, and competence. However, from the researcher's point of view, due to a lack of training and the lack of knowledge of internal auditors of new trends of IA, including risk management procedures, most of the employees in the IADs were not aware of the responsibility of internal auditors regarding risk management.

In order to examine whether there were significant differences between the four groups of research participants, an analysis of variance was conducted. It revealsed that there were significant differences in most cases of the work performance scales, as seen in table 7-4 ($p < 0, 05$). These differences were associated with different points. These points related to the number of internal auditors in the company not being sufficient, the company's internal auditors examining the reliability and integrity of information, the internal auditors' review of the adequacy of risk management on a regular basis, the internal auditors' review of operations to ascertain whether results were consistent with established objectives, and the internal auditing staff understanding the nature of operational controls. Telephone interviews were conducted with some survey participants to investigate the reason behind the existence of these differences. The interview results revealed that the reasons that may explain the existence of these differences, related to the degree of perceiving and evaluating the IAD work performance by participants. One of the interviewees from top management emphasised that SM have a right to be involved mainly in scheduling the audit plan and approving it. However, one of the heads of IADs believed that scheduling the audit plan had to be within the responsibility of IAD. He pointed out that the existence of such interventions would affect the independence of internal auditors, on one hand, and would also affect the work performance of internal auditors on the other. Furthermore, the number of internal auditors who worked in the IADs also seemed to be the cause of such differences; for top managers, the number of internal auditors was quite enough to perform their tasks and meet their responsibilities. However, the heads of IADs did not agree with that, and considered that the number of internal auditors working in IAD, compared with their workload and responsibilities, was not sufficient. Therefore, this created significant differences between respondents. Moreover, another head of IAD added that the attitudes and practices of top management, the absence of regulations that organised the control role of their departments, the problems caused by the existing administrative titles, in addition, the lack of experience and efficiency among employees of the control field were barriers to effective IAD. This result was not in line with other research, for example, Haimon (1998)

who evaluated the effectiveness of IA in terms of different factors, including work performance, measuring differences in perceptions between the internal auditors and other groups. However, they did not find significant differences. Otherwise, this result was consistent with Obeid (2007), who evaluated the strength of IADs in Sudanese banks, in terms of different factors, including work performance. He conducted analysis into the attitudes of internal auditors and external auditors, and also found significant differences.

Figure 7-4: Mean scores of work performance scales
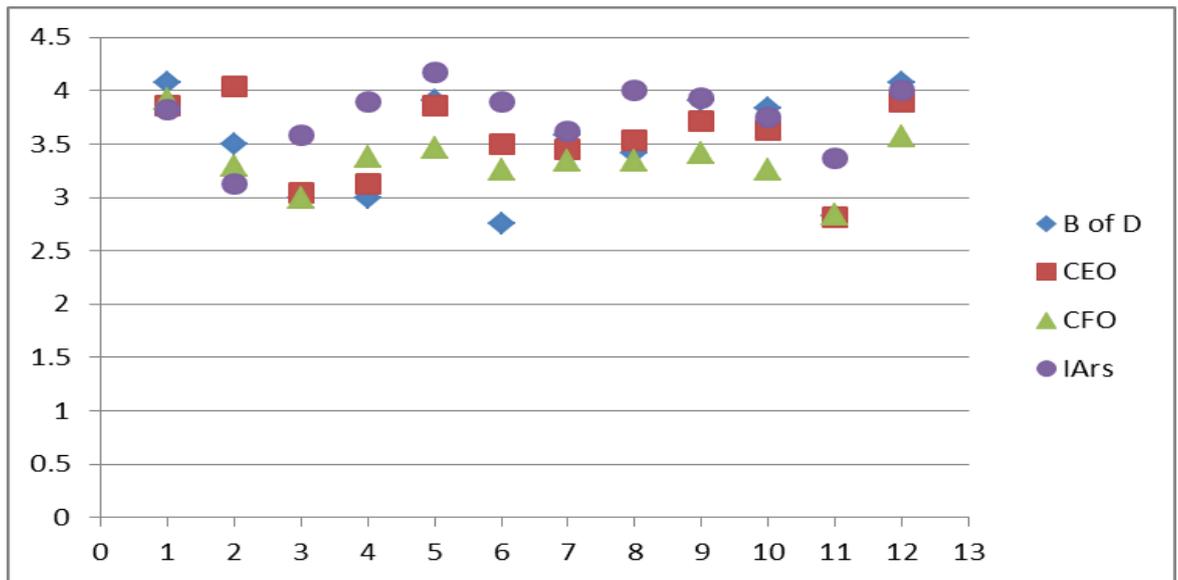
Regarding the distribution of the mean scores of all statements for each group, (as can be seen in figure 7-4), the results show that the mean scores for most of the statements were between 3.0 and almost 4.10 for all groups. According to this result, figure 7-4 shows that there was a difference in the mean scores for each group, with regard to the perceptions and evaluations of IAD work performance, especially, between the heads of IAD and CFOs; the perceptions and evaluations of internal auditors group had the highest mean, while the CFOs group had the lowest. The means of scores for perceptions and evaluations of the other two groups, board of directors and CEOs, were in between the other two groups. It is suggested that the position of participants belonging to top management was of a less positive attitude towards the work performance of IADs in Libyan oil and gas companies, more so than the attitudes of the heads of IAD. However, for one group, which was CFOs, their perception and evaluation did not indicate satisfaction with the work

conducted by the IAD of Libyan oil and gas companies, being the lowest one (see figure 7-4).

In keeping with the participants' position in company structure and their relationship regarding independence, role and scope and competence, internal auditors in Libyan oil and gas companies showed higher evaluation of these three factors than other groups. This result is in line with other research, for example and Haimon (1998), who evaluated and compared the effectiveness of IA between the internal auditors and other groups by taking the same factors, and found the internal auditors' evaluations to be higher. Obeid (2007) also evaluated the views and attitudes of internal and external auditors in the Sudanese banking sector: he found that the internal auditors gave higher evaluations than external auditors in relation to objectivity, competence and work performance, and the monitoring of internal controls of IAD.

7.2.5 Inferential statistics from the data and discussion of findings for the communication of IAF

The internal communication conducted by the IAF in Libyan oil and gas companies was examined by presenting some points focusing on the issue of internal communication. A review of the literature showed that internal auditors, in order to succeed and advance in the changing, complex international global marketplace, need to possess excellent communication skills (Smith, 2005). In addition, Sawyer, Dittenhofer and Scheiner (2003) state that auditors need to develop communication skills to deal with people and communicate effectively and to "… understand human relations…"

The first point with regard to communication was that the IAD maintained a satisfactory reporting relationship with auditees. The second was concerned with the tools and features of IAD communication. The third was about the level of management to which the IAD was reporting. The fourth was regarding the provision of recommendations, and attending meetings, and finally, the content of IAD reports. In consequence, all these points were considered to be important in evaluating IAD communications. Smith (2005) mentioned several excellent communication skills needed by auditors to succeed in their profession: Listening, interpersonal, written and oral communication skills are required by auditors to facilitate understanding of audit findings, and to fulfil their responsibilities effectively.

Table 7-5: Inferential statistic of the perceptions and evaluations given to the different statements regarding the communication of IAF

| No | Statements | Meana | | | | Sig |
		B of D	CEO	CFO	IArs	
1-	The internal auditing department maintains satisfactory report relationships with auditees (people under auditing).	4.08	3.72	3.65	3.89	.224
2-	The internal auditing department conveys effectively, in written communication, audit objectives and recommendations to top management.	4.08	3.77	3.65	4.24	.049*
3-	The internal auditing department conveys effectively, in oral communication, audit objectives and recommendations to top management.	4.00	3.40	3.53	3.75	.355
4-	The company internal auditing department recommends improvements to correct deficiencies or irregularities.	3.91	3.72	3.88	4.41	.034*
5-	The company internal auditing reports are issued in a clear, concise and timely manner.	3.41	3.36	3.34	4.03	.020*
6-	The internal auditing department reports administratively to senior managers.	3.66	3.72	3.84	3.79	.816
7-	The internal auditing department reports administratively to the broad of directors.	4.00	3.31	3.80	4.24	.048*
8-	The internal auditing department reports functionally to the audit committee.	2.33	2.63	2.42	2.86	.211
9-	The internal auditing department staff attending the meetings of the top management and board of directors.	3.58	3.27	3.23	3.93	.105
10-	Reports from the internal auditing department contain findings and recommendations related to operations and control system of the company.	3.66	3.54	3.61	4.13	.115
11-	Reports from the internal auditing department contain findings and recommendations related to risk management of the company.	2.33	2.63	3.73	3.51	.002*
12-	Reports from the internal auditing department contain findings and recommendations related to corporate governance.	3.41	3.27	3.30	4.03	.012*

Concerning the reporting relationship maintained by internal auditors with their auditees, the result revealed that there was a satisfactory reporting relationship with the IADs in Libyan oil and gas companies. The existence of such a relationship gave the momentum for more success in the efforts and activities of the IAF. Loss (2000) pointed out that the ultimate success of the function is largely dependent on relationships with others, especially the relationship between the IA and audit customer. Therefore, it is important for IAD to obtain something similar to this relation. In addition, the best practice indicates that the internal audit activity should have a dual reporting relationship, to ensure transparency, and avoid collusion and conflicts of interests (AII, 2010).

Regarding the tools and features of IAD communication, the result indicated that the IADs in Libyan oil and gas companies conveyed the audit objectives and recommendations to top management effectively, using written and verbal communication tools. This in turn, increased the validity and reliability of the IAD reports, thus giving the opportunity for decision makers to take a rational decision whenever audit reports were characterized as being issued in a clear, concise, accurate, and timely manner. This result in consist with Archambeault, DeZoort and Holt (2008) who concluded that an IA report has the potential to complement existing governance disclosures, increase stakeholder confidence in governance quality, and motivate internal audit diligence.

The level at which the IAD reports, whether it reports administratively to the board of directors level or SM level, or reports functionally to the audit committee (if applicable) was also tested. The survey result revealed that the IADs in Libyan oil and gas companies reported administratively to the board of directors and SM level, with a great tendency for participants to report administratively to boards of directors rather than to senior managers. Therefore, the independence and objectivity of IAD was enhanced in this context. Mousa (2005) found that 96% of participants also viewed the level to which the director of the IAD reported as one of the most important factors that contributes to the independence of the IAF. Moreover, the IIA Standards also mandate internal auditors' objectivity, both at the organizational and individual level. At the organizational level, the IIA states that the "chief audit executive should report to a level within the organization that allows the IA activity to fulfil its responsibilities" (IIA, 2003, sec. 1110). The IIA also states that "the IA activity should be free from interference in determining the scope of IA, performing work, and communicating results" (IIA, 2003, sec. 1110.A1). These two statements were also

encompassed in SAS No. 65, which states that the internal auditors' reporting level should be sufficient to ensure broad audit coverage. In terms of report functionally to the audit committee, this was not supported, since audit committees are not found in Libyan oil and gas companies. Thus, as has been noted, reporting to the level of board of directors is practical, and a variant of the audit committee itself, if it existed. According to IIA standards, this is the best way to guarantee the independence of the IAF.

The provision of various recommendations and attendance at meetings was one of the points that was addressed in assessing the communication of IAF. The survey result showed that the company's IAD offered recommendations and improvements in regard to the correction of deficiencies and irregularities. What once appeared as an unusual view of auditing has now become increasingly relevant, when the importance of the recommendations approach is considered. It seems that providing improvements in regard to correcting deficiencies and irregularities is a fundamental part of IA communication with top management. The company's management is interested that policies and regulations are applied, and that there are no deficiencies or irregularities in the company's systems. Regarding the head of IAD or a representative attending the meeting held with SM and/or board of directors, the survey result indicates that Libyan oil and gas companies allowed IADs to attend meeting held with top management. In accordance with this result, it could be argued that the development of this communication channel with top management and/or board of directors should lead to audit results being more applicable and providing opportunities for promoting the role of audit. Loss (2000) indicated that there is a need for IA processes to have an open line between auditors and auditees, allowing the information to flow effectively in a streamlined way between them, so they receive immediate feedback from each other.

