

**FACTORS AFFECTING AUDIT QUALITY IN REGISTERED
COMPANIES IN LIBYA**

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COMPANIES IN LIBYA**



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Othman Yeop Abdullah Graduate School of Business,
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(International Accounting)**

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Abstract

The study is motivated by academic available literature on the need to examine factors affecting audit quality in developing economy like Libya. The purpose of this study is to examine the factors affecting audit quality in registered companies in Libya. This study is based on three variables that are used to understand and analyze the level of audit quality within audit firm in Libya. The three variables that are measured in this current study are: independence auditor, audit firm size and audit fees. The data were collected through the distribution of questionnaires to 80 respondents in Libya and processed using Statistical Package for Social Science (SPSS) software for the purpose of this study.

By using correlation and regression analysis, the findings of the study show that there is a positively significant relationship between independent auditor and audit firm size and audit quality. On the other hand, audit fees indicates a positive but insignificant correlation with audit quality.

Key words: *audit quality, independence auditor, audit firm size, audit fees, Libya.*

Abstrak

Kajian ini adalah didorong oleh kesusasteraan akademik disediakan atas keperluan untuk mengkaji faktor yang mempengaruhi kualiti audit dalam membangunkan ekonomi seperti Libya. Tujuan kajian ini adalah untuk mengkaji faktor yang mempengaruhi kualiti audit dalam syarikat-syarikat yang berdaftar di Libya. Kajian ini adalah berdasarkan kepada tiga pembolehubah yang digunakan untuk memahami dan menganalisis tahap kualiti audit dalam firma audit di Libya. Tiga pemboleh ubah yang diukur dalam kajian ini semasa adalah: Yuran kebebasan juruaudit, saiz firma audit dan audit. Data yang telah dikumpulkan melalui pengedaran soal selidik kepada 80 orang responden di Libya dan diproses menggunakan Pakej Statistik untuk Sains Sosial (SPSS) perisian untuk tujuan kajian ini.

Dengan menggunakan korelasi dan analisis regresi, dapatan kajian menunjukkan bahawa terdapat hubungan yang positif yang signifikan di antara juruaudit bebas dan saiz firma audit dan kualiti audit. Sebaliknya, yuran audit menunjukkan korelasi yang positif tetapi tidak penting dengan kualiti audit.

Kata kunci: *kualiti audit, juruaudit kemerdekaan, saiz firma audit, yuran audit, Libya.*

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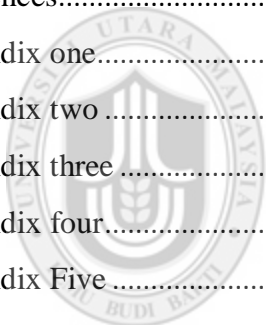
Table of Contents

TITLE PAGE	i
CERTIFICATION OF THESIS WORK	ii
PERMISSION TO USE.....	iii
ABSTRACT.....	iv
ABSTRAK.....	v
ACKNOWLEDGEMENT.....	vi
TABLE OF CONTENT.....	vii
LISTS OF TABLES.....	vii
LISTS OF FIGURES.....	xi
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the study.....	1
1.2 Problem Statement	4
1.3 The research objectives	6
1.4 The research questions	7
1.5 Contribution of the Research	7
1.6 Significance of the Research.....	7

1.7 Organization of Research	8
CHAPTER TWO.....	10
LITERATURE REVIEW	10
2.1 Introduction.....	10
2.2 Importance of Auditing	10
2.3 The History of Accounting Practice in Libya	13
2.4 The Body of Accounting Professional in Libya.....	14
2.5 Dependent Variable (Audit quality)	17
2.6 Empirical Studies	18
2.7 Independent Variables	21
2.7.1 Auditor Independence	21
2.7.2 Audit firm size	24
2.7.3 Audit fees	27
2.8 Summary of the chapter.....	30
CHAPTER THREE.....	31
RESEARCH METHODOLOGY	31
3.1 Introduction.....	31
3.2 Research Framework.....	31
3.3 Hypotheses development	32
3.3.1 Dependent variable (audit quality).	32
3.3.2Independent Variables:	33
3.4 Research Design.....	35
3.5 A survey method	35
3.6 Pilot study	36

3.7 Source of Data.....	37
3.8 Population and Sample Size	37
3.9 Sampling Technique.....	37
3.10 Data Analysis Method.....	38
3.11 Variables Measurement	38
3.11.1 Audit quality	40
3.11.2 Audit firm size	41
3.11.3 Independence auditors.....	41
3.11.4 Audit fees	42
3.12 Chapter summary	42
CHAPTER FOUR.....	43
RESULTS AND DISCUSSION.....	43
4.1 Introduction.....	43
4.2 Response Rate.....	43
4.3 Respondent's information.....	44
4.4 Descriptive Variable.....	48
4.5 Reliability Test.....	49
4.6 Correlation Analysis.....	50
4.7 Data Screening	52
4.8 Assumption Test	53
4.9 Regression Analysis	55
4.10 Chapter Summary.....	59
Chapter five	61
Discussion of results	61

5.1 Introduction.....	61
5.2 Discussion of Results	61
5.2.1 Independence auditor and audit quality	61
5.2.2 Audit firm size and audit quality	61
5.2.3 Audit fees and audit quality	62
Chapter six.....	62
Limitation and conclusion	64
6.1 Introduction.....	64
6.2 Recommendation and Limitation of the study.....	64
6.3 Conclusion of the study.....	64
References.....	66
Appendix one.....	74
Appendix two	81
Appendix three.....	86
Appendix four.....	89
Appendix Five	94



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List of tables

Table 3-1Independent variables and the hypotheses.....	34
Table 3-2pilot study	35
Table 3-3 Demographic information	38
Table 3-4Items for Factors that affect audit quality.	39
Table 4-1Response Rate.....	43
Table 4-2Respondent’s information	43
Table 4-3Descriptive Statistics.....	47
Table 4-4Reliability Test of the Study	48
Table 4-5Pearson Correlation.....	50
Table 4-6Multicollinearity Test of the Study Variables.....	52
Table 4-7Model Summary.....	54
Table 4-8 ANOVA	55
Table 4-9Coefficients of the Regression	56
Table 4-10Hypothesis Summary.....	59

List of figures

Figure 3.1 Factors Affecting Audit Quality	31
Figure 4.1 histogram of dependent variable (AQ)	53
Figure 4.2 normal p-p plot of regression standardized residual.....	53



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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Audit services are considered most important for the users of financial statement who trust in the financial report. Audit has been contributing also into developing countries to promote the economy and running the business smoothly. Moreover, audit opinion considers is most important which based on the fairness of financial statement. It is most essential for users of financial statement must be known that data used properly and honestly present actual figure Suyono (2012). Auditors of firms must be developing their skills and competencies to avoid any error and increase worth of auditor's report and financial statements which already audited. Furthermore, the audit services refined and deliver the additional value to the financial statement that stated in the financial report that report will help to investors utilising these information for decision making.

Firm's audit financial report or financial statement by the sovereign person who audit financial report. Main objective of the audit professionalism (auditors) always considers as trustworthy to determine that financial statement with assurance that has no misstatement presented in audit report and fraud. Users of financial reporters consider that public accountant credible in services of financial and take true decision which matches the standards of accounting by and beneficial for the organization, investors (Al-Khaddash, Nawas & Ramadan, 2013). On that bases credibility of auditors also increase in the market.

In last decades financial crises was increased in whole world which effects on the financial firms, than policy makers come to cover and stands up that crises to pay attention on important of main functions of audit which most vital for the capital markets and focus on the main key driver of audit quality Al-Khaddash, et al., (2013). After that many remedies introduced to reduce the or overcome the problems first time in US 2008 forward the step to

establish the Advisory Committee on the auditing Profession which delivered services to U.S.A Treasury Department on the auditing profession.

In same year Australia and UK was released the Financial Reporting Council which based on audit quality framework a Strategic Review in (2010) which clearly indicated that new investigation amendment directing the dissatisfaction of corporate governs, roles of auditors and quality of audit process and standard of auditing in firms. In the firms or regulate as responsible person and accounting professionals to change policies to increase the audit quality fact and figure. In 2008 SEC” on audit firms undertaking non-audit services (NAS) in 2000 (SEC 2000) and the quick implementation of SOX following Enron”s failure (Francis 2004; Beattie, Fearnley & Hines 2010) above authorities introduce rules and regulation to increase the audit accuracy in the firms.

Additionally, Palmrose (1988) stated that audit quality based on assurance and scholar defined focal purpose of auditors to deliver the high services to minimise the financial error and mistakes reported made on the assurance and in audit quality of financial statements comprise no any material misstatement. In reality those financial statements relay on reliability of audited financial statements which showing of audit quality.

Previous literature indicated that audit quality can be improved to investigate that which factors effects on the audit quality. Moreover, that auditors focus on audit firms size, fees and their independence in directing their engagement, so that the audit quality increases. As a reason of significant outcome of an audit process, the auditor should sustain quality in accord with the commonly accepted auditing standard (GAAS) when accruing and evaluating the auditing evidence (Suyono, 2012), factors high influence on the audit quality.

Critically, auditing process provides necessary information about a wide variety of related subjects that are needed by the different categories in their capacities as the financial books' users, according to which proper decisions are taken. The importance of both study and assessing the role of this profession has recently been increased, particularly with regard to the quality of information it provides for the different users.

According to DeAngelo (1981) defined that (a) auditor keep the everything in secrete and not disclose about financial matters which breach of contract between two (b) If auditors do not work as independent, who mention less misdeeds, so spoiling audit quality. Work of auditor as independence takes confidence of the investors and assurance right financial statement. Moreover, characters of independence auditor are keystone of public accounting profession by (Mednick, 1990). In addition, Greater audit fees are also associated with the choice of qualified auditors (Hay & Davis, 2004). In spite of higher audit fee, some clients are more interested in using large audit firms. Clients are confident that large audit firms have greater monitoring and bonding in order to capture higher audit quality.

Auditor Confidence go undermine when any threat come from the organization or individual. High ratio issues face by firms and corporates and increase collapse the in financial scandal in the world due to the lack of auditor independence moreover, without of audit independence audit quality report and auditing is questionable (Mansouri, Pirayesh, & Salehi, 2009). Auditor's independency related high quality audit reporting.

Additionally, explained by Carmona & Trombetta, (2008) auditing standards is significant part of the auditors' which positive reflect on the audit report and auditing standard enable to auditor to understand auditors responsibility of auditing's and high standard of the audit would to help supervisory body but in contrast dark side of auditing standard cannot be permit to substitute regulators or proper training of auditors and it cannot be maintain the

ethics of standard or professional honesty. Audit disappointments tend to relate to errors of judgement, the failure to uphold ethical standards or an absence of professional integrity rather than failures in auditing standards (Carmona & Trombetta, 2008).

