

AUDITING PROFESSION REGULATION: LESSON LEARNED FROM CODE AND COMMON LAW COUNTRIES REGULATORY APPROACHES

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Abstract

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This paper aims to explore the common regulatory approaches for audit and accounting profession and identify the suitable approach to the Libyan audit profession. Mixed methods both quantitative and qualitative approaches were employed, in which a questionnaire was completed by 196 respondents. Statistical analysis, via the SPSS, was performed on the data. The outcomes are believed to be generalized given the size of the sample. In addition to 9 semi-structured interviews were conducted, representing five stakeholder groups in the Libyan auditing arena. This study has found that the majority of respondents are clearly in favour of the appointment of an independent regulator, believing this to be the most beneficial option of the list available for the Libyan audit profession, while statutory regulation (government intervention) is considered the next beneficial choice. Likewise, the findings from the interviewee exercise show a preference for an independent regulator. Due to the lack of research on governance and regulations among developing countries, this study contributes to the body of literature in respect of the Libyan accounting and auditing environment by specifically exploring the perception of stakeholders towards the existing regulatory approaches implemented in both developed and developing countries. By implication, it makes a contribution to the wider body of knowledge about auditing in the Arab countries, where similar cultural conventions and attitudes exist.

Keywords: Regulatory Approaches, Emerging Economies, Libyan Audit Profession

1. INTRODUCTION

Regulation has been defined as the “the public administrative policing of a private activity with respect to a rule in the public interest” (Mitnick, 1980). Furthermore, it is believed that “regulation is a process consisting of the intentional restriction of a subject’s choice of activity, by an entity not directly party to or involved in that activity” (Mitnick, 1980). In addition to the above definitions, Sylph (2005) adds that regulation is “the making and implementing of rules which direct or constrain the

behaviour of a person or group of people being regulated”. The legal system applied in any country contributes strongly to the decision concerning what type of regulation to adopt in respect of the auditing profession, whether this is a system of government, or self-regulation (Roberts et al., 2008; Nakpodia et al., 2018). Auditing regulation follows accounting regulation, the main objective of which is to subject the accounting process to a system of rules in the preparation of financial reports. Once these reports are prepared, the auditing function comes into play, and hence the regulatory process for both aspects is interlinked.

There are two important reasons for auditing regulation, the first being to examine the outcome of a particular audit engagement in hindsight, and the second being to examine the audit firm's procedures to determine whether those procedures enable the auditor to generate trustworthy financial information (Pritchard & Puri, 2006). And of course, as indicated earlier, auditing regulation plays an important part in increasing trust and confidence throughout the business world (Elliott & Elliott, 2011), and this is a very important motivation.

The main objective of this research is to use the code and common law countries experiences as key drivers to develop the auditing profession regulatory approaches.

In the next section, a literature review was presented, followed by section 3 an illustration of the methodology employed. Section 4 presents the findings and discussion, and finally the conclusion in fifth section.

2. LITERATURE REVIEW

2.1. Introduction

Historically, as noted by Sylph (2005), auditing profession regulation has come under the wider umbrella of accounting profession regulation, and has covered education and admission requirements, audit standards, ethical standards, and disciplinary actions. Furthermore, in recent years, two more areas of regulations have been included, these being the monitoring of both audit quality, and self-regulatory activities.

The regulation of financial practices is usually accomplished either through a legally-constituted public body with responsibility for implementing, monitoring, and enforcing auditing standards, or through a voluntary approach, which relies on self-regulation by the auditing profession with no oversight from external bodies (Bait El-Mal, 1990b).

Pagano and Immordino (2007) indicate that the optimal model of regulation of the auditing

profession must pay attention to three issues. Firstly, it must recognise the costs of enforcement; secondly it must remove incentives for accountant to collude with their clients; and thirdly, it should consider whether in the case where the auditor also provides consultancy services to the client, it is necessary to restrict those services.

The auditing profession regulations must be implemented via the most economical and competent approach since their main objective involves the discharge of duties towards society (Odendaal & Jager, 2008).

Sylph (2005) indicates the difficulty of implementing one type of regulation approach to the exclusion of the other; for example, self-regulation is rarely undertaken without some form of government intervention, and vice versa. Baldwin et al. (2012) echo these ideas, arguing that there are various interpretations to be made of 'regulation' since this can be understood as:

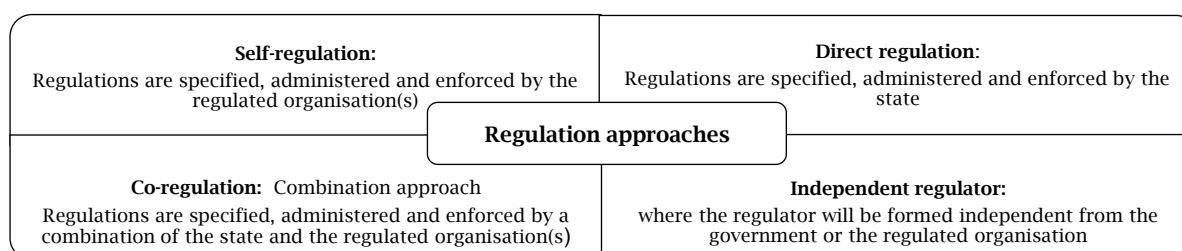
A specific set of rules - where regulation consists of issuing a binding set of commands to be applied by a specific organisation.

An intentional influence from government - where regulation takes place in a wider environment which includes all government activities aimed at influencing industrial or social activities.

All forms of social/economic control or influence - where all mechanisms that influence activities, either by government or through other sources (communities), are regarded as regulation, regardless of whether regulation takes place deliberately or incidentally.

According to Sylph (2005), the choice between the different approaches appropriate to the national auditing profession is dependent upon many factors such as the economic development, social, legal, and culture of the country concerned. Bartle and Vass (2005) suggest that there are several trends of regulation that can be seen in respect of the auditing profession, and these are illustrated in the figure below which also shows the difference between these arrangements.

Figure 1. Different regulatory approaches



Source: adopted and modified from Bartle and Vass (2005)

According to Sylph (2005), the auditing profession is regulated either by the profession itself, or the government, or indeed by a combination of the two. In this last model, the self-regulation is left to the profession which refers to the laws and statutes passed by government, in implementing its duty. Hence, it is rare that the profession is regulated purely by one of these players without some input by the other. Indeed, as the objective of regulation is to serve the public interest, it seems appropriate for both parties to be involved to increase objectivity in the process.

According to Odendaal and Jager (2005), the regulations concerning the auditing profession result from many factors, such as the monopolies that occur when the practice is dominated by a group of practitioners, and where no competition exists, and situations where insufficient information is provided. In respect of competition, a firm might reduce the prices it charges for its service in order to eliminate its rivals, thereby engaging in anti-competitive conduct and predatory pricing. This brings about unequal bargaining power which can benefit self-interest. Clearly, the need to protect

society from the negative effects of such factors has motivated the need for regulation.

According to Sylph (2005), the regulator must never act in a way which might benefit a specific group of individuals, and the benefits of regulation must always exceed the costs.

2.2. Regulatory approaches

2.2.1. The self-regulatory approach

Moran (2002) states that British economic life has traditionally been characterized by self-government rather than state government, and that evidence of this can be seen in professions such as medicine, law, and finance and related services. Furthermore, self-regulation is also present in factories, medicine, and on the railways (Moran, 2003; Davies, 2016) and as noted much earlier by Baggott (1989), it has become embedded in other professions in Britain, such as engineering.

Since the UK 1989 Companies Act, the accountancy profession has come under pressure from the Department of Trade and Industry (DTI), the result being the threat of involvement in the regulatory process through an independent regulator for auditors, and regulations regarding the size and level of non-audit services (NAS) that auditors are allowed to perform for clients. Hence, the accountancy profession has come to adopt a dual role, which requires it both to represent and regulate its members at the same time (Ramirez, 2013).

As stated by the European Commission report (2003), the self-regulation approach exists when the regulator adopts common guidelines or a code of practice at the European level. Earlier, Gunningham and Rees (1997) defined this approach as one consisting of "regulatory processes whereby an industry-level organisation sets rules and standards related to the conduct of firms in the industry".

Historically, since the late nineteenth century, the regulation of the auditing profession in the United Kingdom and Ireland has been performed by the profession itself (Baker, 1993; Bartle & Vass, 2007; O'Regan, 2010). As part of this self-regulation, the accountancy professional bodies have developed auditing standards with which members of the profession have been required to comply in order not to face sanctions (Pritchard & Puri, 2006). The self-regulation framework for auditing was established because of the public disappointment with the auditing profession in the 1970s (Hilary & Lennox, 2005; Anantharaman, 2012).