In order to assess the contents of IAD reports, the result revealed that IAD reports involve findings and recommendations related to operations and the control systems in a company. The report on the effectiveness of the internal control system and operations by the IAF are another stage in the process of examination and evaluation of control system and operations within a company. Wynne (2002) argued that the internal auditor, once the process of examination and evaluation of internal control system and operations ends, is ready to commence the professional and most difficult part in the audit process, namely reporting on the effectiveness of the control system and operations, and accordingly

offering recommendations for the continued development of this system and operations. It seems clear from the findings that IADs in Libyan oil and gas companies were in contact with top management in order to identify the actual weaknesses in control system and operations that were being addressed via the audit report. With regards to IADs' reports, containing findings and recommendations related to risk management, the findings showed that the Libyan oil and gas companies did not apply this point. The result may be due to two main reasons; first, the imbalance between the adequacy of internal control procedures and risk assessment, since the literature indicates that this is a way to increase control of actions as a way to reduce risks. This may be observed by referring to the result of the previous statement under this point. The interpretation is consistent with Wynne (2002), who assumed that the internal auditor should achieve a balance between the identified risks and control procedures, where these are adequate to manage and control those risks, and that the control procedures should be commensurate with risks without an increase or decrease. In addition, Pickett (2003) pointed out that the existence of control procedures in excess of what is required is a bad sign, as is the existence of deficiencies in control systems. The second reason was the restriction in the role of IAF in terms of financial operations and internal control procedures, without greater focus on risk management as the expansion in the role of the IAF. The last statement, which was related to reports from the IAD containing findings and recommendations related to corporate governance. The findings indicated that IADs' reports involved findings and recommendations directly related to corporate governance. The scope of IAF within an organization or company may involves topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations. At the same time, as these topics are very important for top management, internal auditors have to consider these topics in reports that are issued by them. Consequently, reports of IAD in Libyan oil and gas companies were seen in fact to be practical with respect to this point.

In order to examine whether there were significant differences between the four groups of research participants, analysis of variance was conducted. It revealed that there were significant differences in nearly half the cases of the communication scales, as seen in table 7-5 ($p < 0, 05$). These differences were associated with different points. These points showed that the internal auditing department effectively conveyed in written communication the audit objectives and recommendations to top management; the

company internal auditing reports were issued in a clear, concise and timely manner; the IAD reported administratively to the broad of directors, reports from the internal auditing department contained findings and recommendations related to risk management of the company and reports from the internal auditing department contained findings and recommendations related to corporate governance. The interview results revealed some reasons related to the communication of IAD, which may explain the differences in participants' views and attitudes that existed. The interview result on this point indicated that the degree of perceiving and evaluating the communication of IAD by participants was the key reason: additionally management were not sufficiently monitoring a communications component and there was a lack of awareness of its importance as one of the pillars of administration. Management attention to the development of communication skills between individuals was non-existent. In addition, there was a tendency for management to neglect a lot of information that did not accord with their opinions. One of interviewees from top management believed that internal auditors had to be in indirect contact with others. For example, to be in contact with others via the CFO, because he assumed that the IAD had to be under the authority of the CFO. Nevertheless, one member of the board of directors and one IAD head believed the opposite to be correct, in that the IAD should be directly under the board of directors' authority. This strengthens the independence of the IAD, and its freedom to report any results arising from the audit process. One board of directors' member added that at any committee or team should involve at least one member of IAD staff, as head or member. He justified that in that case the IAD would be aware of everything pertaining to their role, and would be in contact with the company's management.

The other interviews also showed that there was some delay in the completion of the audit process, especially with regard to purchase or exchange operations, which had the potential to affect the management's views and attitudes about IAF communication. On the other hand, internal auditors believed that delays in the completion of the audit process did not signify complacency or neglect on their part, but rather was the result of control procedures and increased workload. This supports what has already been concluded regarding the reasons for differences relating to IAD work performance. As has been noted, the existence of some of these reasons was likely to create significant differences between respondents.

Figure 7-5: Mean scores of communication scales
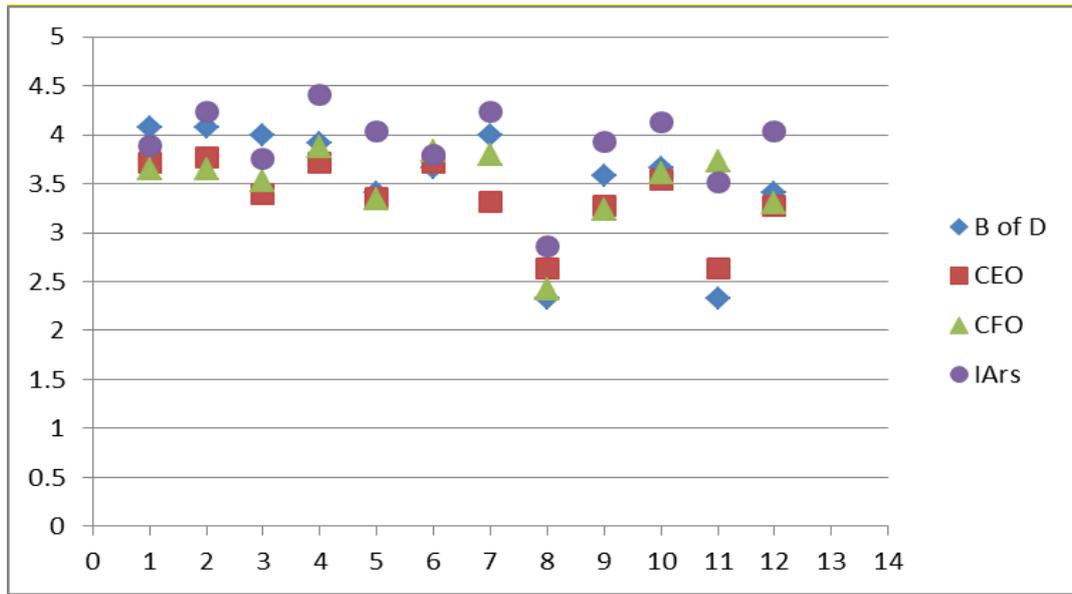
Figure 7-5 showed the mean scores for IAD communication scales for each group, where the score for all groups was between 2.30 and 4.30. Accordingly, table 7-5 revealed that there is a difference in mean score for each group, in terms of the perceptions and evaluations of IAD communication, especially between the heads of internal audit and CEOs groups. The perceptions and evaluations of internal auditors had the highest mean, while those of CEOs had the lowest. Moreover, the means for the perceptions and evaluations of the other two groups, i.e. board of directors and CFOs, lay between the other two groups. It is suggested that the position of participants in top management in Libyan oil and gas companies held less positive attitudes towards IAD communication than did the heads of IAD.

As was mentioned early in this study, communication is a new component that is utilised to explore perception and evaluation of the nature and practice of IAF. This component has not been investigated in previous studies to serve this purpose. As such, the results concerning IAF communication cannot be compared with others, but are compared to the opinions published in the literature about the role of communication in the IAF.

Loss (2000, p2) writes, "effective communication is the cornerstone of internal auditing." He also offers a set of steps called the "communication contract" for a productive communication system. The main step in the "communication contract" is for information

to be conveyed in a timely manner. Loss (2000) recommends open communication lines, claiming that auditors and auditees need to be open with each other, so that information can flow effectively between them, and that they will receive immediate feedback from each other. Open communication lines can minimise the potential for ill feelings during the audit process. According to these features, IAD communication in Libyan oil and gas companies is characterised by this openness. The IADs effectively conveyed the objectives and recommendations of the audit process to top management using written and oral communication. In addition, company IAD reports were issued in a clear, concise and timely manner. The other step of the communication contract is to "... agree to address concerns, clearly explaining the rationale behind your position." Loss (2000) believes that these steps will improve the auditor's relationship with auditees, and support a higher quality audit. With regard to this step, IADs in Libyan oil and gas companies were maintaining satisfactory reporting relationships with auditees.

7.2.6 Inferential statistics from the data and discussion of findings for top management's degree of reliance on the IAF

The issue of top management reliance on the work of IAF has not yet been addressed in the published academic and professional literature. However, the issue of external auditors' reliance on the work of internal auditors has been addressed by the professional literature, for example, SAS 500 in the UK, SAS 65 in the USA and International Standards Auditing section 260 (ISA 610). Likewise, a number of studies have been conducted on the decision to use the work of internal auditors by external auditors. Maletta (1993, p. 508) observes that: "Prior research has generally indicated that the three internal audit variables identified in the professional standards- objectivity, competence and work performance- significantly affect auditors' internal audit reliance judgments".

The majority of these studies have examined external auditors' general evaluations of the internal audit quality, and their decisions to rely on the prior work of internal auditors considering the variables identified by the professional literature; for example, Gibbs and Schroeder (1980), Abdel-Khalik et al. (1983), Brown (1983), Schneider (1984; 1985), Margheim (1986), Messier and Schneider (1988), Edge and Farley (1991), Krishnamoorthy (2002), Haron et al. (2004), Al-Twaijry et al. (2004), Yet, no study has examined top management's general evaluations of the IAF as a reliable source of information to rely on

to achieve the company's objectives. Nowadays, internal auditors have a much broader responsibility, and SM are reliant upon internal auditors not just to reduce the cost of external auditing, but to provide assurance, confidence, and trust that the internal controls are operating effectively and that the business itself is efficient (Al-Twaijry et al., 2003).

Furthermore, the current study, as one of its objectives, attempted to examine this point, i.e. top management's reliance on the IAF to achieve company objectives. This idea arose from the fact that many studies have explored the reliance of external auditors on the IAF, rather than the reliance of top management or others. Therefore, this research took the idea further by projecting those studies that have focused on the external auditor, onto top management.

Part three of the questionnaire examined this issue. As discussed earlier, the degree of reliance on the IAF by top management in Libyan oil and gas companies was addressed mainly along the five variables of independence and objectivity, scope, competence, work performance and communication. However, the scales included statements that aimed to test these five variables; furthermore, the researcher examined how top managers and internal auditors rated the five variables according to their degree of reliance. In addition, interviews results provided in this point to support the questionnaire results.

Regarding the degree of reliance on independence and objectivity of IA, the findings indicated that top management placed some reliance on the IAF, in terms of the degree of independence and authority. International standards (IIA, 2010) - Attribute standards 1000 Purpose, Authority and Responsibility clarified that:

> "The internal audit charter establishes the internal audit activity's position within the organization, authorizes access to records, personnel and physical properties relevant to the performance of engagements".

According to this result, it could be argued that IADs in Libyan oil and gas companies had a degree of freedom, and were authorised to carry out their responsibilities and gain access to any part of their company. However, it could be judged that providing a degree of independence and authority is a significant determinant of top management evaluation of IA independence and objectivity, and reliance on the IAF. In addition, company management gave the administrative support necessary for IAF to perform its

responsibilities, with did not restrict the scope of IAF in a certain area. This enhanced the performance of IAF and helped it to achieve company objectives.

With regard to top management's degree of reliance on the role and scope of IAF, the findings showed that companies' management left the responsibility of monitoring and evaluating internal control systems to the IAF in Libyan oil and gas companies. As was mentioned in the first point above, the scope of the IAF was not restricted by top management, but covered many areas and activities, such as the financial aspect, which was the main activity, but not the only one for the IAF in Libyan companies, who also monitored operating controls, internal control system and lastly risk management. However, risk management was still emerging as one of the IAF's activities, as it is a modern activity compared with others. Top management of Libyan oil and gas companies clearly was opening the way for IAF to perform an audit process with broad scope, so that the established system provided reasonable assurance that the company's objectives and goals would be met efficiently and economically. This result was confirmed by the telephone interview results.

Regarding the degree of reliance place on the competence of IAF, it is indicated by the research findings that companies' management depend mainly on the information that was providing by AIDs reports in the process of decision making. In addition, they were seeking to maintain the efficiency of the IAD by employing auditors with qualifications in accounting and/or auditing as the main requirement for working as an internal auditor. This in itself did not reflect the professionalism of IAF in all areas and the diversity of its role and scope, as long as companies' management had taken into account the qualification in the field of accounting and auditing is the main basis for the appointment of auditors. It also meant limiting its scope to the accounting and financial field only, because of, neglect of the appointment of auditors in other areas, which reflected positively on the competence of IA. In terms of the possibility of the IAD reducing the cost of external audit, the findings indicated that was not strongly accepted by the participants.

