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Audit Committees in Transition: Evaluating the Effectiveness of Corporate Governance in Libya's Banking Sector

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ABSTRACT

Purpose: The purpose of this research paper is to investigate the perspectives of key stakeholders on strategies to improve the effectiveness of audit committees (ACs) in African economies, with a specific focus on the Libyan banking sector.

Methodology: The study employs a mixed-methods approach, combining questionnaire surveys and semi-structured interviews. The data collection process involves gathering responses from participants through questionnaires and conducting in-depth interviews to gain deeper insights into the subject matter.

Findings: The research findings highlight several key points. Firstly, fortifying Libya's accounting and auditing profession emerges as the most widely endorsed suggestion for enhancing AC effectiveness. Secondly, participants identified various actions that can strengthen ACs, including appointing members with financial expertise, refining the legal requirements governing AC responsibilities, securing board support, enhancing Libya's legal and regulatory framework, adequately compensating AC members, and reducing government intervention in AC practices.

Originality: This research contributes to the field of corporate governance by providing valuable insights into the perspectives of stakeholders on enhancing AC effectiveness in the Libyan banking sector, within the broader context of African economies. The findings offer actionable plans for regulators and policymakers seeking to improve AC effectiveness in Libya.

KEYWORDS: Corporate Governance, Effectiveness of the audit committee, Libyan banking sector, Stakeholder perspective.

Paper type: Research paper.

1. INTRODUCTION

The weak control mechanisms within major corporations, such as Carilion in 2017 and Thomas Cook in 2019, have exposed incidents of corruption and corporate collapses. Kabeyi (2022) argues that the Enron collapse triggered a renewed focus on corporate governance (CG) mechanisms by regulators and governments in developed countries, particularly the audit committee (AC). Jhunjhunwala (2023) further notes that these scandals led to the establishment of CG regulations and guidelines, such as the Sarbanes-Oxley Act (2002) in the USA and the Combined Code (FRC, 2003) in the UK, which emphasised the importance of ACs. In the UK, the Smith Report (2003) emphasised the need for an independent AC with sufficient resources to fulfil its responsibilities. Since then, there has been an increasing global emphasis on promoting AC effectiveness (Turley and Zaman, 2014; Velte, 2023) due to the pivotal role they are believed to play in enhancing CG arrangements at the firm level (Adegboye et al., 2020; Li et al., 2021; Musa and Yahaya, 2023).

Despite efforts to improve CG in developing countries, the institutional frameworks required for effective governance are generally weak (Shegaw, 2019; Jumreornvong et al., 2020; Olumbe, 2022). This presents challenges for governance efficacy in these countries, including Libya, where the implementation of CG in the banking sector is still in its early stages, and regulations are inadequate (Barghathi et al., 2019; Masli and Elwalda, 2021; Farah et al., 2021). Apart from the deficiencies in the legal system, the effectiveness of corporate governance, specifically ACs in Libya, is hindered by various challenges, such as government interference in board appointments, intervention in the banking sector, weaknesses in board governance, and inadequate legal and regulatory environment (Larbsh, 2010; Masli and Elwalda, 2021; Masli et al., 2022). In 2013, the Libyan General National Congress, which succeeded the Gaddafi regime, enacted Law No. 1, mandating a ban on all transactions

involving interest (riba). Consequently, this regulation required commercial banks in Libya to transition to Islamic banking principles starting January 1, 2015. The transformation of the Libyan banking sector into an Islamic system presents unique challenges and opportunities for audit committees (Barghathi, 2017; Zagoub, 2019). This transformation, explored in studies such as those by Masli et al. (2019), requires an understanding of the interplay between Islamic law, corporate governance, and the role of audit committees in a rapidly changing banking environment. These factors impact the functioning and effectiveness of ACs, but there is a lack of empirical research on CG systems and mechanisms, including ACs, in this sector (Masli et al., 2019). Thus, our understanding of how these committees operate in Libya is limited, and there is a lack of proposed practical actions to enhance their effectiveness. This research addresses this gap by identifying the inhibiting factors affecting ACs in Libya's banking sector and proposing actions to enhance their effectiveness.

Accordingly, we believe that focusing on the study of audit committee effectiveness in Libya is essential for several reasons. Firstly, Libya's unique and dynamic economic and political environment, particularly its shift toward Islamic banking, provides a rich backdrop for examining the changing role of audit committees and their influence on corporate governance (Masli et al., 2019). Secondly, the findings of this research could significantly contribute to the broader conversation on corporate governance within emerging economies, especially in the contexts of North Africa and Islamic banking (Abdulsaleh, 2014). Lastly, the insights derived from the Libyan scenario can guide policy formulation and practical application, promoting the development of stronger corporate governance frameworks in contexts that are similarly politically unstable (Masli et al., 2022).