Pagano and Immordino (2007) point out that the weaknesses of self-regulation may lead to corporate failure as highlighted by the examples cited earlier. And Hilary and Lennox (2005), and Anantharaman (2012) provide studies that confirm the situation in the US whereby the self-regulation regime operating via a peer review system has been under criticism for a long time because of the lack of independence embodied in the process. Quite simply, the peer review system involves one accountancy firm reviewing the quality of another, and inspecting the audit performance engagement (Hilary & Lennox, 2005; Anantharaman, 2012). This is hardly an objective process, and not surprisingly, criticism has abounded about the self-regulation of

the accounting industry in the wake of many high-profile accounting scandals in 2001, including the Enron meltdown (Pritchard & Puri, 2006).

Sylph (2005) describes the self-regulation responsibility as a delegation from the government to the profession, whereby the profession regulates itself under a specified framework. Therefore, the choice of which regulation should be adopted is based on the achievement of the International Organisation of Securities Commissions (IOSCO) principles; as such, the responsibility should be clear and should be objectively stated, the regulator should operate independently, have adequate power, and adopt clear and consistent regulatory processes. Finally, the staff employed by the regulator should work with competence and confidentiality.

Holm and Zaman (2012) argue that the self-regulation of the auditing profession in the UK has dwindled as a result of the loss of confidence and trust in the auditing profession to perform this activity, which is believed to have resulted in the financial crisis.

According to Bartle and Vass (2007), the system of self-regulation demands absolute transparency, the self-regulatory arrangements must be clearly specified by the regulator to meet the public interest, the self-regulation arrangements for performance measurement and the monitoring system in place to do this should be explicit, and the statutory framework within which the self-regulation operates should be fit for purpose and easy to understand. Finally, the self-regulation regime should be well promoted by the regulator so that public appreciation of its existence and what it involves is raised.

In recognition of the difficulties associated with achieving all these conditions, the UK government has gradually increased its involvement in the regulation of the accountancy profession with the establishment of the Financial Reporting Council (FRC) in 1990, and the Accountancy Foundation in 2002, both of which have reduced the volume of self-regulation by the profession (Moran, 2003).

According to the Better Regulation Task Force (BRTF), a self-regulation mechanism is a system whereby regulations are created by the regulating body but these are not regulations as such, and rather recommendations for good practice. They are in fact voluntary and decided upon on the basis of self-interest rather than public interest (Bartle & Vass, 2007). And as noted by O'Regan (2010), the public interest is best served when the profession properly regulates and monitors its members, as opposed to simply making recommendations for adoption.

Essentially, complete self-regulation is a system which does not include any role for state government (Kleinsteuber, 2004), yet according to the BRTF, there are self-regulation mechanisms that do involve some degree of government participation, as for example in the need for governments to approve the code of practice stipulated for the profession concerned (Bartle & Vass, 2007).

In addition, as already noted by several scholars (see for example, Moran, 2003; Baggott, 1989; O'Regan, 2010), such mechanisms are not unique to the accounting profession but extend to other professions such as medicine, law, education,

and engineering.

What can be seen in relation particularly to the accounting profession, however, is that in both the UK and the US, the initial method of regulation has evolved following various financial scandals and a crisis of confidence in the self-regulation system. In the case of the US, after the self-regulation by the AICPA in the 1970s, conducted through peer review, the new millennium swept in a system whereby responsibility for this process was switched from the profession to the PCAOB in an attempt to prevent more corporate collapses (O'Regan, 2010).

Advantages and disadvantages of self-regulation

Several scholars have highlighted that self-regulation of the auditing profession has a number of advantages, such as the availability of the knowledge and the expertise possessed by the parties involved, is appropriate to the task and therefore can be put to effective use. In such circumstances, there is the potential for greater flexibility and adaptability when problems arise, and for there to be less strict regulation which can produce bureaucratic obstacles to progress. In addition, it acts as of self-control (Englert, 2016). Sylph (2005) picks up on this point, noting that the technical expertise brought to bear by those within the profession is of benefit to the entire process of regulation, and Kleinstaub (2004) argues that the possession of such expertise makes for better regulation than when individuals who do not have such knowledge are making decisions on matters which they are not qualified to comment on.

Additionally, the commitment to best practice is increased with this approach, as is loyalty within the profession because, ultimately, it is assumed that people, who consider themselves as being professional, want to continue to enjoy that prestige.

Furthermore, the market operates more efficiently, and the government also benefits because the costs of regulation are lower when another party is responsible for the task. Moreover, the information derived from the self-regulation exercise is available at lower cost, and the bureaucracy associated with public regulatory systems is avoided, meaning that the profession has the capacity for a quick response to problems. Finally, the cost of enforcement and compliance are less with self-regulatory mechanisms than with a public regulatory regime (Coglianese et al., 2004; Bartle & Vass, 2007; Pritchard & Puri, 2006; Humphrey et al., 2009; Pettinicchio, 2011).

Self-regulation also brings the recognition of a need for good corporate governance, which promotes objectives relating to the prevention of damage, the effective management of risk, corporate social responsibility, and ethical trading. Hence, in an ethos of self-regulation, taken seriously, an industry will experience less corporate failures (Bartle & Vass, 2007).

Studies by Coglianese et al. (2004) and Sylph (2005) call for a separation between the profession and the government or the government agency in order for the profession to act faster and more flexible. Moreover, in a country that requires professions to be more powerful, it is logical that the profession concerned should refer to itself for its own regulation. Continuing on this theme,

Coglianese et al. (2004) argue that the collective interests of industry help the self-regulatory approach to serve as the watchman, whereby competitors work to observe each other in terms of their compliance with regulations.

However, all these arguments depend upon serious efforts by a profession to ensure that its self-regulation mechanisms are robust and more than simply recommendations and it is emphasized in this respect, that for such regimes to be credible, they should act in the public interest, and not the private interest. Furthermore, they should meet the statutory objectives, perform effectively and with transparency, and should be visible at the highest level of the profession (Coglianese et al., 2004; Bartle & Vass, 2007).

Clearly, therefore, there are perceived disadvantages to self-regulation, and in the US, where self-regulation exists, accounting firms have badly undermined its credibility by threatening to withdraw funding for the process because of a dispute over auditor independence. Furthermore, there is a lack of power within the system to enable the collection of evidence from third parties, which would bring more objectivity into the procedure. Moreover, it is always the case that peer review might be subjective because accountants might be unwilling to report negatively for fear that their own reputation as a profession might be damaged (Coglianese et al., 2004; Pritchard & Puri, 2006).

According to Al-Eitani and Al-Angari (2012) that the concentration and the shortage in companies that deliver the audit functions show the negative impact of the self-regulatory approach in controlling the auditing profession in the Kingdom of Saudi Arabia. This concern treats the profession regulatory independence, which led to the regulators act not in the public interest rather they act in dominate accountancy firms that provide audit function.

Coglianese et al. (2004) also refer to the fact that regulation costs can be considered as a disadvantage when these are borne by the profession as there is the temptation to cut expenses by not being as thorough as is necessary. Clearly, if accounting firms are paying to review themselves, they are able to influence the objectives of the self-regulation towards their own, rather than the public interest. Likewise, as noted by Bather and Burnaby (2006), self-interest can also emerge when practitioners themselves formulate auditing regulations. and another disadvantage of self-regulation is that because of the nature of the process, firms are not forced to comply with recommendations for good practice, and where they decide not to adhere to these recommendations, the profession as a whole loses credibility.

Collectively, these perceived shortcomings attract criticisms of the self-regulation model, suggesting that it lacks credibility; and hard evidence of auditors being deficient in detecting important material errors supports such arguments. Additionally, there are few incentives to operate in an independent manner, as argued by the US Congress and the media generally (Hilary & Lennox, 2005).

According to Odendaal and Jager (2008), the Enron scandal and other similar corporate failures point to the need for self-regulatory mechanisms to be replaced by other forms of the regulatory

frameworks, such as government intervention or third-party oversight bodies. Similarly, Thomadakis (2005) highlights the global reality that the profession lacks many of the characteristics required for effective self-regulation, such as transparency, consistency in the application of rules, and the power of law to enforce recommendations, all of which leave the potential for corruption to occur.

Because of this possibility, critics point to the absence of independence in the process, and as Bergh (2006) highlights, self-regulation can degenerate into a process which lacks democratic legitimacy, and eventually kills the competition (Bergh, 2006).