Table 7-6: Inferential statistics of the perceptions and evaluations given to the different statements regarding the degree of reliance on IAF

No	Statements	Meana				Sig
		B of D	CEO	CFO	IArs	
1-	Company's management expects to receive a regular periodical reports from the Department of Internal Audit (e.g. quarterly)	3.83	3.63	3.26	3.82	.183
2-	Information contained in the reports by the internal audit department is used by the company management in its decision-making.	3.58	3.04	3.15	3.82	.045*
3-	The Management of the company does not limit the scope of the internal audit function only to the financial aspect.	3.66	4.04	3.69	4.00	.267
4-	The Management of the company does not limit the scope of the internal audit function only to assessing control systems.	3.66	3.68	3.73	4.10	.132
5-	The Management of the company does not limit the scope of the internal audit function only to assessing management operations.	3.75	3.81	3.80	4.03	.453
6-	The Management of the company does not limit the scope of the internal audit function only to assessing risk management.	3.50	3.63	3.80	3.96	.110
7-	Company management supplies the degree of independence and authority to the internal audit function.	4.50	4.04	3.69	4.20	.023*
8-	Company management gives the administrative support necessary for the audit function to perform its responsibilities.	4.50	4.00	3.50	4.24	.003*
9-	The degree of response to internal audit reports by senior management is satisfactory.	3.75	3.63	3.69	4.06	.219
10-	Company management gives the opportunity to internal audit department staff to attend meetings of Board of Director and senior management.	3.58	3.27	3.34	3.72	.448
11-	To ensure the efficiency of the internal audit department, company management employs auditors with qualifications in accounting and/ or auditing.	3.91	3.63	3.53	4.06	.064
12-	The company's management follow-up results of the work of internal audit.	3.50	3.72	3.38	3.86	.175
13-	The company's management considers that the director of the internal audit department can control and supervise his staff.	4.00	3.81	3.00	3.75	.003*
14-	The company's management considers that the performance of internal audit work is satisfactory, enabling the management to rely on it.	3.58	3.36	3.23	3.89	.010*
15-	Company's management is based on the internal audit department to monitor the internal control systems.	4.00	3.72	3.11	4.06	.001*
16-	Company's management considers that the existence of the internal audit department reduces the cost of external audit.	4.08	3.45	3.19	3.51	.043*

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This is due to the ownership of oil and gas companies are owned by the Libyan government. Thus, the process of external audit is done through the Institute of Inspection and Public Control (IIPC) and the Institute of Financial Auditing (IFA). Accordingly, top management was between neutral and satisfied with the competence of the IAF in terms of relying on it to achieve desired objectives. In other words, the degree of reliance placed on the IAF in terms of its competence was not enough satisfactory. The optimal use of information provided by the IAD was not at the broadest level expected; the mean value with refers to this point indicates that respondents agreed, but also disagreed. In addition, the other points under this issue did not receive a very high rate of acceptance, reflected in the mean values too. This result was consistent with the telephone interview results.

In relation to the degree of reliance that was placed on the work performance of IAF by top management, the result revealed that it was important for management to follow-up the results of the work of IAF in Libyan oil and gas companies. This will lead to some extent to a reduced number of fraud cases, as well as resolving weaknesses in internal control systems and performance, and enabling the IAF to recommend improvements. In terms of the way in which managers or heads of IADs used IAF to manage and monitor their employees, the results showed that the mechanism of control and supervision that were applied by managers to their departments and staff were considered acceptable. However, this control and supervision mechanism was accompanied by the existence of IA programmes and IA working papers maintained by IADs. Thus, the work performance of IAF is considered to be one of the significant determinants of top management's decision to rely on the work of IAF.

The degree of reliance placed by top management on IAF communication was also addressed: the result showed the aspiration of Libyan oil and gas companies' management to receive periodic reports, which was considered an action taken by a manager to enhance the probability that established goals and/or objectives would be achieved. In addition, SM was responding satisfactorily to IA reports. That means that the IAD as a sender of information was opening a communication channel between itself, and SM as a receiver. The existence of this channel ensured communication lines were open, which gave prompt feedback and a flexible information flow. This also helped management achieve the company's objectives. This result was consistent with Loss (2000), and this was reinforced when the results indicated that the opportunity to attend meetings with the board of

directors and senior managers was given. These meetings made it easier for the heads of IADs to discuss the problems that were hindering the achievement of the company's objectives, as well as clarifying important points that were relevant to the company's current situation. All of this   contributed to achieving the objectives of the company, whenever possible. This result was consistent with the responses gathered in the telephone interviews.

Sawyer and Vinten (1996) noted four benefits that managers have gained from IA assistance. These were: providing managers with the basis for judgment and action, helping managers by reporting weaknesses in control and performance and in recommending improvements, providing counsel to managers and boards of directors on the solutions of business problems, and supplying information that is timely, reliable and useful to all levels of management. Accordingly, from the above analysis and discussion, it could be argued that to some extent there was a degree of reliance placed by companies' management on the work of IAF. This degree of reliance reflected the significant contribution of IAD as a function within the company, i.e. as a critical appraiser of the effectiveness of internal controls and the company's financial health.

However, three top managers and one internal auditor were interviewed specifically to comment about how they rely on the work of IAF in terms of IAF independence, scope, competence, work performance and communication. The telephone interview evidence suggested that all the respondents did not place complete reliance on the work of the IAF.

Interviewed participants identified a number of specific shortcomings when they rely on the work of IAF. In their responses to the question, *"do you rely on the work of IAF to achieve company's objectives?"* the following opinions were typical:

> *"I cannot place complete reliance only on the work of IAF. Because first, the IAF is not alone as responsible for achievement of the company's objectives, there are other parties responsible too. Secondly, the IAD is not completely independent of the company; it is one of departments that are working under the authority of company management. Thirdly, they are not technically competent. In terms of their work performance, the situation is better as they have a clear system and manuals. In addition, IAD is in contact with all management levels either through reports or meetings. Generally, the IAF to some extent contributes to achieve the company's objectives; since it is the eyes and ears of management."* **TM1**

"In my opinion, in Libyan oil and gas companies, the scope of IAD covers few areas, such as financial and non-financial areas, but financial area is more focused than others. Also internal auditors have not got the required professional qualifications". **TM 2**

"Practically in Libyan oil and gas companies, it is very difficult to put full reliance on the work of IAF, mainly for internal auditors' poor competence of and inadequate number of internal auditors working in IAD compared with workload that they do".**TM3**

"But in fact most internal audit departments in Libyan oil and gas companies sometimes faced interference in performing their work and there are many factors affecting their competence". **IA4**

Based on the interviewees' responses, a number of weaknesses were highlighted in the areas of *independence* and *competence*. In regard to *rôle and scope*, there is no restriction on the scope of IAF, with reference to the main area that is covered by audit, which is the financial area. Regarding *work performance*, some of the interviewees explained that work performance of internal auditors was reasonable. On the subject of *communication*, some of the interviewees clarified that contact with IAD existed and reasonable. This result was consistent with the questionnaire results. The information from these interview was used directly to reinforce the results from the questionnaire on the particular point of reliance.

The result of the K-W test indicated that in some cases there was a significant difference between the groups' perceptions and evaluation regarding the degree of reliance on the IAF in Libyan oil and gas companies ($P<0.05$). These differences were associated with different points. These points related to few statements, as it can be seen in table 7-6. The study sought to investigate whether the reasons behind these differences were related to the traditional view of the role of the IAF, with some financial managers believing that its role was confined mainly in the financial aspects only. On the other hand, some of heads of IADs believed that their role should go beyond the traditional role; however, this depends on the professionalism and expertise of auditors, as well as the opportunity for training and to establish the basis for the appointment of auditors. It could be argued that the competence of IAF had a negative effect on the condition of the IADs of Libyan oil and gas companies, and this result accords with previous points, where the IADs were found to be suffering from an insufficiency of expertise, training and professional qualifications.

Figure 7-6: Mean scores of the degree of reliance on IAF scales
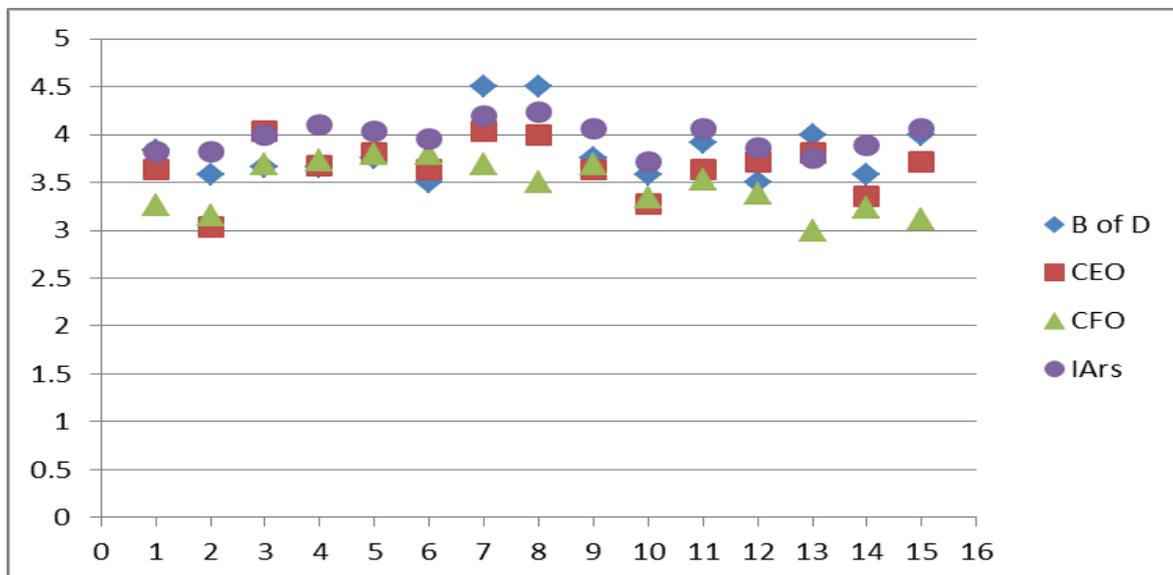
As can be seen in figure 7-6, the mean scores for all groups for the degree of reliance on the IAF for each group were between 3.0 and 4.50. Accordingly, this result (table 7-6) showed that there was a slight difference in the mean score for each group with regard to the perceptions and evaluations of each group with regard to the degree of reliance on the work of IAF, between the heads of IADs and CFOs in particular. The perceptions and evaluations of internal auditors was highest, while those of CFOs was the lowest, and that of the other two groups, i.e. board of directors and CEOs, were in between the other two. It is suggested that the participants belonging to top management held less positive attitudes towards the degree of reliance on the work of IAF in Libyan oil and gas companies, than the attitudes of the heads of IAD.

7.2.7 Inferential statistics from the data and discussion of findings for improving the practice of IAF

The responses of two participants' groups regarding the good practices of the IAF imply that the function can serve a wide range of objectives that aim to promote good practices in Libyan oil and gas companies, which can help to improve their administration and

monitoring. This work focused on nine key practices (see tables 6-18 & 6-19) in chapter six, which might contribute in improving the companies' administration and monitoring through controlling organizational performance, helping companies set goals and objectives for their achievement, and developing performance measures and/or indicators. These were perceived to be valuable goals of considerable importance that IAF can help to achieve. These findings are in line with what has been reported in Chapter Two concerning the need to improve the practices of IAF (Rossiter, 2007; Cathcart and Kapoor, 2010).

Although the two groups gave nearly the same ranking for the listed practices based on their mean scores, the frequency distribution gave a somewhat different result (see tables 6-18 & 6-19). Accordingly, in order to explore whether the differences in the responses of two participating groups in rating good practice of the IAF in the Libyan oil and gas were statistically significant, the Mann-Whitney test was applied. The Mann-Whitney test reveals that overall there were no significant differences between the perceptions of two groups with (p > 0.05) for the practices, as can be seen in table 7-7.

Table 7-7: Mann-Whitney U Test

Test Statistics	
	Good practice
Mann-Whitney U	651.500
Wilcoxon W	2481.500
Z	-1.922
Asymp. Sig. (2-tailed)	.055

7.2.8   Participants' rated the Five Factors in terms of Importance and Influence

 The objective of this part was to examine how the surveyed participants rated the five factors (independence, role and scope, competence, work performance and communication). In other words, how participants rated the five factors according to their degree of importance and influence. In fact, if IAD staff performed their work objectively, competently, and properly then they were likely to be capable of contributing to an effective IA (Al- Twaijry et al., 2004).Many previous researches have been conducted to examine the work of IAF. Most of these studies have examined external auditors' general

evaluations of the IA quality and their decisions to rely on the prior work of the internal auditor using the three factors (independence and objectivity, competence and work performance) that are also used in this study with the addition of two further factors (role and scope of work, and communication). In addition, this study examined top managers' and internal auditors' general evaluations of the nature and practice of IAF, and their perceptions of relying on the work of IAF to contribute to achieving established objectives and goals in Libyan oil and gas companies.

The result, according to the previous sections and tables of all components, were that these factors were found to have a significant impact on the nature and practice of IAF, and on the degree of reliance of participants on the work of IAF in Libyan oil and gas companies. Independence was affected significantly by the internal auditors' ability to carry out their work freely and objectively. The role and scope of IAD was also affected significantly by evaluating the adequacy of the company's system of internal control, providing consultation to top management in regard to the company's operations and risk management. In terms of the competence of IAF, this was affected more significantly by the level of skills they needed to carry out their work and responsibilities, and prior experience in IA. Work performance was affected significantly by many points, such as the number of internal auditors in the company, whether the company had set up an appropriate audit plans for established audit objectives, and was carrying out examination to the reliability and integrity of information. In addition, the review of the adequacy of risk management on a regular basis, as well recognition of auditors to the nature of operational controls were significant factors. According to the participants, the communication of IAF was also affected significantly by many of points concerning how effectively the IADs was conveyed, in written communication, especially audit objectives and recommendations to top management; providing the recommendations and improvements to correct deficiencies or irregularities; the characteristics of IADs reports; the level of report; and the contents of reports related to risk management and corporate governance.