Additionally, audit quality is acquired by a procedure of determining and providing the actions needed to get the audit quality goals of an SAI (Supreme Audit Institutions). SAI need to understand the benefits that can be noticed once audit quality is made a concern. Enhancing audit quality needs a methodical SAI-wide strategy. Piecemeal initiatives by individuals and individual review groups are not enough and will not work. There are no quick repairs to be acquired where review top quality is involved. SAIs needs to continue systematically in an organized way to fix each top quality issue and problem in turn. As new issues will always appear, this should be on-going procedure for the SAI. It is also obvious that most review top quality related issues are mainly the result of inadequate management of the review procedure or the SAI itself (Mazur, Révész, Vella & Havens, 2005).

There are many previous research which found out the features that influence audit quality among these features audit tenure, number of clients, the client's financial health, the existence of a third party to assessment the audit report, auditor independence, audit tenure, level of audit fee, level of audit planning, and size of audit firm (Djamil, 2000; Sawan& Alsaqqa, 2013; Listya, 2014). Therefore, the current study examined the relationship between audit quality and three variables namely, auditor independence, audit fee and audit firm size in registered companies in Libya. These variables were thought to be the most relevant based on previous empirical studies in such field.

1.2 Problem Statement

Financial statements are said to be the main source of information regarding to the companies' operations in capital market for them to function effectively there is need to

possess all or some of the qualitative characteristic of good accounting information. Auditor contribute in achieve through the provision of independent assessment on the reliability of the information content of the financial statement (Behn, Choi & Kang, 2008). So, financial statements audited by high quality auditors are expected to be free from bias, material misstatement and reduce asymmetry of information (Dang, 2004).

Semiu; Okwy and Eyesan (2012) stated that that investor was disappointment due to auditor failure in the worldwide and stakeholder and findings of empirically study carried out different factors which bad effects on the auditing to convert poor quality of audit and audit report ultimate bad influence on the investors of firms.

Sawan and Alzeban (2015) study conducted the in the Libya and stated that Libya also suffering from the low of audit quality and standard will not match with international auditing quality standard and quality of audit report is high mark on Libyan auditing now days.

Two studies conducted in the Libya findings of both reveal that problem of the audit quality and poor quality of auditing, one oil companies and audit firms take population and received that response about quality from the respondent and 96% people said that present level of the Libya audit quality of firms is poor and it is not match with the standard of the audit quality. Furthermore, reasons given by the respondents that may be lack of auditor professionalism.

Previous studies has been indicating that variables influence on the quality of auditing in different fields and show the high impact on the audit quality and increase the auditing professional performance (Behn, Choi &Kang, 2008; Ebrahim, 2001; Sawan & Alsaqqa, 2013).

Some variable related to auditor's character, while the others are all related to the auditing establishments and offices. It is worth mentioning here that some of those variables are closely connected with the different economical and business units which are considered to be the main objects of the profound auditing processes. The professional and scientific qualification of the accounts' auditor, his autonomous and neutrality in performing tasks, rules and moral obligations of the profession altogether considered to be, perhaps, the most important variables that are generally accepted by many positive thinkers, along with some other related issues by which the qualitative aspect of the auditing professional performance is greatly affected. All above factors influence on audit quality but independence auditor, audit firm size, audit fee are less studies on audit quality in Libya. Present study selected three variables independence auditor, audit firm size, audit fee.

1.3 The research objectives

The purpose of the current study is to examine the relationship between independence auditor, audit firm size, audit fee and audit quality in registered companies in Libya. Particularly, this study is going to succeed the next objectives:

- To examine the impact of audit firm size on Audit Quality (AQ) in registered companies in Libya.
- To examine the relationship independence auditor and Audit Quality (AQ) in registered companies in Libya.
- To examine the relationship between audit fee and Audit Quality (AQ) in registered companies in Libya.

1.4 The research questions

The aims of present study is to resolve the following questions which influence some selected factors on audit quality in registered companies in Libya by answering the following questions:

- What is the effect of audit firm size on the Audit Quality (AQ) in registered companies in Libya?
- What is the relationship between independence auditor and Audit Quality (AQ) in registered companies in Libya?
- What is the relationship between audit fee and Audit Quality (AQ) in registered companies in Libya?

1.5 Contribution of the Research

The research contributes by assessing both academicians and policy makers and firms in the context of Libya. For the academicians present study will bring the new topic of discussion and confirm the relationship of independence auditor, audit firm size, audit fee and audit quality and how they influence on audit. For organizations (companies and the public/investors), it will enhance them to overcome all issues related to auditing. In a sense, auditors specialize in the supply of various levels of quality (product differentiation), and clients demand different levels of audit quality because of the differential agency costs across firms. For policy maker's present study explores which new program or training schedule introduces to enhance the performance of the auditors. Understanding the factors that are associated with audit quality is a vital concern for investors, policy makers, regulators, the accounting profession, and the general public alike.

1.6 Significance of the Research

This study is considered to be as an extension to the previous studies carried out abroad and in the homeland (Libya), except that it is more recent and comprehensive from the researcher's point of view for the following two main reasons:

- Most factors or variables tackled by the previous studies have not been dealt with at the level of the Libyan milieu, despite the fact that such variables are of great importance and intrinsic effects on both level and quality of the auditing professional performance, just as stated by the main conclusions drawn from the former studies.
- The study covers a considerable number of variables that are expected to have a substantial effect on quality of the auditing professional performance, no matter whether such variables are related to the formation of the auditor's character or the auditing institutions and offices, or all establishments and foundations which are considered as being the object of the auditing process itself.

1.7 Organization of Research

Present study examined the determinant factors audit quality in Libya context. The study is divided in six chapters first chapter contained an introduction under which the following is covered background, problem statement, and research objectives and research question. The study also covered discussion the contribution and significance.

Second chapter explained the literatures review in the area of audit quality in eye of the empirical studies in deferent fields related to audit quality. Moreover the relationship between audit quality and some selected variables are also included.

Third Chapter covered the research design, population of the study, sample size as well as sampling techniques. Data sources, data gathering, instrument used in the collection of data lastly, model specification and estimation techniques are also discussed in this chapter

Fourth Chapter explained the data analysis, interpretation, discussion and findings of the study.

Fifth Chapter explained the results on the bases of previous results the summary.

Sixth chapter comprised conclusion and recommendation, as well as a suggestion for future studies.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter aimed to review the related literature in the area of audit quality. Similarly, this chapter required to examine the relationship between the dependent variable (audit quality) and the recognized factors (independence auditor, audit firm size and audit fee). In the end, the literatures explain earlier empirical studies and other related literature on the issue of this study, as well as general information on auditing as a whole and Libyan auditing in particular.

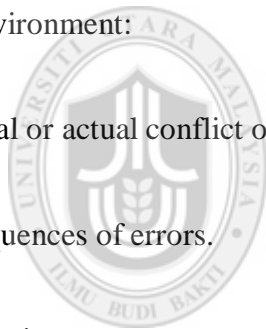
2.2 Importance of Auditing

There is no doubt that users of annual reports consider the auditor's report to be a critical device for assuring that the information given to them fairly represents the facts of a company's situation, or that it shows the nature of the biases if the annual report is inaccurate. The purpose of independent expert opinion given in an audit is to lend credibility to the financial statements released by a company (Stamp & Moonitz, 1979). Auditing is useful in a number of different contexts such as Libya when it started to export the oil and is comprised of two main types—internal and external. Internal auditing, which is performed by an employee of the entity, aims to determine whether the existing system in the company is effectively designed to communicate management's directives, collect necessary data, and report results to the management. Internal auditing is thus oriented towards ensuring the internal efficiency of the company's operations and the proper flow of information between departments. Internal auditors work in the interests of the company. External users of accounting information will, however, not derive complete satisfaction from an internal auditor's assurance about the fairness and accuracy of accounting reports.

Therefore, external auditors who can be believed to be free of bias or partisan interest need to be engaged to have the information in the reports ‘checked out’ (Porter et al., 2008). Also, the purpose of auditing in both cases differs, as internal auditing is more concerned with efficiencies within the organisation, while external auditing is concerned with the financial performance of the company and expected returns to all stakeholders. An independent auditor, external to the business, examines financial statements prepared by the management to ensure that the information reported in them accurately represents the condition of the company to the users of its financial statements.

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

- ❖ Potential or actual conflict of interest.
- ❖ Consequences of errors.
- ❖ Complexity.
- ❖ Remoteness.



First, the demand for external auditing may arise from the existence of a conflict of interest between the users and providers of information. After the Industrial Revolution, the company form of organization emerged, characterized by a separation of ownership (shareholders) and control (managers). With a distinction between the roles of management and other stakeholders, there is an information gap between the two since the managers, involved in the day-to-day operations of the company, may have more knowledge of the company’s status than the other stakeholders. Managers may deviate from the overall objective of the firm of wealth maximization in pursuance of their own goals which may not

be in the best interests of the owners. Further, managers may also have an incentive to disclose false information about reaching the targets set by the owners without having actually achieved those set goals (Jensen & Meckling, 1976). Thus, auditing is needed as a mediating process between management and other stakeholders to ensure that the information presented to stakeholders fairly represents the facts of the situation or, if it does not, audit opinion must show the nature of the biases. Such as the case in Libya when the oil is discovered, many international companies opened branches in Libya as US, Egypt, so need audit services for companies. The statements reported by managers to portray the firm's financial performance, position, and cash flows need to be audited by an impartial authority to ensure that the information represents the company's status as accurately as possible.

The second reason for having external auditing comes as a consequence of the activities that depend on financial information. Since the users of company statements rely on financial information for making a host of decisions – from buying shares to changing operational structures – they are related with possibility of unfair, misleading, incomplete information or irrelevant. They need to be assured that the information is reliable and complete so that they can act upon their decisions without fear or uncertainty. In this situation, the external auditor's work improves to the integrity of the fundamental info and, as a consequence, users may be more confident in the information and make more exact decisions and evaluations (Ittonen, 2010).

The third objective behind the auditing of financial reporting is to maintain a link between the actual process of accounting and the communicated information. This relationship is becoming more complex with advancements in accounting practices and communications technology, so auditing is needed to ensure that the information is provided in an

understandable way to users. Moreover, Ittonen, (2010) argues that the explanation of financial statements also needs a detailed thoughtful of accounting and reporting applies, business procedures governance issues and institutional sceneries.

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

Finally, auditors help to bridge the gaps and biases in information reporting that arise from the remoteness of the business environment caused by the separation of the users of information (owners, creditors, potential investors etc.) and information sources. As users of information are not related in the day-to-day action of the business, they can only observe the business from a distance. This deprives them of the ability to directly assess the quality of the information received. For this reason, a third party is needed by users to audit the firm, to help them assess the quality of the financial information provided (Eghliaow, 2013).