This idea of democracy is one taken up by Gunningham and Rees (1997), who believe that there can be no credibility in self-regulation unless the state participates by creating the regulations which must be followed, and a framework for enforcement. In this situation, the state is seen to inject democracy into the procedure, which would be perceived by society as more fair (Baldwin et al., 2012). Indeed, as observed by DeMarzo et al. (2005), an element of cronyism is implicit in self-regulatory approaches since those involved work to make life easier for themselves rather than for society as a whole, and hence support each other rather than operating in a truly democratic fashion. Furthermore, the ambiguity of the public towards fraud detection by the self-regulatory mechanism is considered as a drawback of such an approach to regulate the audit profession (Lima & Núñez, 2015).

From these discussions of the benefits and disadvantages of the self-regulation of professions, and in particular in relation to the accounting profession, it can be understood that governments have been encouraged to introduce changes in response to the heavy criticism attracted. Indeed, it has become clear that self-regulation is not preferred universally (Power, 2009). Certainly, the shift from self-regulation towards state regulation has become noticeable in the last three decades, and so the role of the state in many areas of regulation such as in financial services, has become much greater (MacNeil, 1999; Vogel, 1996).

For instance, the UK government has taken a much bigger role in regulating the accountancy profession since the establishment of the Financial Reporting Council (FRC) 1990, and the Accountancy Foundation in 2002, thereby reducing the degree of self-regulation previously in operation (Moran, 2003).

2.2.2. Co-regulation approach

According to Levi-Faur (2011) and Gunningham and Sinclair (2017) describes that co-regulation is a mechanism which is designed and enforced by two or more parties, which are usually the state, the profession, and/or the public. Given the possible variations in such collaborations, the scope of the regulatory arrangements made can vary, but essentially the process can be seen as one that relies on public and private collaboration. Moreover, co-regulation can exist in any type of profession/institution (Kleinsteuber, 2004).

However, it is seen commonly in respect of the accountancy and auditing profession, and, where it

exists, the collaboration of self-regulatory and government approaches result in a process whereby each complements the other. The ethos is one where the two parties reinforce each other's efforts, rather than being competitive (IFAC, 2007), and there is sufficient flexibility in such an approach to allow for different mixtures of effort and input according to what is considered to be the best way to achieve compliance and good practice.

However, according to Bartle and Vass (2005), co-regulation can be manifested in four different ways as follows: First, there is co-operation in which the role of the regulator is shared by the government and the industry or the regulated institute. Secondly, the government or the public authority can delegate the role of the regulation formulation to the profession or the regulated organisation. Thirdly, the government can formulate the regulations and provide support for their enforcement through legislation. And finally, the profession can develop a set of regulations, which is reviewed and approved by the public authority/government.

According to the IFAC (2011), the mixture of regulatory approaches in respect of the accountancy and auditing profession depends on the following factors:

- The historical experience in the jurisdiction, for example, financial reporting failures have often led to more external regulation
- The self-regulatory performance of the professional body
- The regulatory performance of government
- The general political orientation to regulation as an instrument of economic management
- The development path of the economy
- The nature and characteristics of the market failures to be addressed by regulation.

Moreover, it is rarely seen that the accountancy and auditing profession is solely regulated by one particular method, and in the majority of circumstances a mixed approach is adopted, with the weighting of the different elements within the combinations chosen differing between jurisdictions. For instance, some countries have experienced an increase in the role of government as regulator, whilst others have devolved greater responsibility to the professions, as is seen especially in transition economies (IFAC, 2011).

Clearly, the common sense approach is for both the government and the profession to be involved as there are duties for each of them to perform. On the one hand, the government is responsible for guaranteeing that the public interest is safeguarded at the highest level possible, yet for the lowest cost, whereas on the other hand, the accountancy profession must ensure the quality of the services provided, as well as the development of regulations that genuinely relate to the profession, and are not irrelevant (IFAC, 2011).

According to Power (2009) the Minister of Commerce of New Zealand, the co-regulation of the auditing profession is preferred for three reasons. The first is the availability of expertise within the profession which means that practitioners must be part of the regulatory framework. The second is that the financial cost is less when both parties (industry and state) participate in the process. And the third is that a transition from one approach to a co-

regulated regime allows for a level of integration which facilitates implementation of the new process. Particularly in respect of New Zealand, Davis and Hay (2011) note that the regulatory model for the auditing profession reflects a shift from self-regulation to co-regulation, in which an independent oversight body has been created to assess the accounting and auditing profession rules and guidelines.

Such a partnership is believed to be healthy as observed by Odendaal and Jager (2005) who believe that it is undesirable for government to act as regulator without input from other parties. They believe that delegation of authority is the preferred avenue, but that in following this route, important issues need to be settled such as, who takes the role of agent, and what activities are to be delegated.

Such considerations are crucial in order not to create a confusing framework in which the responsibility for different elements of practice becomes vague. This type of situation emerged in Australia in the late 1980s when a mix of self-regulatory and state regulatory approaches was in force (Marsden, 2012). The co-regulation regime had grown to involve many participants such that the direct regulations were overwhelmed. Consequently, the independent regulatory agencies are currently developing other types of co-regulation that can serve to provide the best model (Marsden, 2012).

Recently, Anantharaman (2012) found in a study in the US, that there are several advantages to the adoption of a mixed approach featuring self-regulation and direct regulation in the accounting and auditing profession. And in Germany, the use of the co-regulatory model in respect of the *Wirtschaftsprüferkammer* (The Chamber of Auditors, WPK) is shown to be successful. In this framework, the profession is responsible for regulating its members, but discharges this under government supervision, via the Federal Minister of Economics (Riisla, 2011).

Doyle (1997) confirms the benefits to be derived from such an approach, suggesting that the optimal model is the one embodying collaboration (two-tiered regulation) which enables the profession to quickly respond in unexpected events.

From the discussion, it can be understood that different regulatory models can be seen in different jurisdictions, but it is nonetheless recognized that financial scandals such as those of Enron and WorldCom have international repercussions. Therefore, as noted by Sylph (2005), the direct regulation of the auditing profession is required internationally if the auditing profession is to regain credibility and public trust.

2.2.3. Direct regulatory approach

Clearly, the various problems associated with self-regulation as already discussed, and the resulting loss in public confidence in the auditing profession caused by the audit failures in the last two decades, have served as the motivation for governments to legislate in attempts to prevent further accounting scandals (Pritchard & Puri, 2006; Groff & Hocevar, 2009; Vanstraelen, et al., 2012; Jankovic, et al., 2010; Sylph, 2005; O'Regan, 2010; Nguyen & Kend, 2017; Baumeister et al., 2018; Demirel et al., 2018).

A study conducted by Khalifa (2012) on the

United Arab Emirates accounting and auditing profession which concluded that the status quo of the profession led the government to take initiative to interfere in the auditing functions regulations that allow big auditing firms to implement foreign accounting and auditing systems in the national practice in order to ensure the quality desired. However, on the one hand, such reaction aims to expose the local economy to the foreign investments. On the other hand, it may be regarded as an obstacle to localize the national accounting and auditing profession in the country, which may harm the local auditing firms.

Similarly, in the case of the US, the collapse of Enron resulted in the replacement of the self-regulatory mechanism by an independent body created by the government to regulate the auditing profession (Anantharaman, 2012; Baker et al., 2014). That said, the self-regulation enjoyed in the US was not entirely free of statutory involvement since as noted by Baker et al. (2014), this began as far back as the late 19th century, when the New York State enacted the first law to regulate the licensing for the auditing profession. And from 1930 onwards, the role of the state increased in the regulation process. A similar situation can be seen in France, which established its first legislation of this kind in May 1863.

However, in relation to contemporary times, Pritchard and Puri (2006) note that the move to direct regulation began when the political class felt it had become necessary to impose greater control over the profession because of the global financial scandals, which were aggravated by the incompetence of some auditing firms. In such cases, it was apparent that these firms had not been able to detect fraud or the misuse of the accounting information, and that the self-regulation system in existence was both inefficient and ineffective, requiring some intervention by government to create an independent body.

According to Sylph (2005), direct regulation can be seen when the government establish an audit oversight body with responsibilities determined by the government and enshrined in legislation. Furthermore, such an approach is deemed appropriate when there are strong needs for the regulator to be very independent. In such cases, there is usually political pressure to involve government in an effort to prevent corporate collapses.

An example of such regulation is evident in Ireland where the government has introduced the Irish Auditing and Accounting Supervisory Authority as an independent organisation to replace the self-regulation regime (O'Regan, 2010). And as also noted by O'Regan (2010), the US provides another instance of increased pressure from Congress members resulting in government intervention to regulate the accounting profession. According to Humphrey and Moizer (1991), government involvement is required irrespective of corporate collapses, since the traditional services expected by society from the auditing profession demand objectivity of the kind which is only achieved when regulation comes from the state. Ogus (1994) summarised several characteristics of direct regulation as follows:

- The government or its agent is responsible for promoting and enforcing the regulation on the regulated body; this is the case where the two parties do not comply with the regulations
- The regulator holds the control function, being empowered to force individuals to act according to the regulation or face punishment
- The critical role is exercised by the government in formulating and enforcing the regulations.