To explore these issues, we combine questionnaire surveys and semi-structured interviews to ensure data quality and minimise bias (Creswell and Clark, 2011; Al-Shirawi,

2018). The empirical evidence gathered suggests seven corrective actions to enhance AC effectiveness. Firstly, respondents emphasise the importance of strengthening the accounting and auditing profession in Libya to improve the quality of information available to ACs. Secondly, our findings indicate that AC members should be appointed based on their financial expertise and professional qualifications. The third-ranked suggestion is the establishment of legal requirements that govern AC responsibilities. At the same time, the fourth recommendation highlights the need for boards to actively support ACs by helping them overcome challenges and ensure their independence. The fifth-ranked action is improving Libya's legal and regulatory environment to align with good CG practices. For instance, an enhanced legal and regulatory framework can facilitate the proper functioning of ACs in Libya. Participants rank the adequate compensation of AC members as the sixth action, while preventing harmful government intervention is ranked last.

Our study contributes to the ongoing discussions on the practice of ACs in emerging economies in two significant ways. Firstly, we examine the role of ACs in Libya, a context that has been overlooked but holds interest due to the presence of both conventional and Islamic banking. Unlike previous studies, our research builds upon this context and proposes innovative actions to enhance AC functions in Libya's banking sector. Secondly, we provide insights into how AC effectiveness can be improved, enabling regulators and shareholders in emerging economies to give greater attention to CG mechanisms in Libya's banking sector.

The remaining sections of this paper are structured as follows: a review of the relevant literature, a detailed explanation of the research design and methodology, a presentation and discussion of quantitative and qualitative empirical results, a summary of the main findings, an acknowledgement of primary limitations, and suggestions for future research.

2. LITERATURE REVIEW

From investigations into the roles and responsibilities of ACs (Keune and Johnstone, 2012; Campbell et al., 2013; Fulop, 2014; Hogan et al., 2014; Turley and Zaman, 2014; Eulerich et al., 2017; Akpoghelie, 2022; Broye. and Johannes, 2023; Delis et al., 2023) to explorations of AC characteristics and the factors influencing their performance (Braswell et al., 2012; Malik, 2014; Albring et al., 2014; Alzeban and Sawan, 2015; Ghafran and O'Sullivan, 2017; Poretti et al., 2018; Almutairi and Saleh, 2019; Mollik et al., 2020; Pozzoli et al., 2022; Feng, 2022; Azizkhani et al., 2023; Al-Okaily and Naueihed, 2023), the majority of previous studies have predominantly focused on ACs in developed countries, such as the UK, the USA, Canada, and Australia. Only a limited number of studies have addressed the context of developing countries (Iswaissi and Falahati, 2017; Masli et al., 2022). Notably, the research findings from developed countries may not be applicable to emerging economies due to differing institutional characteristics (Barghathi et al., 2017; Barghathi et al., 2018). For instance, emerging economies often exhibit weaker and less efficient accounting professions and regulatory environments compared to their developed counterparts. Therefore, it is imperative to gain new insights into AC effectiveness from emerging economies, which our study aims to fulfil.

The scarcity of studies investigating AC practice in developing countries has resulted in a limited understanding of their functioning (Al-Moataz, 2010; Bett and Tibbs, 2017; Chanda et al., 2017). Initial investigations, such as those conducted by Soliman (2003) and Al-Moataz (2003), primarily examined the effectiveness of ACs in developing countries, consistently finding them to be largely ineffective in their oversight role. However, recent research endeavours have shed more light on the role of ACs in these countries. Recent scholarly research has expanded to cover a variety of topics concerning ACs. This includes exploring

the influence of AC characteristics on corporate performance, as discussed by Alqatamin (2018), and examining factors that enhance AC effectiveness, highlighted by Qasim (2018). Additionally, the role of ACs and boards in reducing earnings management has been investigated by Khosheghbal et al. (2017). There is also a focus on the impact of Internal Control Systems on detecting occupational fraud, with specific attention to the AC's moderating role in this dynamic, a topic explored by Shakeel et al. (2023). Furthermore, Khan (2023) explored the interplay between AC performance, the role of internal auditors, and the practices of sustainability reporting. Collectively, these studies contribute to a deeper understanding of the multifaceted roles and impacts of ACs in corporate governance.