In conclusion, all of these factors were considered to be important for the nature and practice of the IAF, as well to reliance on the work of IAF in contributing to the achievement of company objectives. The particularly significant points are mentioned

above. It could be argued that these points have to be considered seriously in evaluating and perceiving the IAF.

7.3 Summary

This chapter aimed to present and discuss the findings generated from analysis of the questionnaire data. For the questionnaire analysis, Analysis of Variance (K-W) test was used to test the relationship between the position variable of the four groups, and the study variables, comprising independence and objectivity, role and scope of work, competence, work performance, and communication. Moreover, the Mann-Whitney U test was used to analyse the variance between the internal auditor and top manager groups, in regard to perceiving and rating good practice aimed at improving the IAF.

The results of the analysis of variances, in testing the relationship between the position of the participants and perception and evaluation of independence of IADs, revealed no significant differences in most of the mean scores, with exception of two points. These points related to the internal auditors ability to carry out their work freely and objectively. Moreover, the result indicated that in terms of the independence and objectivity of the IAF in Libyan oil and gas companies, both groups of internal auditors and board of directors had the highest perception and evaluation, CEOs had the lowest, while CFOs were in between. Consequently, it is concluded that the managerial position level had an influence on the nature and practice of IAF in terms of independence and objectivity.

Furthermore, this chapter also aimed to examine the relationship between the position of the participants and their perceptions and evaluations of the role and scope of IAF work. The results indicated that there were no significant differences in most of the mean scores, with the exception of three points. These points were associated with the role and scope of IAF involving the evaluation of internal control systems and providing consultation to top management in regard to the company's operations and risk management. In fact, the findings indicated that the internal auditors group had the highest perception and evaluation of the role and scope of the IAF in Libyan oil and gas companies, CFOs the lowest, while the board directors and CEOs were much lower than the internal auditors group, and slightly higher than CFOs.

The results indicated that there were no differences in most mean scores of statements about the IAFs' competence. However, the mean scores for statements 2, 7 and 9 showed that there were significant differences. These differences have been associated with different points. These points related to the possession of skills, training and prior experience in the IAF for staff of IAD. Regarding the managerial position level, the results indicated that the internal auditors and CEOs groups had the closest and the highest perception and evaluation, while the boards of directors and CFOs groups were lower than internal auditors and CEOs groups in their perception and evaluation of the competence of IADs in Libyan oil and gas companies.

The analysis of variance reveals that there were significant differences in most case of the work performance scales. These differences were associated with different points. These points were very important to improving the IAF's work performance, such as the number of internal auditors in the company not being sufficient and the internal auditors reviewing operations to ascertain whether results were consistent with established objectives. With regard to the perceptions and evaluations of IAD work performance, especially between the heads of IAD and CFOs; the perceptions and evaluations of the internal auditors group had the highest mean, while the CFOs group had the lowest. The means of scores for perceptions and evaluations of the other two groups, board of directors and CEOs,weare in between the other two groups.

With regard to the communication of the IAF, the analysis of variance revealed that there were significant differences in nearly half the cases of the communication scales. These differences related to many points, such as the internal auditing department conveying effectively in written communication and the IAD reporting administratively to the broad of directors. Regarding the perceptions and evaluations, the heads of IADs group had the highest mean, while those of CEOs group had the lowest. Moreover, the means for perceptions and evaluations of the other two groups, i.e. board of directors and CFOs, lay between the other two groups.

The findings showed that there were slight differences in the mean score for each group in regard to the perceptions and evaluations of each for the degree of reliance on the work of IAF, especially between the groups of heads of IAD and CFOs. The result of the variance test indicated that there were significant differences between the groups' perceptions and

evaluation. The perceptions and evaluations of internal auditors group had the highest mean, and the CFOs group the lowest, while the board directors and CEOs were between the other two groups. It is suggested that the position of participants in top management led to less positive attitudes toward the degree of reliance on the IAF in Libyan oil and gas companies compared to the attitudes of the heads of IAD. In addition, it showed a result of the interview provided for in this chapter that there is harmony with the result of the questionnaire in terms of the degree of dependence.

Regarding the good practices of the IAF, two participants' groups implied that the function could serve a wide range of objectives that aimed to promote good practices in Libyan oil and gas companies, to improve their administration and monitoring. They gave nearly the same ranking for the listed practices based on their mean scores. The Mann-Whitney test overall reveals that there were no significant differences between the perceptions of the two groups.

With regard to the importance and influence of five components, according to the previous sections and tables the result indicated that all components had a significant impact on the nature and practice of IAF, and on the degree of reliance of participants on the work of IAF in Libyan oil and gas companies.

CHAPTER 8:   CONCLUSION AND RECOMMENDATIONS

8.1 The key points identified by the research

8.1.1 Overview

Previous chapters addressed the nature and practice of IAF. These chapters fall into two parts; the first part relates to background on the IAF, in terms of studies that were connected to factors studied here, while the second part gives more insight into factors studied here. The literature review presented in chapter two informed the construction of the objectives of this research, and the design of the conceptual framework for the studied factors.

The IAF in recent years has been experiencing a period of dynamic growth, and indeed much attention has been given to the field of IA, in terms of both the number of people engaged in it, as well as in the functions that internal auditors are able to perform. Much of this growth has occurred since the collapse of some of the largest companies in the world, such as Enron and WorldCom, and the financial crises that occurred in the first decade of the 21st century. This was one of the main reasons for the rapid development of the role and scope of IA, based on the belief that it can play an important role in helping companies or organizations tighten their control and improve management. Despite these developments, there is a shortage of literature on the issue of perceiving and evaluating the nature and practice of IAF, considered from the perspective of management.

In many previous studies, attention has mainly been given to the commonest factors used to evaluate the IAF, namely independence (sometimes called objectivity), competence, and work performance, and (in some studies), role and scope were considered as well. The current study considered all these factors, and also included communication, as a new previously unconsidered factor designed to investigate the nature and practice of IAF.

8.1.2 The current study

In order to obtain an overview of the Libyan context, this study constructed a systematic sequence to the ideas and the field environment investigated in the completed studies on the IAF in Libya. A review of these studies showed that IA practice did not extend to

reviewing non-accounting and financial matters; indeed, they showed that the development of the role of IA in Libyan companies was necessary. A review of Libyan education provision revealed that university degrees in accounting and auditing did not cover the theoretical framework of the key principles of the profession, such as international standards of accounting and SPPIA. This shortcoming was compounded by the absence of formal bodies to promote and sponsor the accounting and auditing profession in Libya.

In order to effectively analyse and satisfy the research objectives, the chosen methodology was based on a survey conducted through the use of semi-structured interviews and a personally administered questionnaire. Meetings were conducted with top managers and heads of IAD, and questionnaires were sent to all Boards of Directors, SM (CEOs and CFOs) and CIAs or heads of IADs in 30 companies operating in the oil and gas sector in Libya, during the period from April to July 2010.

8.2 Conclusion

Although several studies have dealt with the perspective of external auditors with regard to the IAF, no studies have yet been published that address the perceptions of the Libyan managerial class regarding the nature and practice of IAF in Libyan oil and gas companies, or on the degree of reliance placed by top management on the work of IAF. The current study was, therefore, undertaken to provide actual perceptions in this area. Furthermore, it is important that the findings and conclusions of this study be considered in light of certain limitations associated with its implementation. When interpreting this study, a reader should carefully consider that the results are based on perceptions and evaluations of a response rate that was less than 80 percent, and that the top managerial class were the only users of IA services that were considered in the study. These function as limitations of this study.

However, this study appears to be the first and only study that compares the perceptions of top managers and heads of IADs. It also introduces a completely new factor that had not been considered before, namely the "communication factor". The research sought to achieve the main aim of the current study, which was to examine the perceptions that the Libyan managerial class had regarding the nature and practice of IAF in Libyan oil and gas companies, as well as the degree of reliance placed by top management on the work of IAF

to contribute to the achievement of the company's goals. In order to address this aim, it was broken down into three objectives.

However, the three objectives, to be achieved, needed to identify the factors and develop them. The literature showed the researcher that there were certain factors common to almost all studies of the IAF, namely independence, role and scope of work, competence, and work performance, which were used to perceive and evaluate the nature and practice of IAF table (8-1) shows factors in some studies considered in all prior studies and factors considered in some prior studies. However, the communication factor was not considered as an independent in previous studies, especially those conducted in developing countries. Hence, the use of communication as a factor represents a main theoretical contribution of the current study. This contribution is reinforced by the inclusive nature of the current study, in terms of the factors of interest. It is the only study to include all the factors from the literature in a comprehensive way, albeit within a narrow compass. The following:

Table 8-1: Factors considered

Factors considered **in** all prior studies	Author(s)	Perceptions
Independency or (objectivity), competence and work performance.	Schneider (1984), Schneider (1985a), Margheim (1986), Malrtta (1993), Brown and Karan (1986), and Felix Jr, Gramling & Maletta (2001)	Mostly from external auditors
Factors considered in **some** prior studies	Haimon (1998), Al-Twaijry (2000) Kishnamoorthy (2002) and Mousa (2005),	From different participants inside organization or company
Independency or (objectivity), competence, work performance and role and scope.		
Factors **not** previously considered	Current study	From inside company included: board of directors, senior managers (CEO & CFO) and heads of IADs.
Communication (plus all previously considered factors)		

To accomplish the research objectives, it was necessary to identify the validity of including communication as a factor within the model examining the nature and practice of IAF. Therefore, to collect the opinions of the top managerial class on this topic, semi-structured interviews were used. The results from the interviews revealed that communication was valid to be included within the model and to be a questionnaire item. Communication was

shown to be one of the important factors for perceiving and evaluating the nature and practice of the IAF, and hence should be considered in relation to the research objectives.

First objective: To compare the perceptions amongst top managers and internal auditors (in selected Libyan oil and gas companies) of the IAF. The participants were asked, through a questionnaire distributed to the target sample of top managers and heads of IADs, how they perceived and evaluated the five core factors related to the IAF in their circumstances. The perceptions and evaluations of participants regarding the study factors were that each factor was regarded as affecting satisfactory performance, with the exception of the 'competence' of the IAF. Competence was generally not seen as sufficiently satisfactory. This may have been due to issues related to administrative behaviour (for example, use of IAF as a dumping ground for poor managers) and also to the inadequacy and lack of training programmes, the small number of auditors, and the lack experience in IA.

Regarding the deeper (sub-objective a) i.e. *to determine the extent to which that there were differences between the perceptions of the four main groups*. The results of the analysis of variances of the data gathered by questionnaire, in testing the relationship between the position of the participants and their perception and evaluation of the five factors, revealed that there were significant differences between the top managers and internal auditors. These differences existed broadly in their perceptions of work performance, communication, and the role and scope of the IAF in Libyan oil and gas companies.

In terms of the factors (sub-objective b) that had the greatest influence on the nature and practice of the IAF, a comparison between these five factors was conducted via interviews. Examination of the data revealed that all of these factors had an influence on the nature and practice of the IAF. 'Independence' had the greatest influence, followed by 'competence', and the 'work performance' of IAF. However, the factors 'role and scope', and 'communication', were regarded as equal and lowest.

The second research objective was *to examine the degree of reliance placed by top management on the work of IAF in Libyan oil and gas companies to accomplish the companies' objectives*. Based on the results of the mean scores and respondents' percentages, it can be argued that to some extent, there was a degree of reliance placed by companies' management on the work of IAF. This degree of reliance was reflected in the

significant contribution of IAD as a function within the company, i.e. as a critical appraisal tool of the effectiveness of internal controls and a company's financial health.

The third research objective was *to determine improvements that could be introduced to improve the practice of the IAF in Libyan oil and gas companies*. The perceptions and evaluations of top management and directors of IAD, were that IAF was able to serve a wide range of objectives that it aimed to promote good practice. For the Libyan oil and gas companies this served to improve their administration and monitoring. In particular, the participants recognized the contribution of the following practices: using computer assisted audit techniques; making the audit activities more collaborative; continuous monitoring; conducting preventive auditing; sharing knowledge and technology with business units; reviewing systems implementation; assessing risk management; controlling self-assessment; and using IAF as a training ground for future managers. These practices increased the degree of importance of IAF. They also contributed to improving the companies' administration and monitoring by: controlling organizational performance; helping companies set goals and objectives; and developing performance measures and/or success indicators for companies. These were perceived to be valuable goals of considerable importance that IAF could help to achieve.

It seems apparent that if the factors discussed and the issues that appear in this study were realized and resolved by the companies' management in Libyan oil and gas companies and the heads of IADs themselves, then the future for the nature and the practice of the IAF in Libyan oil and gas companies should be a positive one. The current perceptions that the managerial class have toward the IAF has a significant influence on the nature and the practice of the IAF. Thus, improved communication between top management and IADs is a vital way to increase a company's performance and allow its objectives to be achieved.