2.3 The History of Accounting Practice in Libya

According to history income tax laws announced by Libya in 1923, considers to main starting point focus on accounting (Kilani, 1988). That time laws announced by French businesses with the introduced French accounting firms, but that time was no proof that Libyans used bookkeeping throughout period, as the French north eastern regulators kept bookkeeping methods to themselves by (Abozyredh, 2007; Kilani, 1988). Different factors impact on Libyan accounting professional since 1950. These Libyans accounting include the

international oil companies, international accounting firms, accounting education, education and further to improve changes in the Libyan economic, social, political and legal environment (El-Moghirbi, 2003; Kilani, 1988; Central Bank of Libya, 2006). According to (Ahmad & Gao, 2004). When the oil discovered in Libya than need of audit increase due to the financial resources also increase to develop the business activities prominent to a significant growth of economy. However business managers, investors, creditors, government agencies, and big and small business for financial and subsequent are resulting accounting services. Many international companies opened branches in Libya as US, Egypt, so need audit services for companies.

According to (Ahmad & Gao, 2004; Mahmud & Russell, 2003; Pratten & Mashat, 2009; Al-Badre, 2007; Alfaitori, 2007; Zakari, 2013), the accounting practice in Libya is impact by four key features of influence namely

- Statutory requirements (i.e., governmental laws and regulations) that control business.
- The impact of accounting technology and know-how imported from other countries (particularly from the UK and through publications and the experience of qualified personnel and companies).
- The influence of accounting education and the contribution of academics and practitioners in the accounting field.
- Some changes in the Libyan social, economic, political and legal environment.

2.4 The Body of Accounting Professional in Libya

In 1973 Libya introduced auditing laws before that period, there was no need to have for company organizations to have their fiscal reports scrutinised and qualified by a separate

auditor. As an alternative, there was only essential for such records and suggested by tax payer as business association and individual business man can be chartered economic advisor according to (Law No:64 of 1973). On Twentieth Dec 1973, though, Libyan govt lastly introduced law according to act No. 116 of 1973 that recognized the LAAA as called whole body involved to develop the audit career in Libya audit system. The LAAA was provided the following goals:

- ❖ To, improve the structure, condition and increase professionalism in audit, and promote the audit profession as academically, culturally, and socially.
- ❖ Body of audit organization organizing training program, seminars, conferences, to raise the issues periodicals and deliver the lecturer on new events
- ❖ To, provide the pension funds and assistance for its members.
- ❖ To, protect the right and create the harmony among the members.
- ❖ Take action again those members who violate the profession and set the rules.
- ❖ And also body of organization registered as a Chartered Accountant in Libya.

It is compulsory to joining as a chartered financial advisor with body of organization the LAAA to execute any type of audit action (act No. 116, content 32) and that will control designed to assurance about the audits working are conducted by individuals who have the suitable credentials, and those are simultaneously, effectively monitored. LAAA signing up in itself can only be acquired if the pursuing circumstances are fulfilled (Zakari, 2013).

Citizenship: for the candidate registration with LAAA membership. The member must be citizen of Libya.

Residence: candidate must be reside in Libya

Academic experience: applicant should be got degree of bookkeeping from Business of a Libyan school, or high reputation organization and organization recognized by Libyan government. Other, condition for candidates that must be registered accountant any recognition organisation or having the five years' experience of bookkeeping and financial advisor after gotten the degree. Furthermore, Experience not required for those candidate who having the coaching experience more than four years' experience (Zakari, 2013; Sawan & Alzeban 2015).

For the candidate registration requirement act of No.116 of 1973 of executive memorandum which describes that under the Article 24 which imparts to the obligatory educations and practice for registering with body of the LAAA, as a chartered account which are:

The candidate should be having doctoral degree in auditing, taxation, cost accounting from any Libya, Arabic or worldwide university which recognized by Libya.

The candidates, having the membership with Institute of Chartered Accountants in England and Wales.

The candidate affiliation of the American Accountants Association

Candidate hold degree must be recognized by university or any intuition as accounting and auditing time period of degree four years and more than it.

Furthermore, obtaining bachelor degree accounting and also candidate hold experience more than five years or have following requirement

- Managers, head of accounting or auditing department in the Treasury Ministry
- Accountant or auditor working for the Accounting Council

- Accountant or auditor working for the Taxation Authority
- Head of an Accounting department or Manager in a public bank or enterprise
- Auditing or Teacher of accounting in any public university or organization
- Has Experience with jobs in different fields recognized by the LAAA

On the behalf of with three years' experience which meet the requirement above mention and following:

- Must be a member of the Chartered Institute of Management Accountants in England or any equivalent certificate.
- Must be member of the Association of Chartered Certified Accountants in England or any equivalent certificate.
- Must be member of the Taxation Association in England or any equivalent certificate.

2.5 Dependent Variable (Audit quality)

Well renounce definition about the audit quality given by De-Angelo (1981), Stated that market-assessed combined possibility that a assumed auditor will both (a) has able to discover a breach in the customer's accounting system, (b) auditor truly report the breach" to firms or customers.

Furthermore, that many scholar follow the definition but they stated that its dual approach to described that audit quality in detail independence and competence, furthermore other apply the groundwork to recognize different audit quality qualities. For instance (Malihi & Seyyed 2012) described audit quality rely on the functions of auditor's capability to detect reports error and substantial misstatements. Other definition also focuses on the two more

prominence features of audit quality, furthermore, auditor efforts or auditor ability and independence. However this definition explains the auditor's quality emphasizes on the accurateness of info provided by the auditors.

Titman and Trueman (1986), cited in Behn and Choi (2008), suggest that quality of audit can be improve by the information of financial statement and it will allow the investors to make increase estimates of firm's value. According to Schauer, (2002) stated that "a higher quality audit increases the possibility that the audit financial statement more perfectly impact the financial position and outcomes of operations of the entity being audited" (Clinch, 2012).

Another researchers provide definition, about the audit quality which depends on confirm to applicable auditing standard. As (Bedard, Johnstone, 2003; Smith, 2010) defined that high quality audit generally accepted that high quality auditing standard which provides the guarantee that audited financial statements according with standard of principle of accounting and no any mistakes or irrelevant items misstated as like error and fraud.

2.6 Empirical Studies

Previous literature indicated the different study focus on audit quality and measurement. So that literature indicated that there is no one definition which accepted for whole. There different authors suggest the different definitions and measure of audit quality. DeAngelo's (1981) defined the audit quality that audit quality as joint probability than auditor makes report to breach in the customer accounting system. Audit quality depend on the auditor's knowledge, ability to explore the misstatement or errors and auditors report depend on the reasons or incentives to disclose by (DeAngelo, 1981). Furthermore, this definition represents the external financial statement audits it categories into different type of audits (operational audits and compliance audits).

The Enron scandal in 2002, having said that, persuaded a international move to re-regulation according to (Kinney, 2005). In the US, the Sarbanes Oxley Act (SOX) (2002) presented significant changes to the US audit, economical confirming and company government routines. Identical regulating changes consequently happened in the UK and many other nations (Lennox, 2009).furthermore, Scandal and regulating modify has gotten changes in the conceptualisation of exercise. For example, Khalifa, Sharma, Humphrey and Robson (2007) stated that existing proof that the prominent audit discussion moved from one of company value to one of audit quality.

Furthermore, defined by researcher a procedure is unobservable, the overall look as well as the truth of the behaviour of auditors is important to public confidence in the value of audit quality. DeAngelo (1981) stated that preferred to this as the ‘market-assessed’ possibility of violation deducting and audit report. Empirical research relevant to audit quality has used various observable results to proxy for review top quality, such as: modify decisions; audit views and auditor choice; financial statement results; and analysts’ predictions. Examining huge number of empirical audit quality research, Francis (2004) stated that important development in previous literature which focuses on the assumption grounded based assumption that variances in audit quality occur and can incidental through matching diverse groups of auditors. Main difference is identifying the auditor’s based on the position small or large auditors (typically the Big Four versus the non-Big Four). It’s confirmed that large numbers of organization or firms have huge customers list to entertain and they are serous to protect their brand names and firms. These has demand for high quality audits work (have lower thresholds for issuing modified audit reports and more effectively curtail aggressive earnings management by (Beattie & Hines, 2010).

According to Anis, (2014), described the professional auditors' how the perceptions of the impact of audit firm turning on audit quality. Further scholar has examined the possible benefits and identifying factors of compulsory auditor spinning. The writer indicated that auditors' recognized compulsory spinning of auditors to have a beneficial effect on audit quality, a damaging effect on client-specific knowledge, and a beneficial effect on auditors' independence.

According to Octavia and Widodo (2015) that, Proficiency and freedom of auditors that will either outcome in a high quality audit. Probability, auditors found materiality misstatement depends on the top quality of the auditor's understanding (competence) while verifying misstatements depends on auditor independence. Quality audit depends on auditor's ability to identify the irregularities in report for customer's accounting system.

It should be mentioned that audit quality is becoming more eye-catching among other relevant audit topics, due to its significant effects on the stability of the fiscal reports. Furthermore, improving the assurance of the financial statement customers can be regarded as the outcome of higher quality (Hosseinniakani, Inacio & Mota, 2014). Wong, (2001) identified that the utilization of computer helped audit techniques rather of conventional information exploration plays a role in the success of auditing task its more easy to work on the computer as one old method.

Based on Khasharmeh, (2002) findings auditor has specific objective to performed work task but not based on the relationship of auditors and board of directors, auditor work as independently. Also past researches support that must be positive relationship between some internal factors and auditor so that auditor make good quality report. Other scholars measure audit report such as proficiency, auditor reputation, quality control, audit fees, auditor

independence, industry specialization, firm size and auditor qualifications Al-Khaddash, et al., (2013). The present study considered the following factors that affecting audit quality.

2.7 Independent Variables

This study examined the impact of three variables on audit quality. Independence auditor, audit firm size and audit fee are the variables based on the pervious literature review that may affect and are related to the audit quality. All above stated variables have been discussed in this section in context of Libya to study the relationship of all these variables with dependent variable, it means, audit quality.

2.7.1 Auditor Independence

The IFAC ethics code has defined auditor independence as Auditor independence defined that state of mind to free expression on audit conclusion without any influence by internal and external sources and any compromise on judgment on audit report thus Auditor tack action individual with honesty and focus on objective of audit report with professionalism.

According to DeAngelo, (1981) stated that possibility of auditor to revealing of error related to auditor independence. Huge list of customers of firms, big auditor built pressure on the management. Well reputed international accounting firms have established and objective of these firms to maintain the high quality audit work. In big Accounting firms there is no relationship with auditors and auditor feel independence to take actions about audit report (Jeong & Rho, 2004). According to Nelson, Elliott and Tarpley, (2002) stated that independence of auditors provide negotiation between the smaller auditor and big auditor audit firms. Furthermore, previous researches indicated that auditor's independence will influence on audit quality positively (Al-Khaddash, et al., 2013; Windsor & Warning-Rasmussen, 2009; Rahmina, & Agoes, 2014). Therefore auditors independence is consider proportional to audit quality report.