In Libya, little attention has been given to studying CG mechanisms in the banking sector (Masli et al., 2019). There is limited information available regarding the composition, authority, independence, meetings, responsibilities, and resources of ACs, as well as their effectiveness in the Libyan banking sector. Existing literature on ACs' effectiveness in Libya has not adequately explored ways to enhance their effectiveness. Addressing this gap, our study aims to contribute to the existing knowledge by identifying actionable measures to improve the effectiveness of ACs in Libya's banking sector, thereby safeguarding shareholders' interests. To achieve this, we employ a mixed-methods approach that integrates elements of agency theory and institutional theory, providing a comprehensive understanding of the results.

A review of the existing literature on ACs in Libya reveals certain deficiencies. Firstly, previous studies have predominantly relied on quantitative methodologies to explore the role of ACs in the Libyan context (Abdulsaleh, 2014), which offers a limited understanding of how to enhance their effectiveness. Secondly, while some authors have focused on examining the impact of CG mechanisms, including AC characteristics, on financial performance (El

Gabasi et al., 2014), others have investigated the influence of ACs on audit quality in Libya (Alrshah, 2014). Our study expands on prior research by exploring novel board-level and institutional-level approaches to improving AC effectiveness in the Libyan banking sector, employing a mixed-methods approach and a multi-theoretical framework. Therefore, we examine the following research question:

Q1: What are the key board-level factors that enhance the effectiveness of audit committees in Libya's banking sector?

Q2: What are the key institutional determinants influencing the effectiveness of audit committees in Libya's banking sector?

3. THEORETICAL FRAMEWORK

Our conceptual framework for examining the effectiveness of Audit Committees (ACs) in Libya's banking sector draws from two primary theories of corporate governance practice: agency theory and institutional theory. Agency theory, particularly as articulated by Jensen and Meckling (1976) and Fama and Jensen (1983), views the AC as a critical tool in mitigating agency problems and curbing managerial opportunism. This perspective, further explored by Mangena and Chamisa (2008), Beasley et al. (2009), and Mangena and Pike (2005), suggests that the AC's efficacy in overseeing management is contingent upon its structure and resources, including experience and qualifications of AC members, compensations, and diligence. This viewpoint is echoed in academic literature (see Beasley & Salterio, 2001; DeZoort et al., 2002; Carcello & Neal, 2003) and by global corporate governance committees (such as the Blue Ribbon Committee, 1999; Smith Committee, 2003), as well as being recognized in the Libyan CG Code (2010) for its relevance in assisting boards of directors to monitor managerial conduct and safeguard shareholder interests in the banking sector (Masli et al., 2022).

On the other hand, institutional theory, as outlined by Di Maggio and Powell (1983) and

Scott (1987), adopts a broader, national perspective on the elements influencing corporate governance effectiveness. This approach considers the influence of a country's political, legal, financial, educational, and economic institutions on organizational behaviours and practices (La Porta et al., 1998). Researchers, including Matten and Moon (2008), Jackson and Apostolakou (2010), and Gerged et al. (2023) have highlighted how these national factors shape business systems, exerting coercive, normative, or mimetic pressures on entities such as banks to adopt specific structures or practices. Burdon and Sorour (2020) emphasize that the strength and effectiveness of coercive (legal/regulatory systems, government intervention) and normative pressures (professional bodies' guidelines) greatly influence how corporate governance mechanisms, including ACs, effectively serve stakeholder interests. Consequently, stakeholders' perceptions of the effectiveness of ACs are closely tied to the perceived strength and efficiency of these institutional pressures. Thus, we argue that the efficacy of corporate governance, including that of the AC, is a product of the quality of the institutional framework underpinning their establishment and operation, signifying that ACs are impactful when the supporting institutional framework is conducive to their effective functioning.

4. RESEARCH METHODOLOGY

Our study utilised a combination of quantitative questionnaire surveys and qualitative semi-structured interviews to enhance data quality and minimise bias (Creswell & Clark, 2011; Al-Shirawi, 2018).

4.1.Data and Sample:

The data collection process faced numerous challenges. The socio-cultural, economic, and religious contexts, coupled with a lack of prior research in developing countries, were significant initial obstacles (Læggaard, 2011; Al-Moataz, 2010). Further difficulties arose from

the reluctance of targeted Libyan banks to participate, which was resolved only after presenting ethical approval and supporting documents from the Libyan Embassy.

Gaining access to board members and audit committee members for interviews was especially challenging due to their non-permanent presence in the banks. The large geographical size of Libya and the dispersion of banks across various cities further complicated data collection. However, the researchers utilised their personal connections within these banks to distribute and collect questionnaires and conduct interviews.

Prospective interviewees were informed about the study's confidentiality, data safety, the voluntary nature of participation, and their anonymity. Despite these assurances, many initially hesitated to participate in interviews and the questionnaire survey, citing reasons like being too busy or lacking understanding of the research. Efforts were made to clarify any survey uncertainties.