8.3 Summary of Contribution to Knowledge

This research deals with an attempt to use a theoretical framework for the procedural concepts to perceive the nature and practice of internal audit function. Libya, as a developing country, has not yet been researched in relation to this concept, particularly with regard to the communication factor. Therefore, the results of this study are expected to offer practical and theoretical contribution.

1- The study contributed to fill the gap identified from the literature through illuminating the perceptions of top managers and heads of IADs of the nature and practice of IAF in Libya oil and gas companies. These perceptions are important in that:

- Top management and internal auditors use perceptions of the nature and practice of the IAF to adapt to changing organizational environments and achieve continuous improvement.
- They help top management to find the weaknesses that fundamentally affected the nature and practice of the IAF, and the performance of company in general.
- They identify opportunities for improvement in the level of IA profession in general and in the level of awareness of the IAF in particular.
- For academics, they will improve their level of awareness of factors related to the nature and practice of IAF.

2- The study contributes by providing a new factor, namely 'communication', in addition to the other factors previously studied. Communication was found to be a very important factor for the IAF in becoming more successful, fulfilling its role and meeting expectations. Thus, to the extent that there are open channels of communication between internal auditors and management, the information is more likely to flow effectively between them with immediate feedback. Moreover, in the context of agency theory and the problem of information asymmetry within agents' relationships, the communication factor works to fill the gap in the relationship between the principal (senior manager) and agent (internal auditor).

3- This study contributes to knowledge by building a conceptual framework, which is a development in the field research of this area. Other researchers will be able to use this framework in future in other sectors or countries, to enhance the results of the current study, as explained in the conceptual framework (figure 8.1).

Figure 8-1: Current Conceptual framework
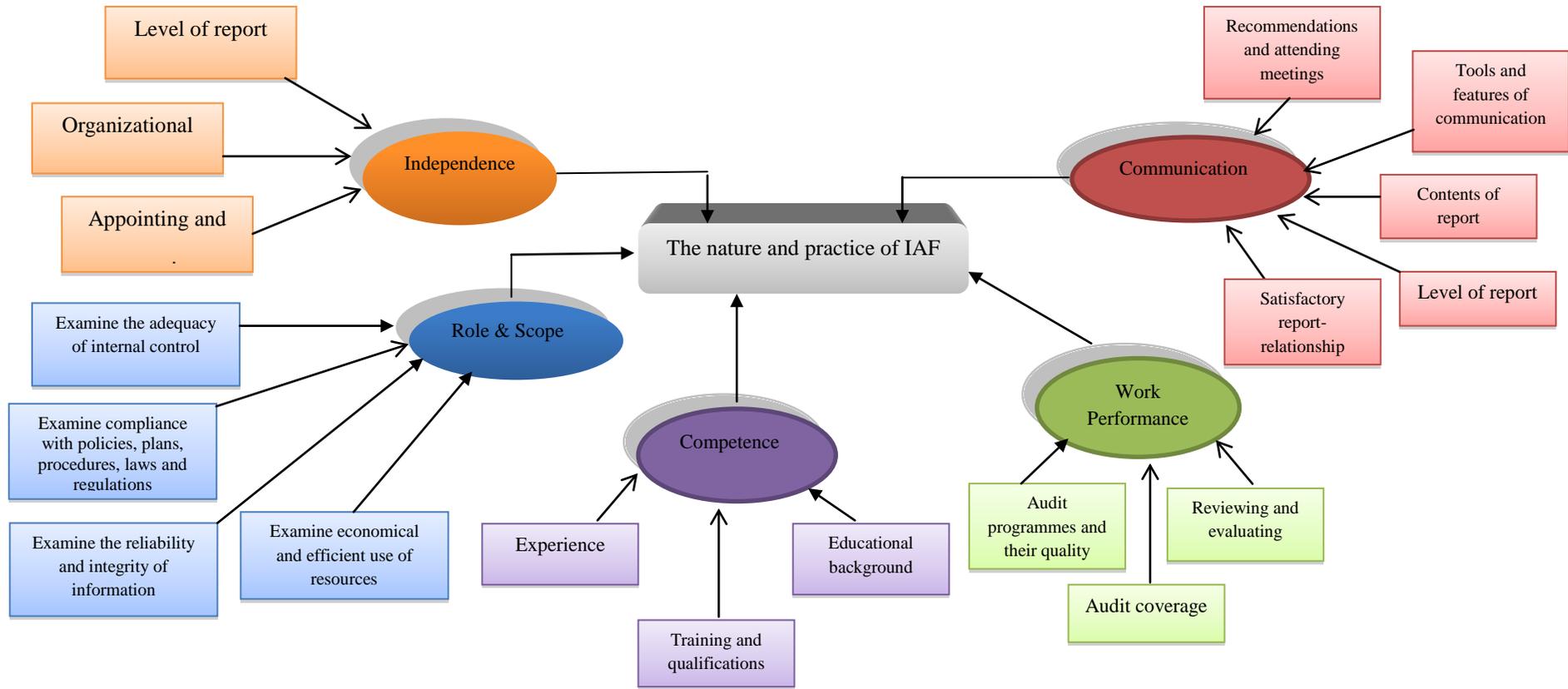
(Source: Author own)

8.4 Recommendations of the study

Considering the findings of the study, some recommendations can be suggested especially for Libyan oil and gas companies regarding the study factors and the relationship between top management and IAD,

1. As the results related to the independence of IAF in Libyan oil and gas companies revealed, there were significant differences associated with IAD working freely and objectively. Therefore, management should strive to enhance the objectivity and independence of IAF, through the creation of an audit committee in the companies' organizational structure. This would contribute to the promotion of independence and objectivity of the IAF, and enhance its relationship with top management.

2. According to the results linked to role and scope, there were significant differences between the four groups concerning the role of the IAF. Management of companies should work to reduce this gap and improve the role played by the IAF in many aspects for example, risk management, performance audit, providing consultations and operational audit. Furthermore, the role and scope of IAF should be communicated to all administrative levels across the company.

3. As the results revealed, competence was not sufficiently satisfactory. Companies' management should work toward increasing the competence of IAF. Competence is often a reflection of training. The lack of professional training programmes has greatly affected the technical competence of internal auditors; therefore, it is recommended that companies should invest in their internal auditors, and provide them with the appropriate short-term training programme, as well as create opportunities for internal auditors to join certification programmes in auditing and IA.

4. As there were significant differences with work performance, companies' management, in order to maintain satisfactory and reliable level of IAF work performance, should work to appoint more experienced staff in the IAD so as to perform the function properly, and overcome the problem of audit coverage. Given that the role the IAF performs is to keep the resources and performance of companies under control, companies' management are encouraged to apply and follow-up the recommendations and improvements provided by the IAF; this will require that SM strengthens its liaison with IA.

5. Despite this, there is (to some extent) reliance on the IAF. The degree of reliance on IAF work should be enhanced by increasing the competence of the audit function, rather than relying on the external audit, because greater reliance on the IAF provides cost-benefits for company management and enables desirable goals achieved.

6. Management should aim at enhancing the communication and relationship between IA and stakeholders, since the IA has a responsibility to provide reports on the operation of the organization's risk management, control, and governance processes.

7. Stakeholders should have a role in putting pressure on top management to reinforce the authority of IAF, and improving the professional competence of the IAF.

8. The results of the study should additionally be considered by regulators in Libya in order to begin the necessary actions for developing the IAF towards adopting modern (contemporary) practices.

8.5 Limitations of the Study

The limitations of this research should be noted. The study shortcomings are categorized into theoretical and empirical elements.

Firstly, this research focused solely on oil and gas companies, and does not represent the nature and practices of IAF in all companies in Libya. However, the reason for focusing on oil and gas was that this is the main industrial sector within Libya, and represents the main source of revenue to the Libyan economy, and it is also a more organized sector compared to other sectors.

Secondly, the results were gathered solely from the perspectives of participants inside the Libyan oil and gas companies. In other words, it did not take into account the way to which the IAF is perceived by external auditors and shareholders, independent of the management, or the impact that such perceptions have on the relationship between the IAF and these groups.

In the Libyan context, the extent to which 'external' auditors are external can be questioned. All government owned companies are audited by an 'auditor' government agency. Companies are not subject to audit by external, qualified professionals from

organizations such the 'Big Four' auditing companies. The audit agency in Libya is part of the same state apparatus as the management cadre of the companies. This means that it is possible to question the degree to which the government audit agency stands in the same relation to Libyan oil and gas companies as would be the external auditor to a major listed company elsewhere.

Similarly, as they are state (government) bodies there is no effective comparator to the shareholders in large listed oil and gas companies elsewhere. In the 'traditional' model, the external audit or serves to meditate the principal / agent issues related to the divorce of ownership from management. For large Libyan oil and gas companies this means that there is no effective 'representation' of 'owner' interests. It should be understood that, in the historic context of the Libyan state, there has been no clear demarcation between the elements of the bodies of the state as would be considered usual elsewhere. The lack of any sovereign body with power of scrutiny (such as a parliament equipped with review committees, or a national audit office of its own) has enfeebled this aspect of public policy. The effects of the unique structures adopted under the former system of government are certainly worthy of study, but they are beyond the scope of this one.

It is the case that most previous studies have considered the perceptions of external auditors toward IA, as table 2.1 on page 15 shows. On the other hand, few previous studies have considered the perceptions of top management. In addition, for the purposes of this research, perceptions and evaluations focused on the people *inside* the companies rather than *outside* the companies, such as external auditors. Moreover, Libyan oil and gas companies are owned by the Libyan government, and are reviewed by government agencies. There is thus a greater circularity in these relationships, given the nature of state bodies in the former system in Libya. As a result, the implications of omitting this element might not have so deep an effect on the findings of this study, as would be evident elsewhere where *externality* is more developed.

Thirdly, access to the opinions of the board of directors group is quite limited compared with other groups, because this group of participants is often very busy. This is probably as much a function not only of status, but also the need to show a particular 'face' in the Libyan social context. Efforts to gain wider access remained unsuccessful. (It should be remembered that these companies are major components within the Libyan economy, and

their directors are therefore somewhat comparable in social terms to directors of oil majors elsewhere).

Fourthly, the findings of the study create only a partial image (but a relatively strong one) of the nature and practice of IAF as a corporate governance mechanism in Libyan oil and gas companies. This powerful, but partial image nevertheless indicates that extensive efforts should be made to enhance the IAF in Libya in order to improve the situation.

Finally, the questionnaire was personally administered; however, the researcher was merely acting as a postman. In most cases, the questionnaire was handed out to individuals in the targeted oil and gas companies and collected at a later time. Therefore, the influences of a personally administered questionnaire *could* exist in this study, in addition to the other influences of a questionnaire as a data collection method. Respondents for the most part completed the questionnaire in their own time for later collection. This should serve to mitigate some of the effects of personal administration. Given that internal reports were considered to be another method to collect relevant data, but respondents indicated that to make them available to people outside the company was to cross a 'red line' as some put it, personal administration remained the most viable form of data collection.

8.6 Further Research

The present investigation is the first study in Libya that examines the nature and practice of IAF, as well as the degree of reliance placed by top management on the work of IAF in Libyan oil and gas companies. In order to reach more generalizable conclusions in this field, the following ideas are suggested for further research:

- First, with regard to perceptions and evaluations of the nature and practice of IAF, further research should be conducted to involve participants from outside the company or organization, such as external auditors and shareholders in other sectors.
- Second, the results of the study can be used as the basis for other studies, in other sectors in Libya, such as the banking and insurance sectors, that are developing very fast, and which consider IAF to be important for them.
- Third, as there are some differences in financial regulations and practices among African and Arab countries, this study should be conducted in other African or Arab countries, and comparisons made among all these studies. This will provide further

insight on the effect of country-specific auditing regulations and practices on the nature and practice of IAF, and the relationship between IA and company or organization management.

- Studies could build on the current conceptual framework in this study (Figure 8.1) and use it to as a frame elsewhere, to discover points of difference or similarity. Alternatively, it could be tested through empirical studies at an appropriate scale.

The researcher hopes that additional studies in this area will be undertaken and reported. These studies will contribute to an enhanced awareness of the value-added by IAF to contribute in achieving organizational or company objectives.

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Appendix – A : The letter of University of Gloucestershire

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23rd March 2010

To Whom It May Concern:

RE:	Osama Algeru
Student Number:	s0710337
Sponsor Licence Number:	8DHV1QR87
Department:	The Business School
Degree:	PhD
Date of enrolment:	01/09/2007

I am writing to confirm that Osama Algeru needs to commence data collection in Libya as part of his research on the Evaluation and Perception about the Practice of the internal function in Libyan companies. He is seeking to distribute questionnaires to product directors, senior management as well as internal auditors within the Libyan companies. All data collected will be treated as confidential and used only for the purposes of this academic research.

If you could extend your support to the student, we at the University of Gloucestershire would be very grateful and appreciate your assistance in this matter.

If you require any further information, please do not hesitate to contact me.