Foundation of auditor's professional based on independence which refers to possibility auditor will make quality report to detect that error and misstatements in financial statements (Colbert & Murray, 1998) furthermore, character of auditors to resist pressure from customers by (Goldman & Barlev, 1974). When, auditors have high independence degree that probability to auditor make quality report to deducted error, misstatement, and provide the true information to audited firms and investors which creates high quality auditing work (Anis, 2014; DeAngelo, 1981).

Study conducted in Jordanian commercial banks by Al-Khaddash, et al., (2013) main focus identifies factors which influence on Jordiane banks. Further, researcher also invested gate two factors internal and external in Banks of auditors. Results of study that audit quality of the Jordanian bank sector very satisfactory to very good. Furthermore, results reveal that auditing independence and audit quality has positive relation.

Another study provides evidence that auditors independence effects on audit quality and professional commitment also effects on auditor independence on audit quality. Furthermore results of auditor indicated that auditor independence has positive effects on audit quality. From above findings reveal that higher auditors independence, higher quality (Abdul Halim, Sutrisno, Rosidi & Achsin, 2014).

According to IAA (2010) that independence of auditors based on behaviour and auditors personal interest not involve in the job, because assign on behalf of firms on honesty, objective principals. If the auditor is not independence during the audit work his opinion about financial reports is useless. If auditor is independence his/her opinions will increase the credibility of financial reports (Arens, Elder, Beasley, & Hogan, 2014). Furthermore, Alim, (2007) also stated that independence positive influence the audit quality. Additionally, Suseno, (2013) described that main aims to examine the influence of auditor independence

on audit quality. Researcher involved the 73 public accountant officers in research from Indonesia; findings of results reveal that auditor independence influence on audit quality.

Previous research provides the evidence that independence is very important to enhance the quality of audit in audit firms. Conducted study in Nigerian stock Exchange by Enofe, Okunega and Ediae, (2013) stated that auditors independence increase the quality of audit and make work as professional to focus only provide real information to firms and investors without any pressure. Hence, suggestion provided end of research that auditor must be strive for independence to ensure quality audits.

According to Octavia and Widodo, (2015) that has determined the effect of the capability and independence of auditor on audit quality. Their research is motivated by a large public accounting firm (KAP) were suspended in this case because of poor competence and independence of the auditors that affect audit quality that occurs on Public Accountants. The findings of their study revealed that the capability and independence of the significant effect of 35.9% on audit quality.

Suyono, (2012) conducted research in 28 public accountant professions in the Central Java and Jogjakarta to see the how the factors affecting on audit quality further explore by the scholar that some factors influence the audit quality as independence, accountability and experience. Public trust on Independence account is in his or her profession that's main factor to assess the quality of audit service. Results of the study indicated that independence of auditor effects on audit quality.

Some other studies also mention the importance of the independence and audit quality earnings management surrogates (Menon & Williams 2004; Hamilton, 2005) accounting conservatism or audit opinion issuance (Geiger & Raghunandan 2002) stated that audit quality and independence. Audit quality significance with audit independence if lack of the

competencies of auditors rely on the management of the client's so difficulties for auditor to do work with independence by Mansouri, (2009). Related to other scholar, view that independence related to auditor competence on based of opinion Jamal, (2011), which states that audit quality is always associated with independence.

Rahmina, and Agoes, (2014) conducted quantitative research in the listed in Capital Market Accountant Forum – FAPM in Indonesia. Sample research use as manager senior auditor, supervisors and partner positions as working to member of FAPM. The findings of their study showed that the auditor independence has a positive influence on audit quality. in addition, the researchers mentioned that in order To improve the audit quality, Indonesian Institute of Public Accountants (IAPI) should set up an Independent Audit Review Boards and the recent mandatory rotation of audit partners and public accountant firm should follow the IFAC Code of Ethics for Professional Accountants revised in July 2009, which requires audit partner rotation every seven years for public interest entities.

2.7.2 Audit firm size

Audit quality most found in literature as used audit firms as a proxy. As a consequence, larger audit firms are more likely to be connected with more exact detail than smaller audit firms, (Titman & Trueman, 1986; Beatty, 1989). Furthermore, research finding recommends to audit firm size and audit quality are positively related. Lager firms well renounce to provide the high quality audits results because larger firm not be agree on any cost to compromise on quality of audit as compare to smaller firms (DeAngeio, 1981). Dopuch and Simunic, (1982) stated that quality of audit bas on the numbers of function to perform by auditors and large forms have hug resources to utilize test. Scott, (1989) fined that firm size level work of audit are positively related.

Literature indicated relationship of the audit quality and auditor size with different results (Colbert & O'Keefe, 1995; Al-Khaddash, et al., 2013; Sawan & Alsaqqa, 2013; Deis & Giroux, 1992) results of studies that relationship between audit quality and audit firm size has positive relationship due to different reasons.

First, if auditor size is a useful replacement for auditor quality, the public has available a readily observable quality indicator. This could be fairly beneficial given that the actual high quality of audits and other bookkeeping services are challenging to figure out, even after they have executed. Second, the existence of this relationship could help shape public policy debates. For instance, certification of a positive relationship between auditor top quality and auditor size can assist rationalize various professional evaluation or on-going qualified education specifications for CPA companies of various sizes. Besides that, the framework of insurance charges could also be impacted if evaluation audit quality is related to company size. Besides that, many before research of the quality-size connection have analysed comparatively huge CPA companies by applying the Big Eight-non-Big Eight dichotomy inside the establishing of openly organised organization audits by (Palmyrose 1988).

These researches do not evaluate if the quality-size connection keeps at the stage of little CPA companies. Although the research by (Colbert and O'Keefe, 1995; Deis & Giroux, 1992, 1996) used examples of companies that are primarily regional or local, every those research used details from only an individual state. Past study links auditor freedom, a key factor of audit quality, to auditor size and therefore indicates a significant organization between audit quality and auditor size. Moreover, by using the dichotomy strategy (Big four/non- Big four); several research in many nations had found that the biggest audit companies with worldwide standing generate fee rates due to their recognized excellent quality (Al-Khaddash, et al., 2013; Krishnan & Schauer, 2000).

According to Sawan and Alsaqqa, (2013), that analysis link between size audit firm and audit quality, option of build-up actions for a huge sample of organizations. In regards to the impact of various sizes of audit quality obvious greater part of oil organizations and audit organizations decided that Big Four organizations are excellent to their non-Big Four solutions in all of the popularity problems provided to them, and that the size of the audit organization is absolutely associated with audit quality.

According to Al-Khaddash, et al., (2013) who identified the most important elements that impacting audit quality in Jordanian Professional Financial institutions (JCBs). The views of JCBs' inner and exterior auditor's in addition to financial supervisors have been examined. The scholar found that there is a significant connection between the size of audit company and audit quality.

According to Colbert and Dennis (1998), many previous studies have documented that positive link between two variables audit quality and audit firms. However literature focus on the outcome of quality and control reviews. In the literature the prior studies, however, have usage samples that suffer from plain geographic or client-type restrictions. Further, more some studies focus on the quality size and large CPA firms, American Institute of Certified Public Accountants' (AICPA).

Results of the studies indication that auditor must perform review and audits (but not for firms that perform reviews and compilations, but no audits) audit quality and firm size has positive relationship, Furthermore,(I) firm size is a valuable quality alternative only for companies that evaluate audits, (II) the AICPA's professional evaluation system has been effective in that companies enhanced their professional evaluation scores eventually, and (IV) state-society-sponsored opinions should be analysed to evaluate if they are performed with the exact same rigor and strength as AICPA-sponsored assessments.

Bigger workplaces of Big Four bookkeeping companies are suggested to provide excellent audit quality than more compact workplaces due to higher in-house experience and more skills in offering the audits of openly detailed customers. In add-on, greater workplaces are less most likely to have independence-related issues since an individual customer is comparatively less essential due to larger sized customer angles in larger workplaces. The scholar examined a example of 6,568 firm-year findings for the period 2003 to 2005 that are audited by 285 unique workplaces of the Big Four bookkeeping companies in the United Declares. The results of his study are reliable with past research that found greater workplaces offering excellent audit quality by (Yu, 2007).

According to Chen; Hsu,Huang, (2013), analysed the interaction between audit quality, and firm size, also focus on the financial performance. They also approximated audit quality for audit firm from human capital-related elements, like academic level of auditor, experience of auditor, and expert training. From the viewpoint of market segmentation, the scholar separated the sample size into three groups: local, national, and local organizations. They revealed that a valuable relationship between audit firm and audit quality for the three groups of evaluation organizations. The valuable relationship of national evaluation organizations is higher than that of regional and local audit firms.

2.7.3 Audit fees

Audit fees define by different authors in different views, audit fees is charges of auditor which pay by company to against service of auditor or non- audit services and consultants and management advisory. Company pay charges internal and external auditing work and auditing fees consider the benefits and wages, field personnel, petty expenses of office, travel expenses and cost related to auditing work. Study conducted in audit perspective by Kinney and Libby, (2002) who stated that if audit fees in handsome amount which also influence audit independence in positive.

Previous literature also supports the relationship of audit fees and audit quality. Study conducted by Francis and Simon, (1987) argued that audit services make quality difference now days competitive markets which based on auditor fees if auditor get handsome amount from company than work will be in quality so relationship has between audit fees and audit quality. Another study in Australian setting that showing the link between the audit quality and fees by Francis, (2004) internal audit committee are related to the higher level of the audit fees which creates high impact on the audit quality it means that audit fees and audit quality has positive link. Hay and Davis, (2004) argued that entrepreneurs and managers agree on pay higher fees to auditor to expected that audit work in quality and handsome amount of audit fees its depend on qualified auditor choice. Most of customer interested to prefer to use the large firms for auditing work.

Recently study conducted in Indonesian using the 73 public accountant offices which are Forum of Capital Market Accountants in Indonesia on the relationship of audit fees and audit quality by Suseno, (2013) findings of study showing that audit fees influence to audit quality. Further (Al-Khaddash, et al., 2013) defined the most significant factors which influence the audit quality in the Jordanin perspective in the commercial banks and scholar target the external and internal financial managers for unit of analysis and what perception of these respondents. Results of study showing that audit fees and audit quality have positive correlation in Jordanian banks.

According to Johnson, Nelson and Frankel (2002), has studied relationship of between earning quality and non- audit services due to reasons that impact of non-audit services on financial reporting reliability, to analysis this matter Securities and Exchange Commission take steps forward to implements the new independence rules for auditors and its necessary for the firms to be disclose in final annual proxy statement and that statement indicated how

much amount paid to the auditors for non-audit work. Data was collected in period of time February 2001 to June 2001 in the fields from proxy statements and finding that firms get non-audit services from the auditors to meet some initial requirement audit working to report larger complete discretionary accruals. Non-services of auditors not related to with meetings or official requirement with and any bench mark.