The survey was conducted in two stages. Initially, questionnaires were primarily distributed by hand, with some via email, across sixteen commercial banks in Libya. Following a low response rate from email distribution, a second stage involved resending these email questionnaires, which improved the return rate.

In this study, questionnaires were strategically distributed to five principal groups in the Libyan banking sector: board members, audit committee (AC) members, executive managers, internal auditors, and external auditors. The selection of these groups was intentional and based on their profound understanding of AC practices, their significant authority and responsibilities in corporate monitoring, and their established roles in corporate governance mechanisms, as delineated in the works of Elshahoubi et al. (2019) and Sarioğlu (2022). Consequently, a purposive sampling technique was employed, targeting participants who possess specific characteristics or expertise pertinent to the research question, in line with the

approach suggested by Watters & Biernacki (1989). This technique ensures that the selected participants can provide in-depth and relevant insights pertinent to the study's objectives.

In addition to the questionnaire responses, semi-structured interviews were conducted with representatives from these groups. The interviews aimed to gain a deeper understanding of the research questions and to validate and explore the questionnaire findings further. This mixed-methods approach aimed to strengthen the reliability and comprehensiveness of the data (Creswell & Clark, 2011).

Out of 400 disseminated questionnaires, 246 were returned. This included 64 board members, 48 audit committee members, 112 executive managers, 112 internal auditors, and 64 external auditors. However, 28 were incomplete and thus excluded from the study. This resulted in 218 complete questionnaires for analysis, equating to a 54.5% response rate, consistent with previous Libyan surveys in this field (Magrus, 2012; Zagoub, 2016; Shalba, 2016; Elshahoubi, 2019). Hiebl and Richter (2018) emphasise the importance of response rates in survey research, noting that higher response rates contribute to larger sample sizes. The respondents were highly qualified and experienced in the banking sector, providing assurance regarding the appropriateness and reliability of their responses. The questionnaire was personally distributed and collected by one of the researchers, ensuring direct engagement with the participants.

For the interviews, twenty participants were selected from the same five groups, with four representatives per group, as in the survey sample. The selection criteria for the interviewees were based on four key factors. First, the interviewees had to have participated in the questionnaire survey and understood and approved the study's purpose. Second, they had to belong to one of the targeted five groups. Third, they needed to possess sufficient experience in corporate governance, specifically in working with or within ACs. Lastly,

having at least an undergraduate degree, preferably a postgraduate degree, was a requirement (Bhattacharjee, 2012).

4.2. Questionnaire Design

In the present study, a questionnaire was utilised to collect the perspectives of five groups of actors regarding the research questions (DeZoort et al., 2002; Bedard et al., 2004; Turley and Zaman, 2007; Lin et al., 2008; Sharma et al., 2009; Braswell et al., 2012; Ghafran and O'Sullivan, 2017; Jachi and Mandongwe, 2019; Hanoon et al., 2020; Gholami et al., 2021). The survey questions were derived from issues and inquiries raised in previous studies, with careful consideration given to their relevance to the Libyan context and the Libyan CG Code (2010) whenever feasible. Additionally, new questions were developed to investigate matters specifically pertinent to the Libyan setting.

The questionnaire was divided into two sections. The first section collected respondents' demographic information, including their role, educational level, degree subject, and work experience. The second section aimed to capture respondents' perceptions regarding potential actions to enhance the practice of ACs. Specifically, participants were asked to provide their views on seven key strategies that could improve the effectiveness of ACs in the Libyan banking sector. These strategies encompassed: (1) securing board support for ACs, (2) implementing a stringent legal requirement to ensure the effective performance of ACs, (3) appointing AC members based on merit, (4) ensuring adequate compensation for AC members, (5) establishing a nationwide initiative to foster a regulatory environment that facilitates the functioning of ACs in the Libyan banking sector, (6) strengthening the accounting and auditing profession in Libya to enhance the efficacy of governance systems, and (7) avoiding government intervention in AC practices.

4.3. Conduct of Interviews

Twenty face-to-face semi-structured interviews were conducted with representatives from the sixteen banks in the sample (Kauppi, 2012). The main objective of the interviews was to refine the quantitative data collected through the surveys. These interviews provided an opportunity to validate the questionnaire findings and obtain further clarification from a representative sample of participants belonging to the five selected groups (Kauppi, 2012). The interview protocol served as the primary framework for the interview, although deviations were allowed to explore interesting or ambiguous responses more deeply (Bhattacharjee, 2012).

The questions in the interview aimed to gather the participants' perceptions regarding the suggested corrective measures that could enhance the effectiveness of ACs (Bhattacharjee, 2012).