Sylph (2005) indicates that the legal regulation of the auditing profession is considered the most appropriate approach since it is necessary to achieve and uphold the ability of members of the profession to behave independently and be free from attempts at their coercion. Certainly, the threat of auditors being compromised by clients is a very real one pointing to the need for direct regulation (Pettinicchio, 2011). As noted by Pritchard and Puri (2006), self-regulation is ineffective in guaranteeing that auditors are able to operate independently, and in the public rather than self-interest.

Given the preceding discussion, it can be understood why the great shift from self-regulation to government regulation occurred, and when it occurred. The global crisis of confidence in the profession at the start of the third millennium speaks for itself (Pagano & Immordino, 2007), and is seen to have had effects in many developed countries such as the US, UK, and Italy.

However, not all countries have a tradition of self-regulation, and in France, the government has dominated in regulating the audit profession since the seventeenth century. The result is that the profession has only a limited role to play. Commenting on this situation, and specifically on the advisory role of the profession, Alhashim and Arpan (1992) state that, "The accounting profession in France has been involved in the preparation of legislation related to accounting matters, which explains the historical readiness of the accounting profession to adopt accounting legislation. Professional institutes, however, have continued to issue numerous recommendations on proper accounting, auditing, and disclosure guidelines in order to implement and to revise the Plan Comptable General and to encourage revision of the tax laws".

With the announcement by the EU Commission in June 2000 of the intended adoption of the IFRS in 2005, as part of its policy of encouraging free movement of capital (Welbenberger et al., 2004; Whittington, 2005; Fearnley et al., 2006), France has had to incorporate the new regulation into its national auditing profession regulations. The rule required all listed companies to adopt the new IFRS/ISA starting from January 2005.

Advantages and disadvantages of direct regulation

The main feature of direct regulation is its uniformity and inflexibility, seen in the requirement for all auditors to adhere to the same regulation set by the government in any specific jurisdiction. As noted in the previous section, this has been and remains the case in France, where the government issues laws regulating the auditing profession, with which all members of the profession must comply (Wallace, 1993).

This characteristic of direct regulation is interpreted by the general public as an advantage since it presents a solution to the failure of the self-regulation approach to apply tough sanctions on peers who do not conform (Kagan & Axelard, 1997; Pritchard & Puri, 2006). Hence, as noted by Levi-faur, and Gilad (2004), state regulation brings the benefit of being able to restore faith in the profession by society.

However, there are several perceived disadvantages to the regulation of the profession by the government. One is that when the government is itself pressured by a group within the profession to establish high standards, the result may be too stringent legislation that may raise barriers for new entrants to the market. In this situation, existing accounting firms can charge higher rates for their services (Ogus, 1999; Pritchard & Puri, 2006; Abernathy et al., 2013).

Sylph (2005) also points to increased costs of regulation when the government takes over this role, referring to the outcome of the conversion from self-regulation to direct regulation in the US after the implementation of the Sarbanes-Oxley Act. Indeed, the regulatory apparatus is believed to cost twenty times more than estimated. Additionally, there are concerns about over-regulation, as noted by the CEO of the Financial Reporting Council (FRC) Paul Boyle, who has said, "We are reaching a high point of regulation ... there is widespread concern that regulation has gone beyond the point at which it is useful" (Sylph, 2005). This degree of over-regulation and the stringency associated with it, by the PCAOB is also known to have resulted in small firms leaving the audit market (DeFond & Lennox, 2011; Abernathy et al., 2013).

According to Mueller et al. (1987), where government plays the critical role in controlling a nation's economic activity by taking responsibility for framing accounting regulation, which is then enshrined in the legal framework of the country concerned, the profession itself is weakened.

2.2.4. Independent regulatory approach

The audit market has been the subject of study (see for example, Bather & Burnaby, 2006; Gunny & Zhang, 2009; Hakim & Omri, 2015; Gue'nin-Paracini et al., 2015; Rossi et al., 2015; Beattie et al., 2015), especially after the corporate scandals already mentioned. Moreover, the main finding is that having recognized the failure of the self-regulated audit, independent regulatory bodies have emerged, marking a new era in the development of audit (Malsch & Gendron, 2011). This is viewed as a positive evolution (Humphrey et al., 2011).

However, in opting for new mechanisms of control, it is important to consider what influences audit quality (Lennox & Pittman, 2010; DeFond & Lennox, 2011), since the new mechanisms must be better than the old. Studies by DeFond and Lennox (2011), Chambers and Payne (2011) indicate that the independent regulator in the US (following from the legislation provided in the SOX), has forced auditors providing poor quality services to leave the market, thereby improving the overall audit quality.

The state of the audit market in the US had been reached by the failure of the self-regulatory approach adopted by AICPA in the 1970s, in an effort to prevent more scandals and audit failures (Gunny & Zhang, 2009). In that approach, all firms

performing audits of listed companies were required to join the Securities and Exchange Practice Section (SECPs) to maintain their AICPA membership.

However, the subsequent major accounting and audit scandals highlighted the ineffectiveness of the peer review system, resulting in the establishment of the PCAOB (Bather & Burnaby, 2006; Gunny & Zhang, 2009; Hoag et al., 2017). This move was seen as a watershed in the history of the US accounting and auditing profession (Malsch & Gendron, 2011).

The PCAOB has four duties, these being: registration, inspections, standard setting, and enforcement. This overall responsibility removes the inspection of accounting and auditing firms from the profession itself to the independent regulator, the PCAOB (Nicolaisen, 2005; DeFond, 2010).

Independent inspections are seen to be more effective than peer reviews in detecting audit quality (Hilary & Lennox, 2005; Casterella et al., 2009; Van De Poel, 2009; Humphrey et al., 2011). That said, it is noted by the DTI (1998) that the independent regulator should be working closely with the accountancy profession whilst remaining independent from it in order to serve the public interest.

As in the US and UK, new independent regulatory bodies have been established in Canada and France to control the audit profession and audit practices. Respectively, these bodies are the Canadian Public Accountability Board (CPAB), and the Haut Conseil du Commissariat aux Comptes (H3C). Clearly, self-regulation in these countries, the profession is not self-regulated (Malsch & Gendron, 2011).

In fact, the shift in the regulatory system governing the audit profession has shifted internationally. For instance, the eighth EU Directive (2008) requires all EU members to establish an independent oversight body to supervise the audit profession; and as noted by Humphrey et al. (2009), it also approved the creation of the European Group of Auditors' Oversight Board (EGAOB) consisting of representatives of all independent regulatory boards in the EU, and ministerial personnel from those countries that have not yet established such boards, and the International Forum of Independent Audit Regulators (IFIAR).

Odendaal and Jager (2008) point out that the regulator must be independent for various reasons. Firstly, the regulator has to be seen as independent by society, not only in its membership but in its actions which should be clearly understood as free from any external influences. Secondly, independence will increase the acceptability of the regulation by the regulated institutions and by society. Thirdly, since an independent party issue the regulations, this should prevent any conflict of interests.

However, as noted by Mitnick (1980) the regulator might encounter attempts by third parties to influence the process, and succumb to those pressures, thereby not operating in the public interest. This concern is confirmed by Odendaal and Jager (2008), who observes that the regulator's efficiency is affected by many factors such as political influence. Clearly, the independence of the regulator is always under the microscope, and especially when the regulated body finances the regulator. Therefore, the regulator must be funded by all groups involved in order to eliminate the opportunity for power to be exercised over the

regulator's decision-making (Odendaal & Jager, 2008).

According to Humphrey et al. (2011), the EU Commission shows a high degree of faith in the independent regulatory body, despite the several signals that the independent regulatory regime shows no evidence of bringing more transparency to the audit market. And as stated by DeFond (2010), considering the US case, independent audit regulators (such as the PCAOB) face criticism on the grounds that they lack up-to-date auditing expertise.

2.3. Different international regulatory frameworks

2.3.1. Introduction

According to Baker (2014), there are noticeable differences in the way the auditing profession is regulated in the Common Law and Code Law countries, such as the UK and France respectively. One immediate observable variation is in the degree of government interference which is greater in Code Law countries. Another factor affecting the development of the auditing profession is the source of capital, it is seen that in France the state is the source of capital, whereas in the UK individuals are the source (Baker, 2014). Similarly, in Germany, which is classified as a Code Law country, companies place more reliance on debts than equity (La Porta et al., 1997).