Suprpto, and Suwardi, E. (2013), investigated factors of audit quality, hypothesised based on previous literature and results of study has significance relationship between the audit fees and audit quality. Furthermore, audit firm's annual fee is one of the determinant factors which offer significant effect on audit quality. According to Gupta, Krishnan and Yu (2009), have assessed unforeseen (abnormal) audit fee as residuals from a regression of audit fee on several determinants of audit fee. Findings of results audit quality is going to be lower when the unexpected audit fees impact negatively. Additionally there is no evidence found in the literature to indicated that when audit fee is reduce as unexpected audit fee is positive.

According to Rahmina, and Agoes, (2014), investigated impact of auditor independence, and tenure, and fees both partially and instantaneously on the audit quality. Survey from Capital Market Accountant Forum – FAPM in Indonesia listed company's respondents, managers, supervisors, senior auditor and partner's positions member of FAPM were elected to be the population of the study. Finding of the study indicated that audit fees influence on the audit quality. Additionally, author suggested that establish the Independent Audit Review Boards and Public Accountants (IAPI) which focus on the audit fees and audit quality.

2.8 Summary of the chapter

Chapter two based on the literature review covered the importance of the auditing in the different fields and also focus on The History of Accounting Practice in Libya and The Body of Accounting Professional in Libya and defined empirically studies to audit quality and auditor independence, audit size and audit fees. How the independence effects on audit quality dependent variables.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

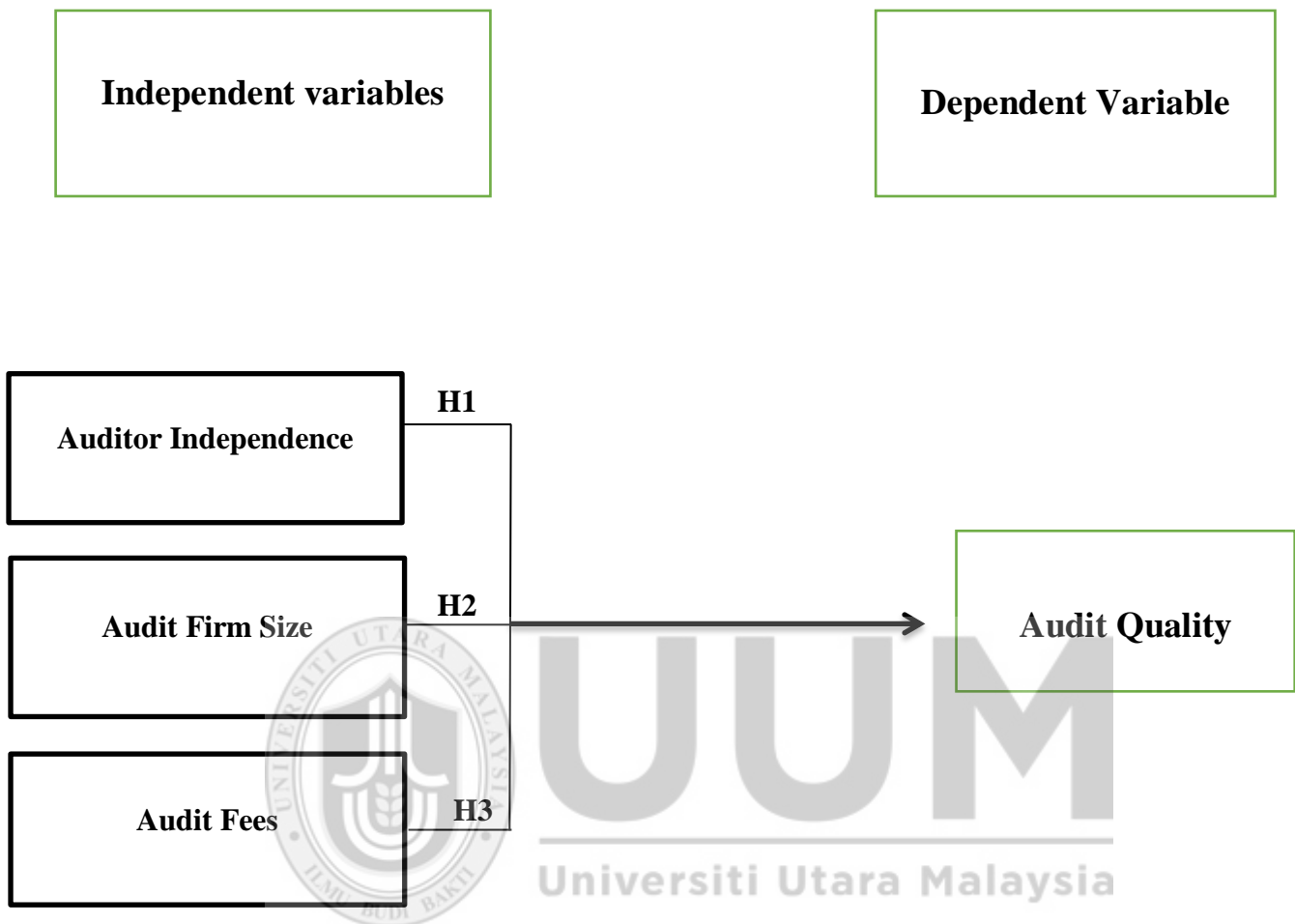
This section meant to provide the methods and procedures that the research would intend to derive its data of the study. The chapter specifically considered for research design, research framework followed by hypothesis development, population and sampling technique, data collection procedure, as well as variables measurement and model specification of the study.

3.2 Research Framework

The underneath framework is developed with the source of an extensive review of the literature and designed research problems. The research scholar has stated the importance of audit quality and its main determinants. This model emphasizes on the determinants of audit quality in registered companies in Libya.

The framework is divided into two divisions that are the independent variables and the dependent variable. The left side shows independent variables, which is identified in present study are, (independence auditors, audit firm size and audit fee). While the right side shows dependent variable, it means (audit quality). Which is the main issue of this paper, hence it is studied in order to see whether those factors affect audit quality in registered companies in Libya. The model of the study describes as below.

Figure 3.1 Factors Affecting Audit Quality



3.3 Hypotheses development

3.3.1 Dependent variable (audit quality).

Audit quality is considered as the dependent variable in the current research. Audit is playing an important role in developing and enhancing the global economy and business firms. Auditors express an opinion on the fairness of financial statements.

The high audit service will provide additional value to the financial statement that stated in the financial report, in which investors utilizing these information for decision making.

Users of the audit report expects that financial statements audited by a public accountant are credible to serve as the basis for decision making and are in accordance with accounting standards. Al-Khaddash, et al., (2013).

3.3.2 Independent Variables:

3.3.2.1 Auditors Independence

Auditors Independence examined in the current study as one of the independent variables. Auditor independence is the cornerstone of the auditing profession. Auditors who have a high degree of independence will have a high probability of detecting and reporting errors or financial misstatements, and hence will be able to determine the true status of the audited firm, it means make a high quality audit (DeAngelo, 1981; Anis, (2014). Therefore, auditor independence refers to the probability that auditors will report the misstatement in financial statements (Colbert and Murray, 1998) and the ability of auditors to resist pressure from a client (Goldman and Barlev, 1974).

Other prior studies that have shown that auditor independence affects audit quality positively, such as (Al-Khaddash, et al., 2013; Suseno 2013; Enofe, Okunega & Ediae, 2013). Therefore, this study developed the following hypothesis:

H1 - There is a positive relationship between auditor independence and audit quality.

3.3.2.2 Audit firm size

Audit firm size examined in the current study as one of the independent variables. There are many researchers in the scope of measuring audit quality have used audit firm size as a proxy. Dopuch and Simunic, (1982) argue that audit quality is a function of the number and extent of audit procedures performed by the auditor and that larger firms possess more resources with which to conduct tests. At the same line, DeAngeio, (1981) indicates that

larger firms provide higher-quality audits because larger audit firms have fewer incentives to compromise their standards to ensure retention of clients in comparison with smaller firms.

Many previous studies have documented that a positive association between audit quality and audit firm size, such as (Moore & Scott, 1989; Sawan & Alsaqqa 2013; Chen, Hsu, Huang, & Yang, 2013). Therefore, this study developed the following hypothesis:

H2 - There is a positive relationship between audit firm size and audit quality.

3.3.2.3 Audit fees

Audit fee examined in the current study as one of the independent variables. Francis and Simon, (1987) assume that audit services are quality-differentiated and that in a competitive market, quality differences are reflected in fees. However, since audit fees have a number of determinants, they are a noisy proxy for quality. Several authors argued that managers and entrepreneurs are willing to pay higher audit fees to receive what are perceived to be higher quality audits. (Hay & Davis, 2004), Greater audit fees are also associated with the choice of qualified auditors.

Many previous studies that have documented empirically a positive relationship between audit fee and audit quality, such as (Francis, 2004; Suseno 2013; Suprpto & Suwardi (2013; Rahmina & Agoes 2014). Therefore, this study developed the following hypothesis:

H3 - There is a positive relationship between audit fee and audit quality.

Table 3.1 Independent variables and the hypotheses.

No	The independent variables	The hypothesis
1	auditor independence	There is a positive relationship between auditor independence and audit quality.
2	audit firm size	There is a positive relationship between audit firm size and audit quality.
3	audit fee	There is a positive relationship between audit fee and audit quality.

3.4 Research Design

The objective of the current study is to determine the factors of audit quality in registered companies in Libya. In order to achieve the purposes of this study, a survey design was proposed for the study. A survey is a way to attain self-reporting information about the assertiveness, ideas, opinions and behaviour and other characters of the population. This study has been carried out through a survey method using a cross-sectional data. The data for the current study were analysed by using Statistical Package for Social Science (SPSS) version 20.

3.5 A survey method

The questionnaire is one of the primary tools for data collection from the respondents in the present study. The nature and design of the questionnaire that are employed relies on the studies that have been carried out previously. The questionnaire design of this study is close-ended questions with some questions are open-ended. The questions were adopted

from previous studies (Indah; Pamudji, 2010 & Jian, 2012) where the questions were verified and corrected.

However, since the study population and unit of analysis is already being selected the survey method using a questionnaire is suitable and the best method to collect appropriate data in order to answer the research questions. Therefore, many studies in such file were done by using questionnaire in order to collect data such as: (Al-Khaddash, et al., 2013; Jian, 2012; Sawan & Alsaqqa, 2013; Rahmina, and Agoes, 2014; Suyono 2012).