5. EMPIRICAL RESULTS

As perceived by the survey respondents and interviewees in this study, seven statements (see Table 1) were devised describing actions that might be taken to address the main challenges that ACs encounter in Libya's banking sector.

5.1. Survey Analysis Techniques

In this study, the data collected through the questionnaire survey were both ordinal and nominal. As a normal distribution could not be assumed (Newbold et al., 2013), the analysis required the use of non-parametric testing methods. Non-parametric data are common in exploratory research or in fields where data do not naturally conform to a normal distribution (Conover, 1999). This type of data is often ordinal or nominal, lacking the interval or ratio scale properties required for parametric tests (Siegel & Castellan, 1988). The use of non-

parametric methods is particularly prevalent in social sciences and behavioural studies, where variables are more subjective and less likely to be normally distributed (Hollander & Wolfe, 1999).

Given these characteristics, hypothesis development in studies relying on non-parametric data might not only be inappropriate but also potentially misleading. Hypotheses typically predict a specific direction or magnitude of effect, presupposing a level of measurement precision and data structure that non-parametric data do not possess (Gibbons & Chakraborti, 2014). In such contexts, research questions rather than hypotheses are more suitable as they allow for an open-ended exploration of the data, acknowledging the inherent limitations and variability present (Higgins, 2004).

Furthermore, non-parametric methods, such as the Kruskal-Wallis or Mann-Whitney tests, are more descriptive in nature and do not lend themselves easily to the confirmatory approach that hypothesis testing entails (Daniel, 1990). These methods are designed to identify trends or differences without making assumptions about the data's distribution, which aligns better with research questions rather than specific hypotheses (McDonald, 2009).

Accordingly, the quantitative data in this study were examined using various non-parametric tests. Initially, descriptive statistical measures such as frequency distribution, percentage distribution, and mean scores were used to analyse the responses and rank the factors based on their significance in enhancing audit committee effectiveness in Libya's banking sector (Bickel & Lehmann, 2012).

Secondly, the Kruskal-Wallis test, a robust non-parametric statistical method, was employed. This test is designed to determine if samples originate from identical distributions and is particularly effective for comparing more than two independent or non-related samples

(Czaplicki, 2014). In our research, it was instrumental in identifying any significant statistical differences among the five groups within the Libyan banking sector.

Finally, the study incorporated the Mann-Whitney test, which excels at comparing the mean values of two distinct samples (Grzegorzewski & Śpiewak, 2017). In this context, the test was applied to compare the mean scores of pairs from the five primary groups in the banking sector, with a specific focus on aspects such as the role of board-level and institutional-level factors in influencing audit committee function in Libya. This method facilitated a nuanced understanding of the variations across different groups within the sector.

5.2.Survey Results:

In this study, participants evaluated various factors for their potential to enhance the effectiveness of ACs. The findings, presented in Table 1, reveal a hierarchy of influences ranked by the level of agreement among participants.

At the forefront, the statement regarding the strengthening of the accounting and auditing profession in Libya garnered the highest agreement, with a mean score of 4.35. This highlights the critical role this profession plays in bolstering governance systems. Following this, the appointment of AC members based on their experience and qualifications was deemed the second most influential factor, with a score of 4.19, emphasising the importance of expertise and credentials in AC performance.

Support from the board of directors was ranked third, scoring 4.12, underscoring the necessity of active board involvement in enabling ACs to fulfil their responsibilities effectively. Next, the impact of a strict legal and regulatory environment on compelling ACs to perform their duties effectively was recognised, with a score of 4.16, placing it fourth in terms of influence.

Finally, the role of government intervention in corporate governance and AC practice was identified as the least influential but still significant factor, receiving a score of 3.78. This suggests a nuanced view of governmental influence on corporate governance and AC effectiveness.

The reliability of these findings was supported by a high Cronbach's Alpha of 0.88 for the scale, indicating a strong internal consistency among the responses.

Insert Table 1 right here.

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

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

Like the BD group, the AC group thought that appointing AC members according to their experience and qualifications was the most important action to enhance AC effectiveness;

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

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

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

Lastly, the external auditor's group followed the BD and AC groups in scoring the appointment of AC members according to their experience and qualifications as the most

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

Table 2 indicates how the participants' responses to this question were distributed. Across the sample as a whole, statement 6 (strengthening the accounting and auditing profession) scored highest, with 92.6% of the sample saying they agreed or strongly agreed with this statement. Statement 2 scored second-highest, with 85.8%, followed by statement 3 (84.0%), statement 1 (79.4%), statement 5 (77.8%), statement 4 (74.8%) and statement 7 (68.3%). The latter statement suggests that government intervention, particularly from the Central Bank of Libya, should not negatively impact CG and AC practice.