2.3.2. Regulatory framework for the auditing profession in common law countries

The United States regulatory framework

The approach to the development of auditing regulations in the US was initially through the auditing profession, via the AICPA (Day, 2002). However, in 2002 when the Sarbanes-Oxley Act was introduced, the self-regulated peer reviews associated with oversight by the profession and regarded as being low in credibility, were substituted by independent inspections conducted by the Public Company Accounting Oversight Board PCAOB (Hilary & Lennox, 2005; Pritchard & Puri, 2006; Groff & Hocevar, 2009; Jankovic et al., 2010; Vanstraelen et al., 2012; Sawan & Alsaqqa, 2012).

Essentially, self-regulation ended when the US Congress admitted the failure of the auditing profession to do this effectively and placed responsibility for auditing regulation with a new and independent body (Bather & Burnaby, 2006).

Historically in the USA, the self-regulation by the profession until 2001, was in itself overseen by the Securities and Exchange Commission (SEC), but due to the passage of the Public Company Accounting Reform and Investors Protection Act 2002, this came to end (Bather & Burnaby, 2006; Choi & Meek, 2011). The Act established the PCAOB as the main regulator with responsibility and rules delegated by the government. Its main obligation is to monitor compliance by auditors and auditing firms with the US regulatory framework. All auditors involved in any work related to a listed firm must be registered in the SEC (Hilary & Lennox, 2005; Bather & Burnaby, 2006; Pritchard & Puri, 2006; Groff & Hocevar, 2009; Jankovic et al., 2010; Vanstraelen et al., 2012).

The United Kingdom regulatory framework

The UK accounting profession started in 1854 with the establishment of the Institute of Chartered Accountants in Scotland (ICAS) (McLeay et al., 1999; Mitchell and Sikka, 2004; ICAS, 2010). According to Sherer and Turley (1997), the British Companies Act 1989 emphasizes the need for company auditors to be properly qualified to act as statutory auditors and be supervised in their roles, and for the supervisory body to be assured that the audit work undertaken is of a high quality.

As stated by Baker et al. (2001), and Fearnley and Hines (2003), according to the Companies Act, the UK Department of Trade and Industry (DTI) delegates the responsibility for recognition of the statutory auditor to the accounting professional bodies such as the ACCA, ICAEW, ICAI, and ICAS, with the role of oversight retained by the DTI. However, despite the regulation of auditors aligning with the DTI, in reality, most of the responsibility for this is delegated to the professional bodies (Sikka, 1997).

It can be seen, therefore, that historically the audit profession has been self-regulating. Furthermore, the Accountancy Foundation took responsibility for UK auditing regulations after the collapse of high-ranking firms in 2000, since this body was deemed to be independent of the accounting and auditing profession (Dewing & Russell, 2002).

The Accountancy Foundation was given responsibility for the following boards: the new Ethics Standards Board (ESB), the reformed Auditing Practice Board (APB), the new Investigation and Discipline Board (IDB) and Independent Review Board (Dewing & Russell, 2002).

However, the Accountancy Foundation was relatively short-lived because, based on a recommendation by the DTI Review (2003), the Financial Reporting Council (FRC) replaced the Accountancy Foundation, and three of its four subsidiaries continued to work under the responsibility of the FRC.

The development of auditing practice in the United Kingdom and the Republic of Ireland is a prime aim of the Auditing Practices Board (APB), which the Board is trying to pursue through the achievement of three goals. Firstly, it has established auditing standards demanding high quality; secondly, it deals with users' needs in relation to financial information; and thirdly, it enhances public trust in auditing practice. In order to pursue those objectives, the APB has launched the Statements of Auditing Standards, Practice Notes, and Bulletins (FRC, 2014).

The self-regulation of the UK auditing profession came to an end when the new Public Oversight Board (POB) began to supervise the auditing regulations in 2005. This is consistent with the Federation des Experts-Comptables Européens (FEE), and the EU doubts about the effectiveness of self-regulation, which is valued less than public oversight (Canibano & Heras, 2007).

Regulations regarding audit in the UK have resulted from efforts by the recognised professional bodies rather than government, since the UK has traditionally followed the *laissez-faire* approach associated with Common Law countries, whereas elsewhere, the quasi-governmental bodies are seen to play a major role in developing the auditing

regulatory framework (Baker et al., 2001).

According to Duhovnik (2011), and based on the Directive 2006/43/EC, all statutory audits of listed companies throughout the European Union (EU) must be performed using the ISAs, and this applies both to Common Law, and Code Law countries (i.e. to the UK and France alike).

In fact, regulation of the auditing profession in the UK has undergone reform several times in the last four decades. In 1976, the Auditing Practice Committee (APC) was established and subsequently (in 1978) published a codification of auditing best practice. This was replaced in 1980 by the formal auditing standards and guidelines, which were followed by a series of Practice Notes in the late 1980s. In 1991, the Auditing Practice Board (APB) was replaced by the APC (Baker, 2014).

In the new millennium, the UK decided to reconsider the financial services regulatory structure and widened the role of the FRC such that it became the only independent auditing profession regulator, being responsible for issuing auditing standards and enforcement actions associated with these (Baker, 2014). However, the independent character of the FRC was lost with the enactment of the Companies Act 2006, which requires the FRC to report to the government on certain issues such as the way it conducts the oversight role, and inspects the work of the recognized professional bodies (Baker, 2014).

In 2012, the British Government implemented yet another reform in respect of the FRC, which it restructured in order to ensure an even greater level of control of the regulatory activities within its remit. This resulted in the APB being replaced by the Audit and Assurance Council (AAC), which is responsible for advising the FRC Board and the Codes and Standards Committee on matters related to auditing and assurance (FRC, 2014). The UK statutory auditors are considered as private professionals rather than civil servants and not controlled by the state but controlled by laws, however, the state has to be satisfied for approval to practice the audit functions (Lee, 2014).

2.3.3. Regulatory framework for the auditing profession in code law countries

French regulatory framework

In contrast, in France, legislation is the main route to regulating the auditing profession (McLeay et al., 1999). According to Baker et al. (2001), statutory auditors in France are under the supervision of the Ministry of Justice of the French government, a situation which has been existence since the nineteenth century. The basis of the auditing profession regulations is found in the Company Law 1966, which ended novice audit (Baker, 2014). The Regional Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes, CNCC) plays a major role in ensuring compliance with auditing regulations, and in order to be approved as a statutory auditor and perform audit functions, a person or a firm must register with this body (Baker et al., 2010).

The CNCC's main responsibilities are the preparation and adoption of the auditing standards, disciplinary procedures, ethical and technical standards, providing recommendations, and

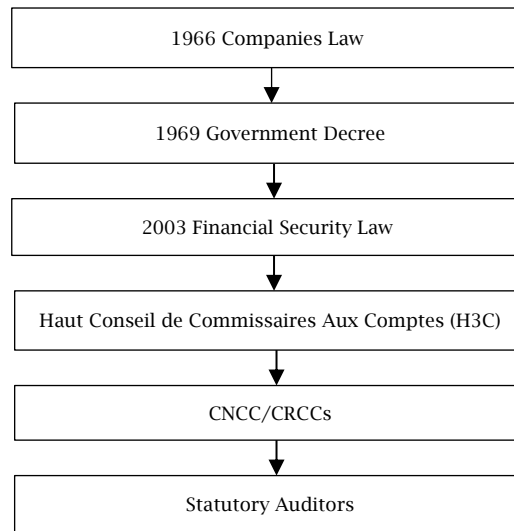
supervising auditors' compliance with the standards, which are themselves endorsed by the Minister of Justice such that they can be effectively enforced (Baker et al., 2010).

It is mainly through French legislation that the audit profession is regulated. In particular, the Law of 24 July 1966, and the Decree of 12 August 1969, which modifies the role, duties and the status of the statutory auditors, apply. Furthermore, Law 1966 requires auditors to be registered with the Compagnie Nationale des Commissaires aux

Comptes (CNCC) (Baker, 2014).

In response to the European Commission Green Paper, the CNCC worked in collaboration with the FEE to enhance the European regulations in respect of statutory auditing, which subsequently resulted in the enactment of the French Financial Security Act of 2003 (Baker, 2014). Figure 2 below illustrates the regulatory process pertaining to statutory auditors in France.

Figure 2. Regulatory processes pertaining to statutory auditors in France



Source: (Baker, 2014)

Despite its national process, however, France (as an EU member) nonetheless complies with the International Standards on Auditing and obeys Directive 2006/43/EC enacted by the European Parliament and the Council. To operationalize these requirements, the CNCC has adopted the ISAs as national auditing standards with amendments to overcome the differences arising from the variations in legal and regulatory requirements (Beattie et al., 2008; Baker, 2014).