Best regards,

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Registered in England No 900478 Vice-Chancellor

Appendix –B1: The letter of Cultural Affairs in London

إن العلاقات الأخوية بين الشعوب وليست بين الحكومات

الجماهيرية العربية الليبية الشعبية الاشتراكية العظمى

المكتب الشعبي – لندن

الشئون الثقافية

التاريخ: 2010-02-28

الرقم الإشاري: 134 /أ-04-10/10

الإخوة/ الشركات العامة،،،،

بعد التحية،،،،

يشهد القسم الثقافي بالمكتب الشعبي لندن بأن الأخ/أسامة إبراهيم المقطوف الجرو هو أحد الطلبة الموفدين للدراسة على حساب المجتمع بالساحة البريطانية لتحضير الدرجة الدقيقة في مجال محاسبة اعتبارا من: 2006/09/01 الي 2010/08/31ف.

أعطي له هذا التعريف بناء على طلبه وذلك لاستعماله فيما يخوله القانون ويعتبر رسمي بعد التوقيع والختم.

والسلام عليكم ورحمة الله وبركاته...

د. سعد عبد العزيز مناع

الخبير التعليمي
الشئون الثقافية لندن

Appendix – B2: Translation of a letter of Cultural Affairs in London

Dear brothers in / Libyan Companies

After greeting

The cultural section of the people's bureau in London certifies that Mr/ Osama I M Algeru is one of students who has scholarship sponsored by Libyan government to get a PhD degree in Accounting area, since 01/09/2006 to 31/08/2010.

This Letter has been given upon his request to be used legally. The letter is formal after signature and stamping.

      May peace and Allah's mercy and blessings......

Dr/ Saad Abdul-Aziz Manna

  Educational Expert

Cultural Affairs – London

Appendix - C1: English Questionnaire

Perceptions and Evaluations of the Internal Audit Function In Libyan oil and gas Companies

By: Osama Algeru

2009/2010

A QUESTIONNAIRE ON: Perceptions and Evaluations of Internal Audit Function in

Libyan oil and gas Companies

Dear respondent

I am currently working on a research project about internal audit in Libyan companies, supervised at the University of Gloucestershire in the UK. The aim of my research is to perceive and evaluate the nature and the practice of the internal audit function in Libyan oil and gas companies, and the reliance degree on the internal audit function in achieving the company's objectives. The attached questionnaire is the main part of the study and I would be very grateful for your cooperation in its completion.

The questionnaire seeks answers from your own experience. It should take approximately 25 to 30 minutes to answer. Your responses are very important to the success of this study. Your name and answers to the questionnaire will be treated as completely confidential, and will be either identified or identifiable in the thesis reporting the research results. At the end of this research, if you want a copy of the results summary, I will be pleased to send it to you.

Thank you for your cooperation
Yours faithfully,
Osama Algeru
Business School
University of Gloucestershire, UK
Email: s0710337@glos.ac.uk
Email: oalgeru@live.co.uk
Mobile No Libya: +218-91-7362305 or +218-92-4481944
Mobile No UK: +44-7723542448

SECTION ONE: GENERAL INFORMATION
To answer the following questions please tick in the empty box as appropriate:
1- What is your current position?

No	Position	
1-	Board of Director level	
2-	Senior management level – CEO	
3-	Senior management level – CFO	
4-	Internal auditor	

2- How many years of experience do you have within the company?

No	Years of Experience	In Management	In internal Auditing
1-	Under one year		
2-	1 to 5 years		
3-	More than 5 up to 10 years		
4-	More than 10 years		

3- What is the highest academic qualification do you have?   4- What was your subject of study?

No	Academic qualification	
1-	Doctoral (Ph.D.)	
2-	Master Degree	
3-	First Degree (B. A, B. Sc.)	
4-	Profession qualification (Please Specify).................	
5-	High School	

No	Specialization	
1-	Accounting	
2-	Financial	
3-	Economy	
4-	Management	
5-	Law	
6-	Other (please Specify)......................	

5- How many people work in the internal audit department?

No	Number of internal auditors	
1-	Less than 4 internal auditors	
2-	5 to 8 internal auditors	
3-	9 to 12 internal auditors	
4-	More than 13 internal auditors	

6- Does your company have an Audit Committee? Yes ☐ No ☐
7- If yes; does internal audit department report to? The audit committee ☐ or to the top management ☐
8- Is internal audit undertaken? By employees of the company ☐ or by contracted employees outside of the company ☐

SECTION TWO:
This section consists of five tables (A, B, C, D and E). It seeks to evaluation the nature and the effectiveness of practice of internal audit function through many points, as they shown in the tables. For this, please circle the number that most closely matches your actual perceptions in relation to each of the statements using a scale from 1 to 5 (the value of 1 being "Strongly Disagree" and 5 being Strongly Agree").

Table A -The following statements are related to the independence of the practice of the internal auditing function in the company.

NO	In my view	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1-	The organizational status of internal audit department is adequate for the fulfilment of its job.	1	2	3	4	5
2-	Internal auditing members of staff carry out their work freely.	1	2	3	4	5
3-	Internal auditing members of staff carry out their work objectively.	1	2	3	4	5
4-	Internal auditing members of staff have access to all the information, which they consider to be pertinent to the conduct of their audit.	1	2	3	4	5
5-	Internal auditing members of staff have access to all employees which they consider to be pertinent to the conduct of their audit.	1	2	3	4	5
6-	The board of directors enhance the objectivity of internal auditors.	1	2	3	4	5
7-	The internal audit function reports at a very senior level in this company (CEO, CFO).	1	2	3	4	5
8-	The internal auditing members of staff are required to review all departments in the company.	1	2	3	4	5
9-	The board of directors (audit committee if applicable) approve the appointment of the head of the internal audit department.	1	2	3	4	5
10-	The board of directors (audit committee if applicable) approve the removal of the head of the internal audit department.	1	2	3	4	5
11-	Conflict of interest is present in the work of internal auditors.	1	2	3	4	5
12-	The senior management decides what subjects will or will not appear in the work plan of the internal audit function.	1	2	3	4	5
13	The internal audit department is under the authority of senior management.	1	2	3	4	5
14-	The internal audit activity sometimes faces interference by management in determining its scope, and in communicating results.	1	2	3	4	5
15-	The internal audit department directly reports to the board of directors (audit committee if applicable).	1	2	3	4	5

Table B -The following statements are related to the role and scope of work of the practice of the internal auditing function in the company.

NO	In my view	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1-	The scope of internal auditing includes evaluating the adequacy of the company's system of internal control.	1	2	3	4	5
2	The internal auditing department examines the reliability of accounting information.	1	2	3	4	5
3-	The internal auditing department checks whether the systems operating in the company ensure compliance with policies, plans, procedures, laws and regulations.	1	2	3	4	5
4-	The internal auditing department reviews the systems used for safeguarding the company's assets.	1	2	3	4	5
5-	The internal auditing department provides consultation for top management in regard to adequate internal control systems.	1	2	3	4	5
6-	The internal auditing department provides consultation for top management in regard to the company's operations.	1	2	3	4	5
7-	The internal auditing department provides consultation for top management in regard to risk management.	1	2	3	4	5
8-	The internal auditing department applies the same rules to all levels of the company.	1	2	3	4	5
9-	The company's internal auditing department does not encompass the top management's own operations.	1	2	3	4	5
10-	The internal auditing department appraises the economy and efficiency and effectiveness with which resources are employed.	1	2	3	4	5
11-	The internal auditing department is responsible for following-up and ensuring that corrective actions are taken.	1	2	3	4	5

Table C-The following statements are related to the competence of the practice of the internal auditing function in the company.

No	In my view	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1-	The internal auditing members of staff possess the knowledge needed to carry out their responsibilities.	1	2	3	4	5
2-	The internal auditing members of staff possess the skills needed to carry out their responsibilities.	1	2	3	4	5
3-	The company management encourages the internal audit staff to develop their skills.	1	2	3	4	5
4-	Some of the internal auditing members of staff in the company have obtained a professional certification in auditing.	1	2	3	4	5
5-	Some internal auditing members of staff in this company are certified internal auditing.	1	2	3	4	5
6-	The company management only appoints persons with accounting or auditing qualifications as internal auditors.	1	2	3	4	5
7-	Internal audit department members of staff are given regular in-house training in auditing.	1	2	3	4	5
8-	Not all internal auditing members of staff in the company have the experience in the audit profession.	1	2	3	4	5
9-	All internal auditing members of staff in the company have prior experience in internal auditing.	1	2	3	4	5
10-	The internal members of auditors maintain satisfactory relationships with other employees in the company.	1	2	3	4	5
11-	The board of directors controls the competence of internal audit departments.	1	2	3	4	5
12-	The internal audit members of staff have the necessary professional competence.	1	2	3	4	5
13-	The company management only appoints experienced internal auditors.	1	2	3	4	5
14-	Allocating employees from other departments to work as internal auditors will negatively affect the professional competence of the department.	1	2	3	4	5

Table D-The following statements are related to the work performance of the practice of internal auditing function in the company

No	In my view	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1-	The director of internal audit department supervises his/her staff through a system of defined responsibilities.	1	2	3	4	5
2-	The number of internal auditors in the company is not sufficient compared with the number of departments or branches they audit.	1	2	3	4	5
3-	There are audit schedules to audit the company's departments or branches.	1	2	3	4	5
4-	The internal audit department develops appropriate audit plans for established audit objectives.	1	2	3	4	5
5-	The company internal auditors examine the reliability and integrity of information.	1	2	3	4	5
6-	The internal auditors review the adequacy of risk management on a regular basis.	1	2	3	4	5
7-	The speed of corrective action on the findings of the company internal auditing is satisfactory.	1	2	3	4	5
8-	The internal auditors review operations to ascertain whether results are consistent with established objectives.	1	2	3	4	5
9-	There are follow-ups to corrective actions on the findings of the internal auditors.	1	2	3	4	5
10-	The director of the internal audit department regularly checks the quality of working papers.	1	2	3	4	5
11-	There is a regular evaluation of risk management procedures	1	2	3	4	5
12-	The internal auditing members of staff understand the nature of operational controls.	1	2	3	4	5

Table E-The following statements are related to the communication practice of the internal auditing function in the company.

NO	In my view	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1-	The internal auditing department maintains satisfactory report relationships with auditees (people under auditing).	1	2	3	4	5
2-	The internal auditing department conveys effectively, in written communication, audit objectives and recommendations to top management.	1	2	3	4	5
3-	The internal auditing department conveys effectively, in oral communication, audit objectives and recommendations to top management.	1	2	3	4	5
4-	The company internal auditing department recommends improvements to correct deficiencies or irregularities.	1	2	3	4	5
5-	The company internal auditing reports are issued in a clear, concise and timely manner.	1	2	3	4	5
6-	The internal auditing department reports administratively to senior managers.	1	2	3	4	5
7-	The internal auditing department reports administratively to the broad of directors.	1	2	3	4	5
8-	The internal auditing department reports functionally to the audit committee.	1	2	3	4	5
9-	The internal auditing department members of staff attend meetings of the top management and the board of directors.	1	2	3	4	5
10-	Reports from the internal auditing department contain findings and recommendations related to the operations and control system of the company.	1	2	3	4	5
11-	Reports from the internal auditing department contain findings and recommendations related to risk management of the company.	1	2	3	4	5
12-	Reports from the internal auditing department contain findings and recommendations related to corporate governance.	1	2	3	4	5

SECTION THREE:

This part, discusses top management views regarding the extent of reliance on the internal audit function to achieve the company's objectives.

Table F - The following statements are related to the reliance degree placed on the work of the internal auditing function in the company

No.	In my view	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1-	Company's management periodically requests a report from the Department of Internal Audit	1	2	3	4	5
2-	Information contained in the reports of internal audit department used by management of company in the decision-making.	1	2	3	4	5
3-	Management of company does not limit the scope of internal audit function to the financial aspects only.	1	2	3	4	5
4-	Management of company does not limit the scope of internal audit function to assess control systems only.	1	2	3	4	5
5-	Management of company does not limit the scope of internal audit function to assess management operations only.	1	2	3	4	5
6-	Management of company does not limit the scope of internal audit function to assess risk management only.	1	2	3	4	5
7-	Company management provides a degree of independence and authority for internal audit function.	1	2	3	4	5
8-	Company management gives the necessary administrative support for the audit function to perform its responsibilities.	1	2	3	4	5
9-	Management of company gives the opportunity to internal audit department staff to attend meetings with senior management	1	2	3	4	5
10-	Management of the company gives the opportunity to internal audit department staff to attend meetings with the board of directors.	1	2	3	4	5
11-	To ensure the efficient of internal audit department, company management employs auditors with qualifications in accounting and auditing.	1	2	3	4	5
12-	The company's management follow-up results of the work of internal audit.	1	2	3	4	5
13-	The degree of response to internal audit reports by senior management is satisfactory.	1	2	3	4	5
14-	The company's management considers performance of internal audit work to be satisfactory, which makes it possible for management to rely on it.	1	2	3	4	5
15-	Company's management is based on the internal audit department to monitor the internal control systems.	1	2	3	4	5
16-	Company's management considers that the existence of the internal audit department reduces the cost of external audit.	1	2	3	4	5

SECTION FOUR: Evidence derived from the literature suggests that the best practices described in the following table can "add- value" to the organization during the audit process. Please indicate the extent to what you agree or disagree that any of the following 9 items constitute 'best practice of the IAF.