Insert Table 2 right here.

The distribution of responses in Table 2, particularly the high ranking of statement 6 which emphasizes strengthening the accounting and auditing profession, aligns well with key tenets of agency theory. Agency theory, as articulated by Jensen and Meckling (1976), focuses on resolving conflicts between principals (shareholders) and agents (managers) in organizations. Strengthening the accounting and auditing profession directly contributes to reducing information asymmetry, a core concern of agency theory. It ensures that agents provide accurate and transparent financial reports, thus aligning their actions more closely with the interests of the principals.

On the other hand, the lower score for statement 7, concerning government intervention, can be interpreted through the lens of institutional theory, particularly as discussed by Di

Maggio and Powell (1983). This theory posits that organizations are influenced by the institutional environment, including political, legal, and cultural norms. In the context of the Libyan banking sector, respondents might perceive government intervention, especially from entities like the Central Bank of Libya, as a necessary institutional mechanism to organize and supervise the banking sector effectively. This view aligns with the institutional theory's focus on the role of broader environmental factors in shaping organizational practices and structures.

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

Insert Table 3 right here

The statistically significant differences observed in the responses, as indicated by the Kruskal-Wallis and Mann-Whitney tests, further underscore the heterogeneity within groups in terms of how they perceive the factors affecting AC effectiveness. This variation could be attributed to differing experiences, roles, and perspectives on corporate governance

mechanisms among the various groups. For instance, the higher level of support for certain statements by the EA group might stem from their unique vantage point, which allows them to more directly observe the impacts of strengthened accounting and auditing practices.

Collectively, the study's findings and the differences in perceptions among groups can be more richly understood by applying the frameworks of agency and institutional theories. These theories provide a comprehensive lens to interpret the survey results, highlighting the complex interplay of internal organizational dynamics and the external institutional environment in shaping the effectiveness of audit committees in the Libyan banking sector.

5.3. Interview Results

5.3.1. Developing and Strengthening the Accounting and Auditing Profession

The overwhelming majority of interviewees felt that developing the accounting and auditing profession in Libya is crucial to enhancing the effectiveness of ACs in Libya's banking sector. This implies that respondents consider the existing accounting and auditing practices as limited and fail to support the information needs of ACs in the banking sector. In this respect, our findings echo Hamuda and Sawan (2014) and Faraj and El-Firjani (2014), who argue that Libya's ability to implement the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRS) is being hampered by a lack of relevant training programmes, lack of awareness and skills among accounting professionals and weak governance mechanisms. The board chairman saw several ways in which a professional association might raise the level of expertise in the banking sector:

“There is a need to form an association or union that is able to develop and improve the accounting and auditing profession itself, to train bank staff and to develop the banking business”.

Another board member had two suggestions for how the profession might be developed:

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

Although a number of studies have observed that the accounting profession in Libya has not succeeded in achieving its objective of developing corporate accounting practice (e.g., El-Firjani et al., 2014; Ahmad and Gao, 2004; Larbsh, 2010), this is the first study to draw a link between the weakness of the profession and AC effectiveness. It suggests that raising standards among accounting and auditing professionals would enhance the quality and reliability of the information supplied to the AC and allow it to perform more efficiently. Masli et al. (2022) observed that the accounting and auditing profession's inadequacies hinder their ability to provide high-quality information to the AC, thereby impairing the AC's oversight of financial reporting in the Libyan banking sector. Consequently, interviewees in the current study suggested several approaches to enhance professional standards. These include the establishment of a professional association or union, the adoption of international standards, the provision of training for bank staff (especially internal auditors), and the development of accounting curricula in Libyan universities. Kelly and Dimovski (2007) contend that professionally qualified accountants on ACs can enhance the role and effectiveness of Corporate Governance, despite the fact that the majority of board members worldwide are not qualified accountants.

5.3.2. Appointment of AC Members According to Their Experience and Qualifications

When the interviewees were asked what criteria should be adopted when appointing AC members, most of the interviewees said that the choice should be based on whether the appointee has the qualifications and experience necessary to serve the committee effectively

and enhance its performance. They argued that these should, in fact, be the criteria for appointing all board members, not just members of the AC:

"The selection of board members as well as members of the audit committee should be in accordance with specific criteria to serve and enhance the work of the audit committee".

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

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

The finding that AC members should be appointed based on their experience and qualifications is consistent with the recommendation of the Sarbanes-Oxley Act (2002) and the UK Guidance on ACs (FRC, 2018). The interviewees asserted that the appointment of AC members should be based on specific criteria, such as qualifications, experience and skills, to ensure the success of AC practice.