3.6 Pilot study

The Pilot study has been first conducted prior to the current study to test the reliability, of the questionnaire. A sample of 30 questionnaires was self-administered and dully completed by the target respondents. The respondents were audit firm in Libya. The respondent population was collected from approved audit firm in Libya. The analysis as shown in Table 3.1 depicted that the reliability Cronbach’s Alpha for all the variables are acceptable as they range from 0.614 to 0.697.

Table 3.2 pilot study.

Variables	No. of Items	Cronbach’s Alpha
Audit Quality	5	0.648
Independence Auditor	5	0.697
Audit Firm Size	5	0.614
Audit Fee	5	0.691

The result shows that the Cronbach's Alpha is more than 0.6 in the study which indicates that the questions are consistent and reliable in capturing the information from the respondent. According to Sekaran and Bougie (2010), they have stated that the alpha value of 0.6 is generally considered sufficient, acceptable and the variables appropriate for further analysis.

3.7 Source of Data

The primary data are the information that was first got by the research about the variables of interest for a particular or specified purpose of research Sekaran, (2013). For the purpose of the present study, the primary data were used and collected by employing a structured questionnaire. The audit firms within Libya were asked to answer the entire question, and the questionnaires were returned after it had been filled. A total number of 85 representing 85 % were duly completed and returned accordingly. This percentage is enough for the analysis as mentioned by (Sekaran, 2003), the response rate reaches 30 % or more is suitable for studies.

3.8 Population and Sample Size

Due to the time, budget and geographical distance constraint, it was not possible to collect data from the entire population of all audit firm in Libya. The population in this study is organization, which involves 100 approved auditing firms in Libya (Libyan central bank, 2014) Based on the size, the appropriate sample size chosen for this study are 80. This is in accordance to the sample size proposed by Sekaran, (2013).

3.9 Sampling Technique

Sampling is the procedure of selecting a enough number of elements from the people so that it would be probable to simplify the characteristics of the population based on simple

Systematic sampling techniques Sekaran, (2013). By using this sampling technique, 80 samples were Systematic selected from the entire population.

3.10 Data Analysis Method

The data in this study analysed by using multiple regression models after conducting reliability test, multicollinearity test, Variance inflation factor, descriptive and Pearson correlation. The multiple regression result provided the extent of significant relationship value between the independent and dependent variables. The reliability test is to measure the consistency of the question and how reliable, they are in answering the respondent perception. The model is as follows:

$$\text{Audit Q} = a + \beta_1 \text{IDA} + \beta_2 \text{AFZ} + \beta_3 \text{AFS} + \epsilon$$

Where,

AQ = Audit Quality

IDA = Independence Auditor

AFZ = Audit Firm Size

AFS = Audit Fees

3.11 Variables Measurement

The study aims to identify the factors that affect audit quality in Libya. In collecting a complete data, a set of questionnaire had been directed systematically to the respondent. The questionnaire divided into two sections, which are to be filled by the respondents. The measures used were adapted from previous studies and adjusted to suit the study. These measurements are explained as following:



Part 1:

This section contains of the inquiries to collect the data about the summary of the respondents. Questions asked in this part relate to gender, marital Status, age, highest education level, Monthly income and Length of services. And then, the respondent has been asked to tick the appropriate level they belong to as the alternative provided. Measurement in this section was as shown below:

Table 3.3 Demographic information.

Section	Information	Number of items	Scale
1	Gender. Marital Status. Age. Highest education level. Monthly income. Length of services.	5	Multiple choices

Part 2:

The section includes the questions that are related to the dependent and independent variable, that are related to factors that affect audit quality. It consists of variable such as independence auditor, audit firm size and audit fee. 20 statements were developed to cover the study, which are audit quality five statements, independent auditor five statements, audit firm size five statements and audit fee five statements. In this section, variables will be in the form of Likert Scale of five points system; (1= strongly disagree, 2= disagree, 3= neutral, 4=strongly agree, 5= agree.) to show the level of acceptance of the correlation between factors that affect audit quality as below:

Table 3.4 Items for Factors that affect audit quality.

3.11.1 Audit quality

No	Variable	statement
1	Audit Quality	Understanding of the information system accounting clients can make reporting better audit.
2		I have a strong commitment to audit completed in a timely manner.
3		The amount of compensation will I receive affect me in the report client error.
4		I do not easily believe in Notices for audit clients.
5		I have always tried to be careful in decision-making during the audit.

3.11.2 Audit firm size

No		statement
1	Audit Firm Size	The size of the audit firm is positively associated with audit quality
2		The Big Four Firms achieve a high level of audit quality
3		The local audit firms achieve a lower level of audit quality
4		The companies audited by the big firms are more attractive to investors and creditors
5		The size of audit firm plays a vital role in determining audit quality in the market.

3.11.3 Independence auditors

No	Variable	Statement
1	Independence auditors	There must be absolute independent for auditors in the cause of discharging their duties as auditors.
2		Audit independence makes auditors discharge their duties credibly well.
3		Audit independence allows auditors to apply all audit regulations during auditing exercises.
4		Audit independence allows auditors to work based on the principle and ethics of audit practice.
5		Audit independence has a serious influence on audit quality.

3.11.4 Audit fees

No	Variable	Statement
1	Audit Fees	There is a pressure for your associates to collect the audit fees.
2		When the audit fees charged is initially lower, you tend to charge more in other engagement services.
3		In order to collect audit fees, you will consider yielding to client disclosure requests.
4		When the clients pay the higher audit fees, you will feel obligated to those clients.
5		In order to retain clients who have paid their fees, you will consider yielding to client disclosure requests.

3.12 Chapter summary

This section included the research methodology of the study. The research model and hypotheses developed were stated respectively. Then, the method of data analysis as well as questionnaire design were highlighted. The source of the data collection, population of the study and sample size, sampling technique was also presented. Eventually, the measurements of dependent and independent variables of the study were covered in this section.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The current chapter focused on analyzing data gathered and expression of the study results from which the chapter started with describing response rate. And then, presented the discussion of respondent's information. Further, the chapter presented variable descriptive and also reliability test is covered. This chapter included the discussion of correlation analysis, data screening, regression analysis, chapter summary and a summary of findings in the end.

4.2 Response Rate

Total numbers of 80 questionnaires were distributed to the respondents whereas 72 questionnaires were answered and received out of 80. 4 uncompleted questionnaire were deleted out of 72 due to main part of the survey questionnaire was blank. Reaming 68 questionnaires were usable for further data analysis. Table 4.1 showing results of response rate only 68 questionnaires were used for present and this study got 85% response rate which higher level in survey research. According to the Sekaran (2003) that 30% response rate is acceptable in survey questionnaire present study got 85% which higher than acceptable suggestion of Sekaran. 4 Uncompleted questionnaires out of 72 which represent the 5% of total percentage of questionnaires its means less amount of questionnaires were deleted. Present study has no issue with response rate. Table 4.1 showing the detail about response rate.

Table 4.1 Response Rate

Questionnaire	Frequency	Percentage
Returned:	72	90%
completed	68	85%
Not completed	4	5%
Not Returned	8	10%
Total Questionnaire Distributed	80	100%

4.3 Respondent's information

Present study showing the demographic results of respondents which contains, gender, marital status, age, highest education level, monthly income, length of services. Which represent the basic information of respondents on base of 68 questionnaires in present study.

Table 4.2 showing the results of respondent's information in detail.

Table 4.2 Respondent's information

Demography	Frequency(n=68)	Percentage (%)
Age (years)		
Below 24	7	% 10.3
25-30	13	% 19.1
31-35	28	% 41.2

36-40	18	%26.5
Above 40	2	%2.9
Total	68	%100

Gender

Male	53	%77.9
Female	15	%22.1
Total	68	%100

Marital Status

Single	37	%54.4
Married	31	%45.6
Total	68	%100



Highest

Education Level

Diploma	0	%0.0
Bachelor Degree	8	%11.8
Master	44	%64.7
Other	16	%23.5
Total	68	%100

Monthly Income

Below DL 1500	26	%38.2
DL 1501 – DL 2500	28	%41.1
DL 2501 – DL 3500	8	%11.8
DL3501 – DL 4500	4	%5.9
Above DL 4500	2	%3.0
Total	68	%100

Length

Of Services

Less than 3 years old	24
%35.3	
3 – 6 years old	30
%44.1	
7 – 10 years old	8
%11.8	
Above 10 years old	6
%8.8	
Total	68



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The table 4.2 of the results above showed that 7 out of the 68 respondents, which represent 10.3% of the respondents are in their age below 24 years, whereas 13 equivalent to 19.1 % are in between the age of 25-30 years, while 28 of the respondents in the age between 31-35 which represent 41.2%. 18 respondents represent 26.5% are in the age between 36-40 years, and the remaining 2 of the respondents were above 40 years and represent 2.9% from the overall of the respondents. In terms of the gender 53 were males which represent 77.9% while the outstanding of 15 were females and represent 22.1 %. Besides, 37 respondents equivalent to 54.4% are single, while the remaining 31 of the respondents are married which represent 45.6%. The majority of respondent were single because of the structure of Libyan economy consist majority single in the labor force.

In addition, in term of respondent monthly income majority are earning between DL1501-DL 2500 monthly, to be specific 28 representing 41.1% are earning between DL1501-DL2500. This monthly income consider very good in Libya and also the amount of income tax is very low. Moreover, the majority of Libyan citizens do not pay any electric and water fees. While 26 respondents equivalent to 38.2% got below DL1500 monthly. And 8 represents 11.8% earn higher income between DL2501-DL3500. Also the results of the study showed that 4 respondents representing 5.9% their monthly income between DL3501-DL4500 and the remaining of 2 respondents equivalent to 3.0 % earns higher than DL4500.

Furthermore, table 4.2 of the results also showed how long a respondents are being auditor. The researcher asked this question in order to know extend of which years of experience influence positive or negative auditing. The result reveal that 24 out of 68 respondents,

which represent 35.3% have less than 3 years of experience. While the majority of 44.1% and exactly 30 respondents have experience between 3-6 years. Whereas 8 respondents representing 11.8% have experience between 7-10 years, and the remaining of 6 respondents that represent 8.8% have an experience more than 10 years.

Moreover, table 4.2 of the results revealed the highest education level of the respondents. 44 out of 68 respondents representing 64.7% have a master degree. This because master degree one of the most important requirements to be auditor in Libya. while 16 respondent which represent 23.5% have other education level, such as (PHD or prof). And the remaining of 11.8% and exactly 8 respondents have a Bachelor Degree.

4.4 Descriptive Variable

This section mentioned the mean and standard deviation score of the variables included in the current study, nevertheless, four variables namely independence auditor, audit firm size, audit fee and audit quality, have been measured by using five Likert scale.