German regulatory framework

In Germany, two professional bodies have been in place to authorize and register a statutory auditor (either a person or corporation). In fact, the German profession is an auditing profession rather than an accounting profession and is entitled the Wirtschaftsprüferkammer (The Chamber of Auditors, WPK), a public body under public supervision via the Federal Minister of Economics of the German government (Hellmann et al., 2010; Altintas & Yilmaz, 2012). Membership of this body is mandatory for all statutory auditors, and this regulation is enforced by law. The second professional body is the Institute der Wirtschaftsprüfer (IDW), a private body setting auditing requirements with voluntary membership for statutory auditors (Benston et al., 2006).

Regulations governing the work of auditors are the main responsibility of the WPK. Specifically, this encompasses the obligations to: establish the code of ethics, supervise the profession and take

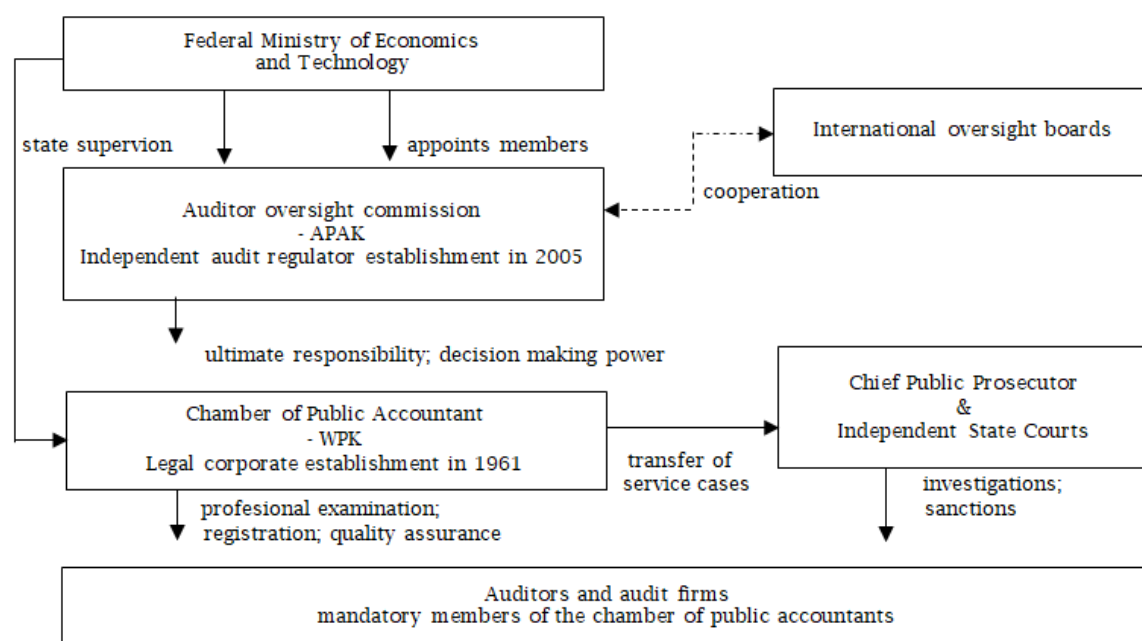
disciplinary actions; represent the profession to outsiders, and conduct professional examinations. On the other hand, the IDW's responsibilities are to publish auditing guidelines which are not compulsory but recommended as good practice (Hellmann et al., 2010).

Germany has two auditing qualifications, the Wirtschaftsprüfer (WP), and the sworn-in auditor (Vereidigter Buchprüfer vBp) qualification, but the vBp only allows holders to perform auditing duties in small, private limited liability companies (GmbH) (Altintas & Yilmaz, 2012).

The German accounting regulations are set and endorsed by the government represented by the Federal Ministry of Justice through the Commercial Law (Hellmann et al., 2010).

In early 2005, the Auditor Oversight Commission (AOC) was established to act in the public interest by overseeing the German Chamber of Public Accountants and Auditors (APAK, 2014). As stated in the Public Accountant Act, the AOC is responsible for all the following areas: professional examinations; aptitude tests for qualified auditors from abroad; licensing of public accountants (Wirtschaftsprüfer and vereidigte Buchprüfer); licensing of audit firms, revocation of licences; registration of public accountants and audit firms; disciplinary oversight; external quality assurance and adoption of professional rules. Figure 3 presents a flow chart which illustrates the regulatory structure of the accounting and auditing profession in Germany.

Figure 3. Regulatory structures of the accounting and auditing profession in Germany



Source: Marten (2008)

Jordanian regulatory framework

Jordan is also categorized as a Code Law country, and as part of its recent economic reforms, the government introduced several laws to facilitate the privatization of government-owned companies. The Jordanian auditing profession was first established in the early 1960s through the Law for Practising in the Audit Profession, Law No.10/1961(Al-Akra et al., 2009).

Over a forty year period, three pieces of legislation emerged (Al-Farah et al., 2015). The first was in 1961 when the government introduced the first auditing law to regulate the licensing requirements for entry to the auditing profession. The second was in 1985, with amendments to Law No.32/1985, requiring applicants to take an examination as a prerequisite for entry (Al-Farah et al., 2015). This particular law places the audit profession administration with the Board of Audit Profession, a body which consists of a mixture of government agents and academics, as well as members of the profession. By this law, the Jordanian Government placed full control of the auditing profession with the state, since there had been no expression by the profession of wanting to self-regulate (Al-Farah, 2007).

And the third was in 1988 when the Jordanian Association of Certified Public Accountants (JACPA) was established by Law No.42/1987. The major development brought by the JACPA was its recommendation of the adoption of the ISA (Al-Farah, 2007).

According to Al-Omari (2010) and ROSC (2004), the Jordanian auditing profession is regulated through the High Council for Accounting and Auditing, which was established through the Law of Organizing the Practice of the Public Accountancy

Profession (No.73/2003). This Council is headed by the Minister of Industry and Trade and consists of 12 members. The government plays a dominant role in the boards as members with auditing background are limited to 25% of the total number of members (Helles, 1992; Al-Farah, 2007).

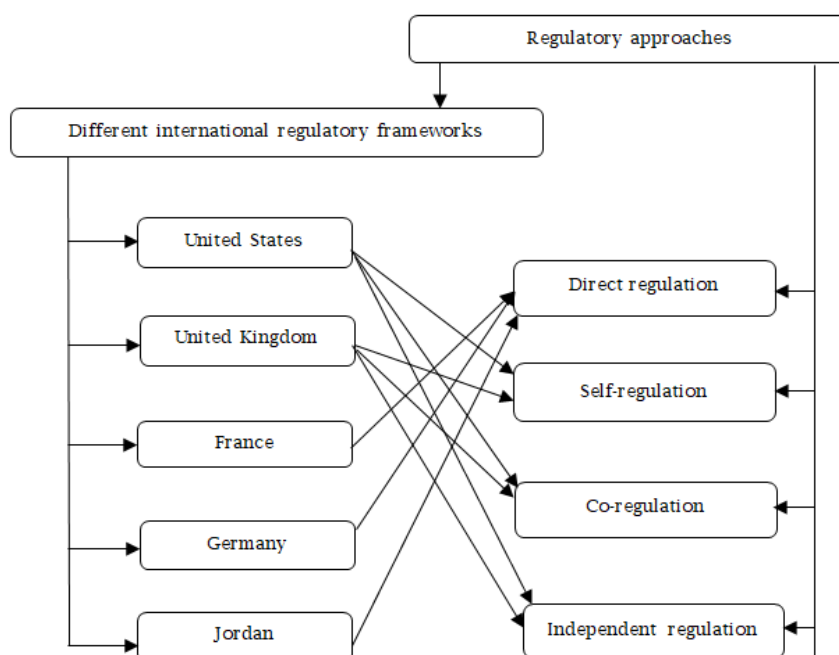
Since the enactment of Law No.73/2003, the JACPA has been a powerful organisation that has been expected to play a major role in developing the audit profession (Al-Farah, 2007). Other laws which comprise the legal system relating to auditing are the Companies Law No.22/1997, the Insurance Regulatory Law No.33/1999, the Bank Law No.28/2000, the Securities Law No.76/2002, and the Income Tax Law. These pieces of legislation comprise the main regulatory framework governing the Jordanian auditing profession.

In addition, the JACPA retains the licensing responsibility for auditors, whilst the Ministry of Industry and Trade through the Company Controller (CL 1997), and the Jordanian Securities Commission (JSC) (SL 2002) retain responsibility for imposing criteria by which external auditors must complete their audits by the external auditors (Al-Omari, 2010).