5.3.3. Legal Requirements Governing the Responsibilities of ACs

The results from the questionnaire suggest a high level of agreement right across the sample that implementing this measure would improve the effectiveness of ACs. The interviewees also expressed strong agreement with this measure for legal requirements to be put in place. They assert that the state or the Central Bank must establish strict controls, regulations, and legislation to support CG and ACs in the Libyan banks. The board chairman of a Libyan bank was unequivocal, commenting:

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

The importance of establishing clear terms of reference for the AC is emphasised by Kwakye et al. (2018). These authors add that the charter setting out the committee's responsibilities should preferably be disclosed in the financial statements in order to assist shareholders in evaluating its performance. A general manager of a bank argued that:

"In my view, there should be a written document produced by the bank itself determining the duties and responsibilities of the audit committee, and this needs to be updated and developed from time to time".

The results confirm the findings of previous studies in indicating that the institution of legal requirements governing the responsibilities of ACs would enhance the effectiveness of these committees (e.g., Böhm, et al., 2016 and Kwakye et al., 2018). The interviewees showed a high level of support for the idea that there should be a written document determining the responsibilities and duties of the AC.

5.3.4. Board Support

The interviewees expressed similar support for this step, a number of whom suggested that AC practice would be enhanced by the board supporting the committee's independence. One of the internal auditors explained that:

"...the board of directors should help the audit committee overcome the problems and difficulties it faces so that it can carry out its tasks and responsibilities independently".

A bank manager went further, arguing that the obligation to support the work of the AC rests not just with the board but with the general assembly:

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

The finding that boards should do more to support ACs in performing their responsibilities and duties is consistent with the recommendations of several professional bodies (e.g., FRC, 2018). Most of the interviewees felt that the board should help the AC overcome any problems and that it should remove any obstacles to its independence.

5.3.5. Improving the Legal and Regulatory Environment

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

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

The findings echo many other studies in highlighting that Libya's legal and regulatory environment needs to pay more considerable attention to CG and ACs (e.g., Larbsh, 2010; Faraj and El-Firjani, 2014; Abdou, 2015; Masli et al., 2022). Although some interviewees were concerned about the Central Bank of Libya implementing legislation without

considering its potential impact on the sector, most saw it as essential to enhance the effectiveness of ACs and CG in general.

5.3.6. Sufficient Compensation for AC Members

Most of the interviewees agreed that ACs are more likely to perform their responsibilities effectively if their members are compensated adequately. They expressed their concern that his committee members are not paid enough for the amount of time and energy they expend on their duties. Most said that the compensation of AC members in the bank is inadequate, which may affect the committee's work, and therefore the compensation should be reconsidered so that it is fair and reasonable. For example, the AC chairman explained:

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

This seems to support the assumption that AC members are more likely to be motivated to focus on their monitoring role if they are compensated fairly (Hayek, 2015; Lin, 2018; Chen, et al., 2023). It also echoes the findings of several previous studies (e.g., Engel et al., 2010; Campbell et al., 2013). Most of the interviewees were worried that committee members in their bank are not paid enough for the amount of time and energy they give to their AC role.

5.3.7. Preventing Damaging Government Intervention

The interviews provided further assurance of the importance of this measure for increasing AC effectiveness; most of the interviewees felt that government intervention should be kept to

a minimum but that where it is necessary, it should be to the benefit of the banking sector. For example, the board chairman from a mixed ownership bank, while acknowledging that a certain amount of intervention is necessary to improve the sector as a whole, was critical of the inappropriate government's intervention:

“In my experience, government intervention and Central Bank intervention are required to improve the work of banks, but sometimes there are inappropriate interventions, and thus intervention by the government and the Central Bank should be organised and limited so that there is no impact on the work of banks”.

The survey results generally show that government intervention should not negatively impact CG, including AC practice. This is consistent with previous studies, such as Wu and Patel (2015), Iswaissi and Falahati (2017) and Masli and Elwalda, (2021). Most of the interviewees argued that government intervention should be judicious and limited to measures that promote CG and AC effectiveness, with some arguing that the Central Bank of Libya's intervention should be confined to supervision and monitoring.

6. CONCLUSION AND IMPLICATIONS

This paper contributes to the auditing literature by identifying actions that might be taken to enhance the effectiveness of ACs in Libya's banking sector. Seven corresponding corrective actions were suggested by participants, the majority of whom (survey respondents and interviewees alike) agreed that they would raise AC effectiveness. The most popular suggestion was strengthening the accounting and auditing profession in Libya, which they felt would raise the quality of the AC's information from internal auditors. This viewpoint aligns with Larbsh's (2010) conclusion that developing a robust Libyan (CG) framework involves supporting the accounting and auditing profession and updating accounting education in the country. The study's results confirm that the accounting environment has an influence on CG.