Table G - The following statements are related to the good practice of the internal auditing function in the company

NO	In my view the best practices of internal audit functions are:	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1-	Control self-assessment	1	2	3	4	5
2-	Risk management assessment	1	2	3	4	5
3-	Systems implementation review	1	2	3	4	5
4-	Continuous monitoring	1	2	3	4	5
5-	Conduct preventive auditing	1	2	3	4	5
6-	Using it as training ground for future managers	1	2	3	4	5
7-	Using computer assisted audit techniques	1	2	3	4	5
8-	Make audit activity more collaborative	1	2	3	4	5
9-	Share knowledge and technology with business units	1	2	3	4	5
	Other (please specify)					

SECTION FIVE: COMMENTS AND SUGGESTIONS

1) If arising from your experience and/ or study, you have any comments or suggestions on issues relating to the perception of the practice of the internal audit function in your company or generally, please write them below:

Could you please provide me your contact details? Because I will seek to interview a sample of respondents in soon future, to follow up the questionnaire enquiry, to gain a deeps understanding of the reasons underlying the perceptions reported by questionnaire respondents. If you accepted please filling the blanks.
Company's Name: ....your name: ....

 Office or Mobile Number: ……………………….

3) If you would like to receive a summary of the final results, please state your contact details:
Company's Name/....................................... Email Address/…………………………

Finally, I really appreciate your contribution and co-operation in devoting your valuable time in supporting this research.
     Thank you,
Researcher: Osama Algeru

Appendix – C2: Arabic Questionnaire

إستبانةً حول: إدراك و تقييم وظيفة المراجعة الداخلية في الشركات النفط والغاز الليبية

الأخ/ المستجيب المحترم

بعد التحية،،

(الحمدلله الذي علم بالقلم؛ علم الانسان مالم يعلم؛ والصلاة والسلام على نبيه الكريم؛ وعلى آله وصحبه اجمعين..وبعد)

يسعدني أن أضع بين يديك هذه الإستبانة، والتي تهدف إلى تقييم طبيعة و ممارسة المراجعة الداخلية في الشركات النفطية العاملة في ليبيا، و درجة الإعتماد الإدارة العليا على عمل وظيفة المراجعة الداخلية للمساهمه في تحقيق أهداف الشركة. وكذلك تحسين مستوى ممارسة وظيفة المراجعة الداخلية. عليه، فإن الإستبانه المرفقه جزءاً رئيسياً في هذه الدراسة للحصول على درجة الإجازة الدقيقة الدكتوراه في المراجعة الداخلية، من جامعة قلوسترشير يسعدني أن أضع بين يديك هذه الإستبانة، والتي تهدف إلى تقييم طبيعة و ممارسة وظيفة المراجعة الداخلية في ببريطانيا. وسأكون شاكراً لك ومقدراً حسن تعاونك في اتمام الإستبانة.

كما افيدكم بأنه سيتم إستخدام هذا الإستبانه لغرض جمع البيانات، وذلك من خلال خبرتكم في الحصول على الإجابات المُناسَبة ، كما أن الزمن محدد للإجابه عليها في حدود 25 إلى 30 دقيقة، وبالتالي ستكون إجابتكم مهمة جدا في نجاح هذه الدراسة. أسمائكم و ردودكم على الإستبانه سيحاطان بالسرية التامة. و إذا كنت ترغب في معرفة نتيجة هذا الدراسة ترسل إليك نسخةً من ملخص نتائج الدراسة ، فقط قُمْ بتعبئة الخانه المخصصة.

والسلام عليكم ورحمة الله وبركاته

الباحث/ أسامة إبراهيم الجرو
مدرسة الأعمال و التجارة
جامعة قلوسترشير ـ بريطانيا
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صحيفة الإستبيان

القسم الأول: معلومات عامة: الرجاء الإجابة من خلال التأشير في المربع الفارغ:

1 ما هو موقعك الوظيفي الحالي؟

رقم	الموقع الوظيفي	
1-	مستوى مجلس الإدارة	
2-	مستوى الإدارة التنفيذية-مدير عام الشؤون الإدارية	
3-	مستوى الإدارة التنفيذية- مدير عام الشؤون المالية	
4-	مستوى المراجعة الداخلية	

2- ماهي عدد سنوات الخبرتك في هذه الشركة؟

رقم	مدة الخبرة	في الإدارة	في المراجعة الداخلية
1-	أقل من سنة		
2-	1 إلى أقل من 5 سنوات		
3-	من 5 إلى أقل من 10 سنوات		
4-	من 10 سنوات فأكثر		

3- ماهي المؤهلات الأكاديمية التي تحصلت عليها؟   4 - ماهو مجال تخصصك؟

رقم	التخصص	
1-	محاسبة	
2-	مالية	
3-	إدارة	
4-	إقتصاد	
5-	قانون	
6-	أخرى الرجاء حدد	

رقم	الدرجة الأكاديمية	
1-	درجة الدكتوراة	
2-	درجة الماجستير	
3-	درجة الباكالوريس	
4-	شهادات مهنية |(الرجاء حددها	
5-	أخرى الرجاء حددها	

5- كم عدد الموظفين الذين يعملون في قسم أو إدارة المراجعة الداخلية؟

رقم	عدد المراجعين الداخليين	
1-	أقل من 5 مراجعين داخليين	
2-	5 إلى 8 مراجعين داخليين	
3-	9 إلى 12 مراجع داخلي	
4-	أكثر من 12 مراجع داخلي	

6- هل لدى شركتكم لجنة مراجعة؟ نعم ☐   لا ☐

7- إذا كانت نعم: فهل إدارة أو قسم المراجعة الداخلية يرفع التقارير إلى لجنة المراجعة؟ ☐
أو الإدارة العليا؟ ☐

8- هل المراجعة الداخلية يقوم بها: موظفون من داخل الشركة؟ ☐   أو موظفون من خارج الشركة؟ ☐

القسم الثاني:تقييم ممارسة المراجعة الداخلية.

هذا القسم يتألف من خمس جداول (أ،ب،ج،د،ه)، يسعى إلى تقييم طبيعة و ممارسة وظيفة المراجعة الداخلية من خلال عدة نقاط، كما هو مبين في الجداول التالية. يرجى وضع دائرة حول التقييم القريب إلى تصورك بشكل واقعي، باستخدام مقياس من 1 إلى 5 (المقياس 1 تبدأ بغير موافق بشدة، 5 تبدأ مُوافق بشدة)

الجدول (أ)- يتعلق بإستقلالية المراجعة الداخلية: البنود الواردة في هذا الجدول تتعلق بتقييم إستقلالية وموضوعية المراجعة الداخلية في الشركة، الرجاء تحديد درجة موافقتك بكل موضوعية، من خلال وضع دائرة حول إجابة واحدة فقط.

موافق بشدة	موافق	محايد	غير موافق	غير موافق بشده	من وجهة نظرى	رقم
5	4	3	2	1	الوضع التنظيمي لإدارة المراجعة الداخلية بالشركة مناسب لكي تنجز عملها.	1-
5	4	3	2	1	يقوم موظفو إدارة المراجعة الداخلية بعملهم بحرية.	2-
5	4	3	2	1	يقوم موظفو إدارة المراجعة الداخلية بعملهم بموضوعية.	3-
5	4	3	2	1	موظفو إدارة المراجعة الداخلية لديهم الحرية للوصول إلى جميع المعلومات، التي لها صلة بعملية المراجعة.	4-
5	4	3	2	1	موظفو إدارة المراجعة الداخلية لديهم الحرية للوصول إلى جميع الموظفين بالشركة، الذين هم على صلة بعملية المراجعة.	5-
5	4	3	2	1	مجلس الإدارة يحافظ على دعم إستقلالية و موضوعية المراجعين الداخليين.	6-
5	4	3	2	1	تقدم إدارة المراجعة الداخلية تقاريرها إلى مستوى الإدارة التنفيذية	7-
5	4	3	2	1	المراجعون الداخليون يستطيعون مراجعة كل الوحدات داخل الشركة.	8-
5	4	3	2	1	مجلس الإدارة هو الجهة الوحيدة التي لها الحق في تعيين مدير إدارة المراجعة الداخلية.	9-
5	4	3	2	1	مجلس الإدارة هي الجهة الوحيدة التي لها الحق في عزل مدير إدارة المراجعة الداخلية.	10-
5	4	3	2	1	إن عمل المراجعين الداخليين يواجهه تضارب في المصالح أثناء ادائهم لمهامهم.	11-
5	4	3	2	1	الإدارة العليا بالشركة هي التي تقرر ماهي المواضيع التي ستبحث أو أنها لن تظهر في خطة عمل المراجعة الداخلية	12-
5	4	3	2	1	الهرم التنظيمي للشركة يضع إدارة المراجعة الداخلية تحت إشراف الإدارة التنفيذية مباشرة.	13-
5	4	3	2	1	نشاط المراجعة الداخلية أحياناً يواجهه تدخلات في تحديد نطاق و إستراتيجية أداء العمل من قبل الإدارة العليا .	14-
5	4	3	2	1	إدارة المراجعة الداخلية تقوم برفع تقاريرها مباشرة إلى مجلس الإدارة (أو لجنة المراجعة إن وجدت).	15-

الجدول (ب)- يتعلق بدور و نطاق عمل المراجعة الداخلية: البنود الواردة بهذا الجدول تتعلق بتقييم دور ونطاق عمل المراجعة الداخلية في الشركة، الرجاء تحديد درجة موافقتك بكل موضوعية، من خلال وضع دائرة حول إجابة واحدة فقط.

موافق بشدة	موافق	محايد	غير موافق	غير موافق بشده	من وجهة نظري	رقم
5	4	3	2	1	نطاق عمل المراجعة الداخلية يشمل تقييم لكفاية نظام الرقابة بالشركة.	1-
5	4	3	2	1	تقوم إدارة المراجعة الداخلية بفحص موثوقية المعلومات المحاسبية.	2-
5	4	3	2	1	تقوم المراجعة الداخلية بالتأكد من أن النظم التي تعمل في الشركة تكفل الإمتثال للسياسات و الخطط و الإجراءات و القوانين والقواعد.	3-
5	4	3	2	1	إدارة المراجعة الداخلية تقوم بفحص النظم المستخدمة لحماية أصول الشركة.	4-
5	4	3	2	1	إدارة المراجعة الداخلية تقدم المشورة للإدارة العليا في مجال كفاية نظام الرقابة .	5-
5	4	3	2	1	إدارة المراجعة الداخلية تقدم المشورة للإدارة العليا في مجال عمليات المنظمة.	6-
5	4	3	2	1	إدارة المراجعة الداخلية تقدم المشورة للإدارة العليا في مجال إدارة المخاطر .	7-
5	4	3	2	1	إدارة المراجعة الداخلية تطبق نفس القواعد على جميع مستويات المنظمة.	8-
5	4	3	2	1	نطاق وظيفة المراجعة الداخلية بالشركة لايشمل العمليات الخاصة بالإدارة العليا.	9-
5	4	3	2	1	تقوم وظيفة المراجعة الداخلية على تقييم إقتصادية وكفاءة وفعالية أي مصدر مستخدم لتحقيق أهداف الشركة.	10-
5	4	3	2	1	إدارة المراجعة الداخلية هي المسؤولة على متابعة و التأكد من إتخاذ الإجراءات التصحيحية اللازمة حيال المخالفات و الأخطاء.	11-

الجدول (ج)- يتعلق بكفاءة المراجعة الداخلية: البنود الواردة في هذا الجدول تتعلق بتقييم كفاءة المراجعة الداخلية في الشركة، الرجاء تحديد

درجة موافقتك بكل موضوعية، من خلال وضع دائرة حول إجابة واحدة فقط.