Table 4.3 Descriptive Statistics

Variables	Mean	Std. Deviation	N
Audit Quality (AQ)	3.7029	.63198	68
Audit Firm Size (AFZ)	3.9147	.64398	68
Independent Auditor (IDA)	4.0324	.70190	68
Audit Fees (AFS)	3.6088	.78069	68

Table 4.3 above indicated that variables independence auditor, audit firm size, audit fees and audit quality recorded a mean score of 4.0324, 3.9147, 3.6088 and 3.7029 respectively. In addition, the standard deviation stood at .70190 for independence auditor, .64398 for audit firm size, 78069 for audit fees and .63198 for audit quality. Based on the above result independence auditor has a highest score of mean 4.0324 far above the remaining variables, followed by audit firm size, audit quality which stood at 3.9147 and relatively a bit higher than audit fees with 3.6088 mean value.

4.5 Reliability Test

Present study confirms the internal consistency reliability of instruments to using the reliability test. Internal consistency reliability test is the most common technique utilized by huge number of studies to test reliability of the variables, (Litwin, 1995). On the suggestion of the Litwin (1995), present study adopts the reliability test to insure that our instrument reliable in survey. Table 4.4 showing further detail on of test

Table 4.4 Reliability Test of the Study

Variables	No of statements	Cronbach's Alpha
Audit quality	5	0.610
Independence auditors	5	0.691
Audit firm size	5	0.773
Audit fees	5	0.816

Table 4.4 showing the, present study got the reliability measurement of independent variables reached average reliability of 0.691, independence auditor, 0.773 audit firm size, 0.816 audit fees respectively as well as 0.610, for audit quality. Present study rang from high 0.8 to 0.6. Previous studies indicated that high acceptable is 0.7 reliability for instrument measurement, but some researchers such as (sekaran, 2003; Nunnally 1978; Sekaran & Bougie 2010; Hair 2006), stated that 0.6 is also acceptable for instrument reliability in social science studies. On the recommendation of the above researcher present study has no issue of reliability all the variables of study match criteria.

4.6 Correlation Analysis

Present study to confirm the relationship of the variables has adopted the Correlation test, according to Asteriou and Hall (2007) correlation analysis used in explaining independents and dependent variables' relationship which will assist in estimating various models, correlation coefficients of 0 means no relationship, ± 0.30 to ± 0.49 stands for weak positive or negative relationship, $\pm \geq 0.50$ stands for substantial strength relationship, and ± 1.0 means perfectly positive or negative correlation. Table 4.5 presents the correlation matrix among the variables.

Table 4.5 Pearson Correlation.

Pearson Correlation	AQ	AFZ	IDA	AFS
Audit Quality	1.000	.656**	.761**	.532**
Audit Firm Size		1.000	.635**	.580**
Independent Auditor			1.000	.571**
Audit Fees				1.000

** . Correlation is significant at the 0.01 level

Table 4.5 shows that the correlation between independence auditor and audit quality positive with a correlation value of 0.761 signifying (7.61%), significant at only 1% level .Meanwhile, audit firm size with audit quality indicates a positive correlation of 0.656 (6.56%) significant at only 1% level. at the same direction, audit fees and audit quality have a positive significant correlation because the value is 0.532 (5.32%) in shown.

In the same context the correlation between independence auditor and audit firm size is positive and significant with a value of 0.635 representing (6.35%). Besides, audit fees association with independence auditor is a positive relationship 0.571 (5.71%) and significant at 1% level. In addition the relationship between audit firm size and audit fees is also have a positive relationship with 0.580(5.80%),significant at 1% level.

From the illustrated above, it can be seen clearly that three of independent variables have positive and significant correlation with audit quality at 1% level of confidence. The three

independents variables are independence auditor, audit firm size and audit fees. based on the above analysis, the study predict absence of multicollinearity problem since there is no statistical strong correlation of greater than 80% among the studied variables (Pallant, 2010).

4.7 Data Screening

Before the regression analysis is essential that to make more reliable the data with some test to high estimation without any error which effects on the main results of study. Test names, multicollinearity and normality which confirm data for further analysis. These test adopted by recommendation of the Hair, Black, Babin and Anderson (2010), as well as, Tabachnick and Fidell (2007). These tests were conducted by using Statistical Package for the Social Science (SPSS) version 20.

Present study did not find any missing value in the data set additionally the data has normally distributed from the result obtained in normal probability plot. Hence, the assumption of this test was not violated so present study has no issue of missing value. Additionally, the study test for multicollinearity using Variance Inflation Factor (VIF) as well as tolerance to determine highly correlated variables. The result obtained from these tests supported the correlation analysis findings as revealed by Table 4.6 that the value for the VIF range as 1.898, 1.870 and 1.682 for independence auditor, audit firm size and audit fees respectively, the values are far below the 10. Thus, the current study concluded that there is no presence of multicollinearity considering both tolerance and VIF results. Table 4.6 showing the more detail.

Table 4.6 Multicollinearity Test of the Study Variables;

Variables	Tolerance	VIF
Independence Auditor	0.527	1.898
Audit Firm Size	0.535	1.870
Audit Fees	0.595	1.682

On the suggesting of the Hair, Sarstedt, Ringle, & Mena,(2012),present study meet the standard of test. Results of the test match with rules of multicollinearity of VIF value less than 10 and value of tolerance of greater than 0.20. Present study meets the entire requirement to meet the test standard; there is no issue of multicollinearity in the present study.

4.8 Assumption Test

Normality, linearity, histogram and independence of residuals are investigation of residual scatter plots to test the assumption (Coakes, Steed & Ong, 2010).

Figure 4.1 histogram of dependent variable (AQ)

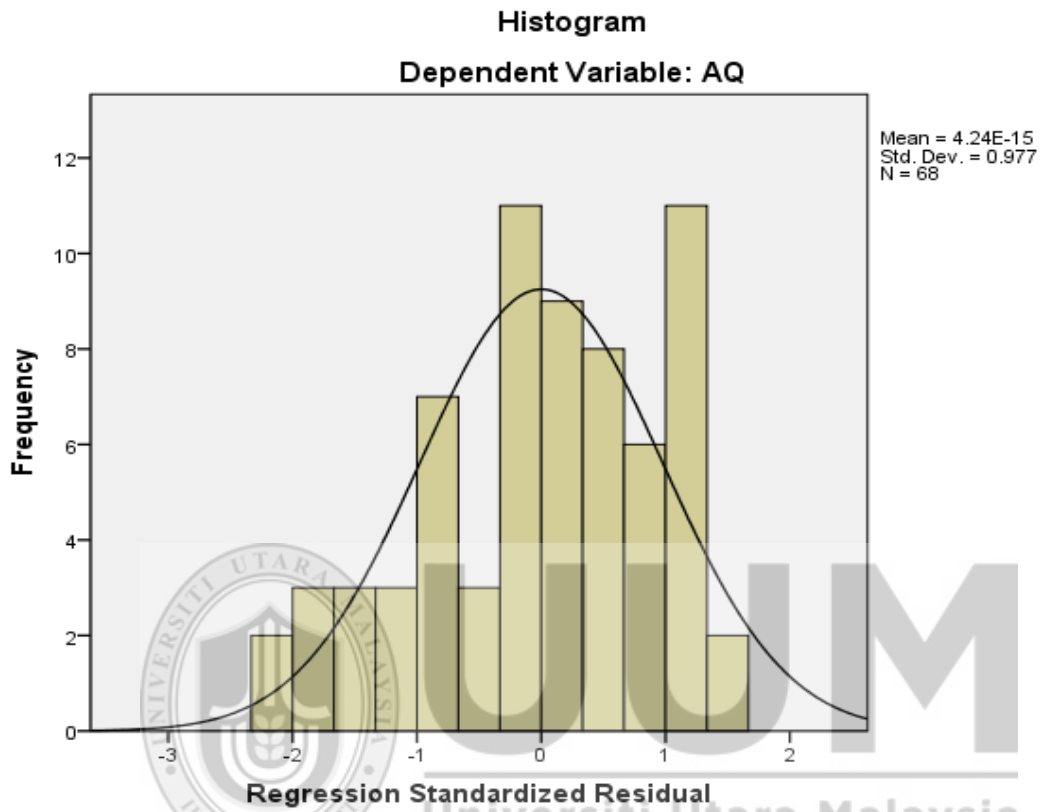
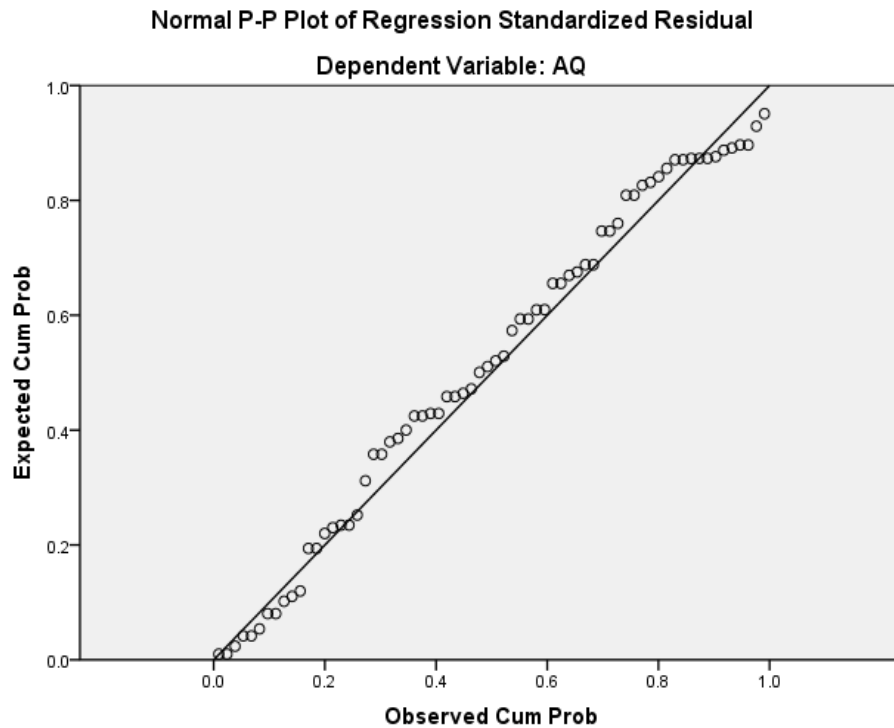


Figure 4.2 normal p-p plot of regression standardized residual.



4.9 Regression Analysis

Regression analysis is divided into simultaneous or standard, sequential multiple or hierarchical regression, and stepwise (Pallant, 2013). Multiple regression is employed by the current study in order to explore the relationship between independent variables and dependent variable by using SPSS version 20.0. The variables included in the regression analysis are three independent variables namely independence auditor, audit firm size and audit fees in relation to dependent variable (audit quality).

Table 4.7 below summarized and demonstrates the analysis of the multiple regression result carried out by this study where audit quality stood at dependent variable while independence auditor, audit firm size and audit fees represent the predictor variables.