The second-ranked measure, which suggests appointing AC members based on their experience and qualifications, is consistent with the recommendation by the FRC UK (2018) that committee members should possess financial experience and professional qualifications. Similarly, the third-ranked measure, proposing the institution of legal requirements governing AC responsibilities, is in line with the arguments made by Böhm, et al., (2016) and Kwakye et al., (2018), who claim that such requirements enhance the committees' effectiveness.

The fourth action suggested by participants is that boards should provide more support to ACs. The fifth-ranked action suggests improving the legal and regulatory environment. Participants recommend that Libya's legal system should be reviewed to align it with CG best practices and emphasise the role of the board and its committees in the Libyan banks.

Although ranked sixth by the participants, the view that AC members must be sufficiently compensated is considered important by numerous researchers and regulators (Hayek, 2015; Lin, 2018; FRC, 2018; Chen, et al., 2023). They argue that adequate compensation is crucial for the effective performance of the committee.

The lowest-ranked action proposes preventing damaging government intervention. While the survey group agrees that this measure could improve AC effectiveness, they express less strong support for it compared to the other suggestions. Some participants view the Central Bank of Libya's intervention as justified due to its supervisory responsibility for the sector, while others believe that government intervention has only a limited impact on banks, their CG, and ACs.

The empirical findings of our study offer insightful implications for policymakers, regulators, and practitioners in the Libyan financial sector, particularly concerning the enhancement of AC functionality. In alignment with the research of Elmghaamez et al. (2020), our results underscore the importance of adopting International Financial Reporting

Standards (IFRS) and International Standards on Auditing (ISA). This adoption is a pivotal step for Libyan regulators and standard setters, as it is expected to substantially strengthen the accounting and auditing profession, thereby increasing the effectiveness of ACs.

For accountants and auditors in Libya, embracing IFRS and ISA is not merely a compliance issue but a strategic move towards enhancing professional standards and practices. This adoption would necessitate comprehensive training and development programs to ensure that professionals are well-equipped to implement these standards effectively. It would also involve updating existing accounting and auditing curricula to reflect these global standards, thereby ensuring that new professionals are entering the workforce with the requisite knowledge and skills.

From a managerial and directorial perspective, our evidence highlights the critical need to appoint AC members who possess not only the requisite financial expertise but also a profound understanding of these international standards. This approach would ensure that ACs are more capable of effectively overseeing financial reporting processes and audit functions within organizations. Moreover, providing adequate support and fair compensation to AC members is essential to attract and retain individuals with the necessary expertise and to motivate them to perform their oversight functions diligently.

For regulators and policymakers, improving the quality of the regulatory and legal environment in Libya is crucial. This involves not only adopting international standards but also ensuring that the legal framework is conducive to their effective implementation. Policies should be designed to encourage transparency, accountability, and ethical practices within the financial sector. Additionally, there should be a focus on strengthening the enforcement mechanisms to ensure compliance with these standards.

In general, our study suggests that a multi-faceted approach involving the adoption of international standards, strategic appointments to ACs, enhanced support and compensation for AC members, and an improved regulatory framework are essential for advancing the effectiveness of ACs in Libya. This approach would not only bolster corporate governance but also enhance the overall credibility and stability of the Libyan financial sector.

Although the study has achieved its goal, it is important to acknowledge its limitations. Many of those who were approached were reluctant to be interviewed or even to complete the questionnaire survey, arguing that they were too busy or did not understand the research topic. Among those who volunteered, some were careful or hesitant about answering certain questions, preferring to be uncertain about them, despite assurances that their answers would remain confidential. Some may have even misrepresented their views or not told the truth because they did not want to present their banks negatively. Alternatively, some respondents may have been hesitant about answering questions because they lacked knowledge about CG or AC, particularly since ACs are at an early stage of development in the Libyan banking sector.

This study has only looked at Libya's banking sector, but further research is required to understand how AC's effectiveness can be enhanced among other listed non-financial companies on the Libyan Stock Market and other sectors in the Libyan economy. In addition, future research might compare AC effectiveness and the factors influencing this effectiveness in the banking sector with those in other Libyan listed companies or those in other developing, particularly in Middle Eastern and North African (MENA) countries.

7. REFERENCES

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Table 1: Descriptive Statistics on Actions to Enhance the Effectiveness of ACs

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

Table 1: Frequency Distribution of Responses on Enhancing AC Effectiveness

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

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

Table 2: Comparisons between Groups on Enhancing AC Effectiveness

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

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