2.3.4. Summary of the adopted regulatory approaches in different countries

Given the four regulatory approaches discussed previously, this section presents and explains the different regulatory approaches adopted by the five selected countries represents Common Law and Code Law countries. Figure 4 portrays the relationship between the four common approaches used in a number of countries presented above.

Figure 4. Relationship among the four common approaches used in a number of countries



Source: adopted and modified from Bartle and Vass (2005)

3. RESEARCH METHODS

3.1. Quantitative data

In the present study, five target groups were identified to represent stakeholders within the Libyan auditing profession, these being: external auditors, state auditors, internal auditors, academics, and regulators. In order to gain the maximum representation possible, the researcher gathered from each stakeholder group, a full list of the individuals comprising the group, and then contacted the entire population in each group. The characteristics of these five representative groups

are as follows:

According to Saunders et al. (2012), the response rate for self-administered questionnaires is 30%. In this study, a figure of 37.5% was achieved, thereby showing a favourable outcome. However, Jankowicz (2000) highlighted that business and management research conducted via questionnaires is considered satisfactory if it attracts a response rate of 10% or above. Consequently, the current study can be deemed to have been extremely successful in the volume of responses obtained. Table 1 illustrates the numbers of questionnaires distributed and returned for analysis from the respondent groups:

Table 1. Respondents groups

Questionnaire survey	External auditors	State auditors	Internal auditors	Academics	Regulators	Total
Full population	214	157	62	82	33	548
Distributed	204	151	62	77	29	523
Returned	73	44	30	32	17	196
Response rate	36%	29%	48%	42%	59%	37.5%

According to Hair et al. (2010), reliability refers to the consistency with which a measure is able to measure what it is intended to measure. In the social sciences, Cronbach's Alpha is the most common way of assessing whether a measure can do this, and hence, confirm that measure's reliability (Field, 2013). The ability of a measure is considered to be poor if the outcome is 0.6 or less, and good if it is 0.7 or over. In the present study, all the scale questions achieved Cronbach's Alphas in excess of the 'good' point, resulting in an overall Alpha of 0.709, which is considered good.

The validity of an instrument is also another important consideration in empirical studies since, for any research study to be of high quality, the

tools used to gather data must be valid. In this study, in order to obtain data that reflects the factors influencing the ISAs adoption in Libya, the following steps were taken: a comprehensive literature review to provide a theoretical framework was undertaken, a research methodology and set of methods were established after careful consideration of all the recommendations in this respect, an appropriate sample was identified, and attempts made to ensure internal, external, content and face validity, in the construction of the instrument prior and subsequent to conducting the piloting study. Finally, factor analysis was employed to strengthen the findings, showing that a factor loading above 0.7 in respect of each construct was achieved.

3.2. Qualitative data

A non-probability sampling technique was adopted for the interview exercise; more specifically, the researcher used the purposive sample method to select the sample size. The purposive sample refers to the approach where the investigator targets the participants on the basis that they have the ability to understand the purpose of the questioning and can answer with expertise (Easterby-Smith et al.,

2012). According to Morse (1994, cited in Bernard, 2013), the minimum sample size for the interview is six. In this study, the total number of interviewees targeted was 25 interviewees (this to give an even representation from each of the five participant groups) but in the event, only nine individuals agreed to participate. The five groups were still represented. Table 2 illustrates these groups, the number of interviews conducted for each group, and the percentage responses.

Table 2. Sample and participants' groups

<i>Descriptive</i>	<i>External auditors</i>	<i>State auditors</i>	<i>Internal auditors</i>	<i>Academics</i>	<i>Regulators</i>	<i>Total</i>
Sample selected	5	5	5	5	5	25
No of responses	2	2	2	2	1	9
% of response	40%	40%	40%	40%	20%	36%

In the present study it was decided to use content analysis since this has several benefits, noted by Bryman and Bell (2011) as being: its transparency, its ability to allow expansion of analysis, its unobtrusiveness and flexibility, its ability to allow the extraction of knowledge.

4. FINDINGS AND DISCUSSION

4.1. Regulating the profession

There is no doubt about the importance of the audit profession to society's welfare, and therefore it is necessary to ensure that rigorous professional regulations are in place to guarantee the quality of all practitioners in the field. In this section, the interviewees' perceptions of the regulatory framework associated with the auditing profession are discussed. The discussion is divided into three separate areas, these being: the Libyan audit profession licence requirements, which covers the quality of the licencing requirements including the training period, the assessment of the LAAA's role in developing the auditing profession, and lastly, an exploration of the options available when deciding

how best to regulate auditing practice in Libya.

The objective of the current study seeks to identify the appropriate approach to regulate the auditing profession in Libya, providing a high focus on the government role. Amongst the four common approaches in developing audit regulations, a high number of respondents stressed that using an independent regulator or regulating the profession by government (statutory regulation), stated by 72.4% and 64.3% of respondents' support respectively, as outlined in Table 3. In contrast, neither self-regulation nor co-regulation were seen by large number of respondents (58.2% and 69.4% respectively) as suitable approaches for regulating audit profession in Libya. The above results are consistent with the results about which party should handle establishing licencing requirements in the previous section. To test the hypotheses of equality of proportions of 'Yes and No' respondent, Chi-square test for goodness of fit was run. Statistics of Chi-square functions were significant for all groups, $\chi^2(1) =$ between 5.2 and 39.5, $p < 0.05$ for the three questions. This confirms that the proportions between 'Yes and No' groups are unequal and the differences are significant.

Table 3. Regulatory approach

	<i>Outcome</i>	<i>Frequency</i>	<i>Percent</i>	<i>Chi²</i>	<i>Asymp. Sig.</i>
Self-regulation	Yes	82	41.8 %	5.2	0.022
	No	114	58.2%		
	Total	196	100%		
Direct regulation	<i>Outcome</i>	<i>Frequency</i>	<i>Percent</i>	16.0	0.000
	Yes	126	64.3%		
	No	70	35.7%		
	Total	196	100%		
Co-regulation	<i>Outcome</i>	<i>Frequency</i>	<i>Percent</i>	29.5	0.000
	Yes	60	30.6%		
	No	136	69.4%		
	Total	196	100%		
Independent regulator	<i>Outcome</i>	<i>Frequency</i>	<i>Percent</i>	39.5	0.000
	Yes	142	72.4%		
	No	54	27.6%		
	Total	196	100%		

Note: Chi-square test for goodness of fit

A look at each respondents' group separately in Table 4, it can be found that around two-thirds of external and state auditors are standing at the opposite of using self-regulation or/and co-regulation in regulating the audit profession in Libya. While slightly over half of internal auditors and academics object to depending on self-

regulation, the majority of them do not support depending on co-regulation. On the other hand, 59% of regulators prefer regulating the audit profession through self-regulation, while 65% of them do not like using co-regulation. On the other hand, there is a general agreement among all respondent groups, supporting using either direct regulation or an

independent regulator in the course of the audit profession regulation. However, the latter is seen as more suitable than the former, where between 63% and 82% of all groups support employing an independent regulator, versus only from 59% to 68% with the direct regulation.

Table 4. Regulatory approach: research groups analysis

		External Auditors		State Auditors		Internal Auditors		Academics		Regulators		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
Self-regulation	No	44	60%	28	64%	16	53%	19	59%	7	41%	114	58%
	Yes	29	40%	16	36%	14	47%	13	41%	10	59%	82	42%
	Total	73	100%	44	100%	30	100%	32	100%	17	100%	196	100%
Direct regulation	No	25	34%	14	32%	11	37%	13	41%	7	41%	70	36%
	Yes	48	66%	30	68%	19	63%	19	59%	10	59%	126	64%
	Total	73	100%	44	100%	30	100%	32	100%	17	100%	196	100%
Co-regulation	No	43	59%	30	68%	23	77%	29	91%	11	65%	136	69%
	Yes	30	41%	14	32%	7	23%	3	9%	6	35%	60	31%
	Total	73	100%	44	100%	30	100%	32	100%	17	100%	196	100%
Independent regulator	No	20	27%	10	23%	11	37%	10	31%	3	18%	54	28%
	Yes	53	73%	34	77%	19	63%	22	69%	14	82%	142	72%
	Total	73	100%	44	100%	30	100%	32	100%	17	100%	196	100%

Participants were asked to indicate their views regarding the expected role of the government in regulating the audit profession in the country. From Table 5 it can be seen that respondents, on average, appreciate government involvement in many aspects, particularly providing effective auditing legislation, establishing an independent agency or/and a governmental department to regulate the audit profession and develop its practices. However,

they disagree with the point that the role of the government is limited in providing financial support to regulate the audit profession. These results, that are concluded are based on proportions of 'Yes and No' answers pertaining to each theme, are significantly emphasized using Chi-Square statistics appeared in Table 5 below ($\chi^2(1) =$ between 16 and 45.8, $p < 0.000$).