Table 4.7 Model Summary

Model	R	R square	Adjusted R Square	Stand. Error of the Estimate	Durbin. Watson
1	0.794 ^(a)	0.631	0.613	0.39291	1.054

a. Predictors: (Constant), AFS, IDA, AFZ

b. Dependent Variable: AQ

Table 4.7 showing that dependent variable explained the 63.1% variance with three dependent variables. Present study got moderate variance. Present study base on the one-tail test to developed hypothesis to confirm the relationship between the variables using t-value estimation for significant level as suggested by previous literature, where t-value acceptance level 1.645 or more than suggested by Lind, Marchal & Wathen, (2013); Kumar, Talib & Ramyah, (2013).

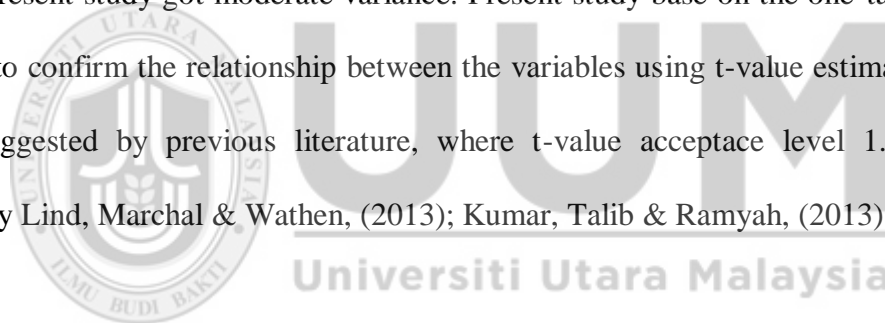


Table 4.8 ANOVA

Model		Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	16.879	3	5.626	36.446	.000 ^a
	Residual	9.880	64	.154		
	Total	26.759	67			

Table 4.8 ANOVA

Model		Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	16.879	3	5.626	36.446	.000 ^a
	Residual	9.880	64	.154		
	Total	26.759	67			

a. Predictors: (Constant), AFS, IDA, AFZ

b. Dependent Variable: AQ

Table 4.8 above shows the Analysis of Variance (ANOVA) aimed to explain the model's suitability. If the F value is significant at 5%, i.e., 0.05 of the independent variables are assumed to have significant relationship in explaining the dependent variable. However, if the F value is not significant at 5%, the independent variables are assumed not to have an influence in explaining the dependent variable. Therefore, the result obtained at 36.446 (Sig. 0.000), shows that the model is statistically significant at 1% level of confidence.

Table 4.9 Coefficients of the Regression

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.480	.319		1.502	.138
AFZ	.263	.103	.268	2.563	.013
IDA	.502	.094	.558	5.369	.000
AFS	.047	.080	.058	.584	.561

The above table 4.9 of coefficients, the indications of influence on the dependent variable of unit increases or decreases in any of the independent variables. The probable model can be developed as:

$$AQ = 0.480 + 0.263 \text{ AFZ} + 0.502 \text{ IDA} + 0.047 \text{ AFS}.$$

Where:

AQ = Audit Quality

(IDA=Independence Auditor, AFZ= Audit Firm Size and lastly AFS= Audit Fees).

Table 4.10 indicates that the result of multiple regression illustrates that two out of the three variables are tested to be statistical significant while the remaining one is said to be not statistically significant. Firstly, considering independent variable audit firm size in relation to audit quality, the results of this study showed that there is a positive relationship between audit quality and audit firm size because ($\beta = .263$, $t = 2.563$, and $p = .013$) . This shows that larger audit firm provide higher quality of audit. Hence 1% increase in audit firm size will lead to increase in audit quality by 0.268%.

Likewise, the second variable of the study hypothesis that independence auditor has a positive relationship with audit quality, the findings of the current study is statically significant at 5% confidence level ($\beta = .558$, $t = 5.369$, and $p = .000$). This outcome was similar to the majority of prior research which found that independence auditor has a positive effect on improving quality of audit.

Eventually, the result obtained from the multiple regression on whether audit fees has a positive relationship with audit quality is statistically positive but not statistically significant considering the value of beta, t-value and p-value of ($\beta = 058$, $t = .584$, and $p = .561$)

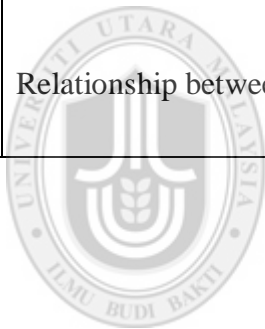
4.10 Chapter Summary

This chapter discussed the results of multiple regression to confirm the relationship between the dependent and independent variables namely independence auditor, audit firm size and audit fees in relation to dependent variable i.e. (audit quality). Data screening to clean to help to path accurate results and chapter also discuss the results of multiple regressions. Survey method used for data collection distribution of the questionnaire to respondents. This study also covered multicollinearity and normality test. Finally results of multiple regressions analysis showing that two hypothesis of present study was supported and one is not supported with less significance in the present study.

Tables 4.10 showing the 3 hypothesis summary where three independent variables, i.e., the relationship of independence auditor, audit firm size and audit fees with the dependent variable is accepted.

Table 4.10 Hypothesis Summary

hypothesis	Relationship between DV and IV	findings
H1	Relationship between independence auditor and audit	Supported
H2	quality	Supported
H3	Relationship between audit firm size and audit quality	Not Supported
	Relationship between audit fees and audit quality	



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Chapter five

Discussion of results

5.1 Introduction

This chapter discussed the results of present study on these bases of regression analysis to confirm the relationship between audit firm size, independence auditor and audit fees, and audit quality.

5.2 Discussion of Results

Results of the study discussed relationship between the (A) independence auditor (B) audit firm size (C) audit fees and audit quality in registered companies in Libya stings. All hypothesis were discusses related to this study one by one line with previous literature.

5.2.1 Independence auditor and audit quality

H1: There is a positive relationship between independence auditor and audit quality.

First Hypothesis is that Independence auditor has positive relationship with audit quality results of the present study hypothesis was supported. Statically t-value of 5.328 showed that there between the significant relationship independence and audit quality. Result has been disclosing that high degree of independence auditor will influence on the audit quality to take decision on the behalf of the real facts and also probability of detecting and reporting errors or financial misstatements, and hence will be able to determine the true status of the audited firm, i.e. make a high quality audit.

Present findings of the study related to the previous empirically studies match this study there are positive relationship between independence auditor and audit quality including: (Abdul Halim, et al., 2014; Octavia, & Widodo, 2015; Suyono, 2012; Anis, 2014; Al-Khaddash, et al., 2013; Rahmina, & Agoes, 2014). All above studies justify our results independence auditor has high influence on the audit quality.

5.2.2 Audit firm size and audit quality

H2: There is a positive relationship between audit firm size and audit quality.

Second hypothesis of the study was supported according to statically t-value 2.485 that showing audit firm size and audit quality has positive relationship. Findings of the present study presenting that large size of the firm deliver higher quality of audit due to have fewer incentives to compromise their standards to ensure retention of clients in comparison with smaller firms. Moreover, larger firms have huge resources to maintain the audit quality and meet the standard of audit quality. findings of the present study in line with (Chen, et al., 2013; Yu, 2007; Al-Khaddash, et al., 2013; Krishnan & Schauer, 2000; Sawan & Alsaqqa 2013) previous studies already reported that audit firm size and audit quality has positive relationship.

5.2.3 Audit fees and audit quality

H3: There is a positive relationship between audit fees and audit quality.

It is surprised that third hypothesis was not significance relationship between audit fees and audit quality. Result of multi regression statically t-value of 0.585 which indicated that third hypothesis does not supported. Audit services are quality-differentiated and that in a competitive market, quality differences are reflected in fees. However, greater audit fees are also associated with the choice of qualified auditors. This because some clients are more interested in using qualified auditors. Clients are confident that qualified auditors have greater monitoring and bonding in order to capture higher audit quality.

Regarding the fees, the asserted hypothesis of a relationship between audit quality and audit fees is not supported in present study. And the results of this study are in line with previous studies. Chung and Kallapur (2003), did not find a significant relationship between any fee measure and audit quality. Another study, conducted by Ashbaugh, Lafond, and Mayhew

(2003) did not find a significant relationship between audit fees and audit quality either. Therefore, Choi, Kim and Zang (2010) indicated that abnormal audit fees are not significantly associated with audit quality when the association between the two is not conditioned upon the sign of abnormal audit fees.



Chapter six

Limitation and conclusion

6.1 Introduction

This chapter is devoted to present recommendation and limitation of this study as well as conclusion of the study.

6.2 Recommendation and Limitation of the study

In the perspective of findings recommendation for the future researcher auditor should be motivated by firms to main the high level of audit quality and firm arrange the training program and seminars for auditors to enhance the skills and get more experience to their field and scale up their qualification and increase the interaction with high qualified in auditing specialization to influence his proficiency. Professional auditor must be know the auditing rules, restrictions, policies, directions and standards to use them in their tasks.

Libyan auditing quality is range between satisfactory and very good which influence on demand of the auditors to maintain the quality of auditing and meet standard of audit world wild.

Firm of Libya offers auditors competitive fess, rewards and bounces to enhance their motivation to main the high quality auditing and also to be comfortable, satisfied and nominate them to audit the branches of firms outside or inside the country where the parent firm is located with a high rewards. Apart from that these practises of company will help to maintain the audit quality and accomplish the success for the firm.

Even that present study has supported a number of the hypothesis relationship between dependent variables and independent variables, the findings of this study have also limitations. Limitation provides the opportunities for scholar to further investigate the

current study with different perspectives. First limitation of present study that only focused on perceptions of auditors which may be bias. Future research is to examine the other perceptions of interested parties, such as auditing professional associations, clients and legislators.

Second limitation is that due to lack of the time and budget issues present study focus on the survey cross sectional study. Future research will be longitude study to bring the more and reliable data and comprehensive results.

Third research method techniques of data collection do not provide the equal chance to all respondents. Hence, future researchers may enhance the findings of questionnaire by conducting interview with the respondents.

Furth this study just covers the limited companies in Libyan setting so that result cannot be generalized. Future research to extend area of the study to generalized the results.

6.3 Conclusion of the study

Taken together, the present study provided the evidence to contribute the body of the knowledge in the field of the audit quality. Present study successfully delivered the all answers of the questions. Findings of the present study indicated that factors influence the audit quality in Libya settings which come up which three independent variables namely independence auditor, audit firm size and audit fees as well audit quality (dependent variable). Three hypotheses were formulated based on theory and previous empirical evidence which clearly, contribute in the literature and theory. This study confirmed the two hypotheses are supported to study and one hypothesis not supported as insignificant. This study also provided the implication for the organization auditors and management of firms. Limitation and future research also discussed.

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