موافق بشدة	موافق	محايد	غير موافق	غير موافق بشده	من وجهة نظري	رقم
5	4	3	2	1	العاملون بإدارة المراجعة الداخلية يملكون المعرفة المطلوبة للقيام بمسؤولياتهم.	1-
5	4	3	2	1	العاملين بإدارة المراجعة الداخلية يملكون المهارات المطلوبة للقيام بمسؤولياتهم.	2-
5	4	3	2	1	إدارة الشركة تشجع المراجعين الداخليين على تطوير مهاراتهم.	3-
5	4	3	2	1	بعض المراجعين الداخليين مؤهلات مهنية في المراجعة، مثل(زمالة المحاسبين القانونيين البريطانية)	4-
5	4	3	2	1	بعض المراجعين الداخليين مؤهلات مهنية في المراجعة الداخلية، مثل (شهادة من معاهد المراجعين الداخليين)	5-
5	4	3	2	1	تقوم إدارة الشركة بتعيين أشخاص كمراجعين داخليين ممن يحملون مؤهلات في المحاسبة أوالمراجعة.	6-
5	4	3	2	1	العاملون في إدارة المراجعة الداخلية يخضعون بصورة منتظمة إلى دورات تدريبية في مجال المراجعة الداخلية.	7-
5	4	3	2	1	ليس كل العاملين في إدارة المراجعة الداخلية بالشركة لديهم خبرة في مهنة المراجعة.	8-
5	4	3	2	1	ليس كل العاملين في إدارة المراجعة الداخلية لديهم خبرة مسبقه في مجال المراجعة الداخلية.	9-
5	4	3	2	1	المراجعون الداخليون يحتفظون بعلاقات معقولة مع الموظفين الآخرين بالشركة.	10-
5	4	3	2	1	مجلس الإدارة بالشركة يستطيع التحكم في الكفاءة المهنية للمراجعين الداخليين بالشركة.	11-
5	4	3	2	1	المراجعون الداخليون بالشركة يملكون الكفاءة المهنية اللازمة.	12-
5	4	3	2	1	تقوم إدارة الشركة بتعيين مراجعين داخليين من ذوي الخبرة فقط.	13-
5	4	3	2	1	تخصيص موظفين من إدارات أخرى للعمل كمراجعين داخليين سوف يؤثر سلباً على الكفاءة المهنية للوظيفة.	14-

الجدول (هـ)- يتعلق بأداء العمل للمراجعة الداخلية: البنود الواردة في هذا الجدول تتعلق بتقييم أداء العمل المراجعة الداخلية في الشركة، الرجاء تحديد درجة موافقتك بكل موضوعية، من خلال وضع دائرة حول إجابة واحدة فقط.

موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة	من وجهة نظري	رقم
5	4	3	2	1	مدير إدارة المراجعة الداخلية بالشركة له القدرة على الإشراف على العاملين بالإدارة وذلك من خلال نظام يحدد مسؤولياتهم.	1-
5	4	3	2	1	عدد المراجعين الداخليين بالشركة ليس كافياً مقارنة بعدد العاملين بالإدارة والفروع التي يراجعونها.	2-
5	4	3	2	1	لدى إدارة المراجعة الداخلية جدول زمني معين لمراجعة إدارات / فروع الشركة.	3-
5	4	3	2	1	إدارة المراجعة الداخلية تضع خطط مراجعة مناسبة لمقابلة الأهداف المنشوذه.	4-
5	4	3	2	1	المراجعون الداخليون يقومون بالتحقق من أن المعلومات المتاحة موثوقاً بها وذات موضوعية.	5-
5	4	3	2	1	إدارة المراجعة الداخلية بالشركة تقوم بالفحص المناسب للحد من مخاطر الإدارة بشكل منتظم.	6-
5	4	3	2	1	السرعة في إتخاذ الإجراءات التصحيحة مرضية، وفقاً لنتائج المراجعة الداخلية بالشركة.	7-
5	4	3	2	1	المراجعون الداخليون يقومون بفحص البرامج للتأكد من أن نتائجها متوافقة مع الأهداف المرسومة مسبقاً.	8-
5	4	3	2	1	هناك متابعة من قبل المراجعة الداخلية للإجراءات التصحيحية على نتائج المراجعة .	9-
5	4	3	2	1	مدير إدارة المراجعة الداخلية يقوم بفحص نوعية أوراق عمل المراجعة المستخدمة بواسطة إدارتها.	10-
5	4	3	2	1	إدارة المراجعة الداخلية تقوم بصورة منتظمة بتقييم إجراءات الحد من مخاطر الإدارة.	11-
5	4	3	2	1	العاملون بإدارة المراجعة الداخلية يدركون طبيعة أنظمة الرقابة بالشركة.	12-

الجدول (و)- يتعلق بإتصالات المراجعة الداخلية: البنود الواردة في هذا الجدول تتعلق بتقييم بإتصالات المراجعة الداخلية في الشركة، الرجاء تحديد درجة موافقتك بكل موضوعية، من خلال وضع دائرة حول الإجابة واحدة فقط.

موافق بشدة	موافق	محايد	غير موافق	غير موافق بشده	من وجهة نظري	رقم
5	4	3	2	1	إدارة المراجعة الداخلية تحافظ على علاقات مرضية مع الأشخاص أو الإدارات التي تكون تحت المراجعة	1-
5	4	3	2	1	إدارة المراجعة الداخلية تنقل بشكل فعال أهداف و تقييمات و إستنتاجات و توصيات المراجعة من خلال الإتصال الكتابي إلى الجهات المناسبة .	2-
5	4	3	2	1	إدارة المراجعة الداخلية تنقل بشكل فعال أهداف و تقييمات و إستنتاجات و توصيات المراجعة من خلال الإتصال الشفوي إلى الجهات المناسبة .	3-
5	4	3	2	1	إدارة المراجعة الداخلية بالشركة توصي بالتحسينات لتصحيح أوجه القصور و المخالفات.	4-
5	4	3	2	1	تقارير إدارة المراجعة بالشركة تصدر واضحة و موجزة وفي الوقت المناسب.	5-
5	4	3	2	1	إدارة المراجعة الداخلية ترفع تقاريرها إدارياً إلى الإدارة العليا.	6-
5	4	3	2	1	إدارة المراجعة الداخلية ترفع تقاريرها إدارياً إلى مجلس الإدارة.	7-
5	4	3	2	1	إدارة المراجعة الداخلية ترفع تقاريرها وظيفياً إلى لجنة المراجعة (إن وجدت)	8-
5	4	3	2	1	إدارة المراجعة الداخلية يسمح لها دائماً بحضور إجتماعات مجلس الإدارة و الإدارة العليا.	9-
5	4	3	2	1	التقارير الواردة من إدارة المراجعة الداخلية تحتوي على نتائج وتوصيات تتعلق بتقييم نظام الرقابة الداخلية.	10-
5	4	3	2	1	التقارير الواردة من إدارة المراجعة الداخلية تحتوي على نتائج وتوصيات تتعلق بإدارة المخاطر.	11-
5	4	3	2	1	التقارير الواردة من إدارة المراجعة الداخلية تحتوي على نتائج وتوصيات تتعلق بتقييم عمليات الشركة.	12-

القسم الثالث: تقييم درجة الإعتماد على المراجعة الداخلية.

هذا الجزءُ يتعلق بتقييم درجة إعتماد على المراجعة الداخلية في تحقيق أهداف الشركة، الرجاء تحديد درجة موافقتك بكل موضوعية، من خلال وضع دائرة حول إجابة واحدة فقط.

موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة	من وجهة نظري	رقم
5	4	3	2	1	تحث إدارة الشركة إدارة المراجعة الداخلية على تقديم تقاريردورياً.	1-
5	4	3	2	1	المعلومات التي تحتويها تقارير المراجعة الداخلية تستخدمها إدارة الشركة في إتخاذ القرارات.	2-
5	4	3	2	1	إدارة الشركة لاتقيد وظيفة المراجعة الداخلية في المجال المالي فقط.	3-
5	4	3	2	1	إدارة الشركة لاتقيد وظيفة المراجعة الداخلية في مجال تقييم الرقابة الداخلية فقط.	4-
5	4	3	2	1	إدارة الشركة لاتقيد وظيفة المراجعة الداخلية في مجال تقييم إدارة العمليات فقط.	5-
5	4	3	2	1	إدارة الشركة لاتقيد وظيفة المراجعة الداخلية في مجال تقييم مخاطر الإدارة فقط.	6-
5	4	3	2	1	إدارة الشركة تدعم وتساند درجة الإستقلالية للمراجعين الداخليين.	7-
5	4	3	2	1	إدارة الشركة تمنح الدعم الإداري اللازم لوظيفة المراجعة الداخلية لأداء مسؤولياتها.	8-
5	4	3	2	1	تُتاح الفرصة إلى مدير إدارة المراجعة الداخلية أو من ينوب عنه لحضور إجتماعات الإدارة العليا.	9-
5	4	3	2	1	تتاح الفرصة إلى مدير إدارة المراجعة الداخلية أو من ينوب عنه لحضور إجتماعات مجلس الإدارة.	10-
5	4	3	2	1	لضمان كفاءة اداء المراجعة الداخلية، توظف إدارة الشركة المراجعين من ذوي المؤهلات في المحاسبة و/ أوالمراجعة.	11-
5	4	3	2	1	تقوم إدارة الشركة بمتابعة نتائج عمل المراجعة الداخلية.	12-
5	4	3	2	1	درجة الإستجابة لتقارير المراجعة الداخلية بواسطة الإدارة التنفيذية مرضية.	13-
5	4	3	2	1	إدارة الشركة تعتبر اداء عمل المراجعة الداخلية مرضياً بشكل يجعل الإعتماد عليه ممكناً.	14-
5	4	3	2	1	إدارة الشركة تعتمد على إدارة المراجعة الداخلية في عملية متابعة و الرقابة على أنظمة الرقابة الداخلية.	15-
5	4	3	2	1	إدارة الشركة تعتبر وجود إدارة المراجعة الداخلية يقلل من تكلفة المراجعة الخارجية.	16-

القسم الرابع:- تحسين ممارسة وظيفة المراجعة الداخلية:

دلائل اشتقت من الأدب المحاسبي تقترح بأن أفضل الممارسات التي وضعت في الجدول التالي، يمكن أن تضيف قيمة إلى كل المنظمة أثناء عملية المراجعة بشكل عام، وإلى المراجعة الداخلية بشكل خاص. يرجى تحديد إلى أي مدى أنت موافق أوغير موافق بأن اي بند من البنود 9 التالية تشكل أفضل الممارسات لوظيفة المراجعة الداخلية .

رقم	أفضل الممارسات لوظيفة المراجعة الداخلية	غير موافق بشده	غير موافق	محايد	موافق	موافق بشدة
1-	تقييم ذاتي للرقابة	1	2	3	4	5
2-	تقييم مخاطر الإدارة	1	2	3	4	5
3-	مراجعة تطبيق النظم	1	2	3	4	5
4-	إجراء المراقبة المستمرة	1	2	3	4	5
5-	إجراء مراجعة وقائية	1	2	3	4	5
6-	إستخدامها كأساس لتدريب مديري المستقبل	1	2	3	4	5
7-	إستخدام تقنيات مراجعة بمساعدة الحاسوب	1	2	3	4	5
8-	أن تؤدي نشاطها بأكثر تعاوناً	1	2	3	4	5
9-	تبادل المعرفة والتكنولوجيا مع وحدات الأعمال	1	2	3	4	5
10-	أخرى (يرجى التحديد)	....				

ملاحظات و إقتراحات:

1-إذا كان لديك اي ملاحظات او اقتراحات حول القضايا المتعلقة إدراك و بتقييم ممارسة المراجعة الداخلية . يرجى كتابتها هنا

....

....

2- هل من الممكن الحصول على بيانات للإتصال بك، وذلك لغرض اجراء مقابلات شخصية مع عينة من المستجوبين بعد تحليل البيانات الواردة بالإستبانه في القريب العاجل. وذلك للحصول على فهم أكثر حول النتائج التي أسفرت عليها الإستبانه.

اسم الشركة.......................... اسمك...................................رقم هاتف المكتب او النقال....................

3- إذا كنت ترغب في الحصول على ملخص للنتائج النهائية ، يرجى كتابة بيانات الإتصال الخاص بك.

رقم هاتف- المكتب أو النقال \...............................عنوان البريد الإلكتروني\..............................

أخيرا اقدر لكم مساهمتكم وتعاونكم في تكريس وقتكم الثمين في دعم هذه الدراسة   .

أسامة إبراهيم الجرو

Appendix - D1: The interview questions

1- What is your r definition of communication?

2- What are the communication tools that you are using together as the internal auditors and top management?

3- Is the communication of the internal audit having the elements of good communication; such as good receiver, good sender, good tools, and suitable time and so on?

4- How do you see the effect of communication on the effectiveness of the practice of internal audit?

5- Do you consider that the reports of the internal auditing the main tool to communicate with upper and lower levels in the company?

6- If the reports of the internal audit function is the main tool to communicate. Then, when its issue? (E.g. monthly; quarterly; biannual; yearly)?

7- What are the subjects of the reports of the internal auditing? Are they relevant to financial or administrative or risk management aspects?

8- Are the communications for internal auditing in the company restricted or unrestricted?

9- In terms of the meetings. Does the internal audit department attend the meetings of the top management?

10- Is an available the degree of communication of the internal audit department providing a suitable feedback?

11- How do you see the communication as factor to evaluate the effectiveness of the practice of the internal audit function?

12- How do you see the communication is important, comparing with another factors if you give a line of degrees from 1 to 10. Could define degree?