Table 5. Government involvement in regulating the audit profession

	Outcome	Frequency	Percent	Chi ²	Asymp. Sig.
By providing financial support only	Yes	56	28.6 %	36	0.000
	No	140	71.4%		
	Total	196	100%		
By providing effective auditing legislation	Yes	138	70.4%	32.6	0.000
	No	58	29.6%		
	Total	196	100%		
By establishing collaboration with an independent agency responsible for developing auditing practice.	Yes	145	74%	45.08	0.000
	No	51	26%		
	Total	196	100%		
Direct involvement through the governmental department in regulating the profession.	Yes	126	64.3%	16	0.000
	No	70	35.7%		
	Total	196	100%		

Note: Chi-square test for goodness of fit

Table 6 provides more detail of the trends of responses of the research participants groups. From the following table, it can be realized that the opinions of respondent sub-groups correspond with the general trends of the whole sample with varying degrees, as shown below. This means that all stakeholders of the audit profession in Libya commonly agree on the ways for the government to be involved in the process of regulating the audit profession in the country.

Since an effective regulatory framework to monitor the profession is considered as, the main way to achieve the quality of audit practice required. However, Immordino and Pagano (2005) show that there is no optimal model in this respect, and hence in designing an approach to regulate the auditing

profession, it is necessary to consider the benefits and costs associated with each approach.

This section presents the qualitative finding of the participants in considering the most appropriate option for regulating Libyan audit practices, such that the profession can contribute to promoting the welfare of society. Therefore, the findings from the interviewee exercise show a preference for an independent regulator. The main reason offered for this choice was the independence that this body would have from the profession and from the government. Other approaches were considered to be disadvantageous. The least favoured option by the interviewees was, in fact, the self-regulation approach, which is currently used in Libya, and the criticisms of it were that it was “still in its infancy” (EA 1).

Table 6. Government involvement in regulating the audit profession: research groups analysis

		External Auditor		State Auditor		Internal Auditor		Academic		Regulator		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
By providing financial support only	No	51	70%	34	77%	19	63%	22	69%	14	82%	140	71%
	Yes	22	30%	10	23%	11	37%	10	31%	3	18%	56	29%
	Total	73	100%	44	100%	30	100%	32	100%	17	100%	196	100%
By providing effective auditing legislation	No	20	27%	13	30%	9	30%	12	38%	4	24%	58	30%
	Yes	53	73%	31	70%	21	70%	20	63%	13	76%	138	70%
	Total	73	100%	44	100%	30	100%	32	100%	17	100%	196	100%
By establishing collaboration with an independent agency responsible for developing auditing practice	No	17	23%	8	18%	10	33%	12	38%	4	24%	51	26%
	Yes	56	77%	36	82%	20	67%	20	63%	13	76%	145	74%
	Total	73	100%	44	100%	30	100%	32	100%	17	100%	196	100%
Direct involvement through governmental department in regulating the profession	No	25	34%	14	32%	11	37%	13	41%	7	41%	70	36%
	Yes	48	66%	30	68%	19	63%	19	59%	10	59%	126	64%
	Total	73	100%	44	100%	30	100%	32	100%	17	100%	196	100%

The following are interviewees’ comments in regard to the preferred means of regulating the auditing profession, “In my opinion, the government regulation is considered the most appropriate option from the list where it can have a number of advantages, for instance, the enforcement, since owing to the nature of working, it functions well with the government intervention through its enforcement. However, if we consider the other options, self-regulation is not ideal because of the self-interest challenges and the best example is the weak LAAA status quo; co-regulation also is not an option due to the dominance of the government; an independent regulator might be the ideal option when we can develop the profession and to maintain its quality such an independent regulator can be involved”. (AC 2)

“Co-regulation is ideal since it can overcome the other regulatory approaches”. (RG)

On the other hand, the majority of interviewees preferred the responsibility for regulating the profession to lie with an independent regulator, as is seen in the following comments, “Based on my experience and taking into account the current status of the profession, as well as considering the profession is dominated by the older generation of accountants and auditors, the profession is better with an independent regulator. Since the first generation of accountants and auditors shows an unwillingness to develop the profession even though the government delegated the LAAA responsibilities to self-regulation, LAAA is still in its infancy”. (EA 1)

“In my opinion, the independent regulator is the ultimate option available for the auditing profession due to the fact that it must be totally independent, which would bring benefits to the profession through their independent working

manner. As well, since the other three options have a high level of threat such self-regulation could be an invalid option. With self-interest, co-regulation might be invalid if the delegation responsibilities were unfair, or the government regulation could be treated with the strictness of regulations". (EA 1)

4.2. The discussion of the findings

Therefore after presenting the findings of the both the quantitative and qualitative, the following section will present the discussion of the participants' viewpoints regarding the two major aspects of the auditing profession, these being the regulatory approach to the profession and the overall quality of the profession.

4.2.1. The regulatory body

The issue of how the accountancy profession is controlled has been under scrutiny throughout the world for a long time because of observations that the profession has failed to provide a high standard of service, as seen in the various financial crises already reported in this thesis. Indeed, as noted by Odendaal and Jager (2008), the profession has been held responsible for such crises and consequently, responsibilities have been taken away from it on many occasions, as its reputation within society has dropped.

Hence, participants were asked for their views on the fourth component of the licensing requirements, that being, which party should handle the licensing procedures. In this respect, the results indicate a preference for an independent regulator or at least direct regulation under the control of the Libyan government. It is noticeable that participants were keen to avoid any form of self-regulation or the involvement of a committee of all stakeholders to oversee the audit profession in Libya.

In a more detailed analysis, the result reveals that the majority of the participant groups were against the idea of placing the licensing responsibility with the LAAA. However, discounting the group comprised of regulators, two-thirds of the other participant groups indicated a preference to pass the responsibility in this regard either to the government, through the Ministry of Finance, or to a separate independent agency. Furthermore, all participant groups did not like the idea of using a stakeholder committee to implement licensing of the audit profession.

Clearly, the mix of approaches varies from one context to another. For example, the Jordanian accountancy profession is supervised by the government which is responsible for the entry requirements, while the profession controls the licensing requirements (Delaney, 1995 & Al-Omari, 2010).

Likewise, a mixed approach exists in America, where the USA-CPA certificate is required before being licensed to practice. In this respect, the responsibility of issuing the licensing requirements, and of setting the formal professional examination (AICPA) rests with the professional body, while the independent body (PCAOB) retains the responsibility for registration, inspection, standards setting, and enforcement duties (Nicolaisen, 2005; DeFond, 2010; Aghimien & Fred, 2010).

The LAAA is a self-regulated organisation, which has been highlighted by a number of authors (Shareia, 2010; El-Firjani et al., 2014; Eltweri et al., 2018) as being deficient in its ability to provide quality services. Hence, the views of the study's participants reflect their lack of confidence in the organisation and they prefer placing the regulation role with a governmental agency or separate (independent) regulator.

4.2.2. The Regulatory approaches

Many professions worldwide, such as for example, the law, medicine, and accountancy, have experienced different types of regulatory approaches, for instance self-regulation, government regulation, co-regulation, and independent regulators (Day, 2000; Hilary & Lennox, 2005; Bather & Burnaby, 2006; Nakpodia et al., 2018). Each approach has its pros and cons, such that the advantages of one represent the disadvantages of the other, and consequently, there are always arguments that no one regulatory approach can be sufficient (Sylph, 2005). Hence, combined approaches are often used to overcome the limitations so that professions are regulated in the best way possible and can be seen to demonstrate quality in the work they perform.

However, in every context there are debates and some observers perceive government intervention to be the most effective strategy whereas others consider self-regulation to be most appropriate. In order to probe the likely preferences in the Libyan environment, the researcher asked participants what they considered to be the most appropriate regulatory approach for the auditing profession. In giving their responses, considerations of the role of the Libyan government were made, thereby helping to achieve the second research objective.

From the findings it is seen that of the four common approaches, the strategy of independent regulation is believed to be the most appropriate to serve the development and implementation of the regulatory responsibilities in respect of the Libyan audit profession. The perceived benefits of this approach were seen to outweigh those of any other. Certainly, the current co-regulation strategy is cited as being extremely weak (Zakari, 2013; Laga, 2013). In this prevailing approach, the profession is responsible for certain functions such as organising and monitoring their members, while the government retains major responsibilities such as issuing the profession's entry requirements via Law No.116 (1973) that clarifies the registration process.

The perceptions of all five groups of participants are consistent with those that existed in America before the Sarbanes-Oxley Act was passed in 2002 when there was extreme criticism of the performance of the self-regulation system. This criticism resulted in the establishment by the Sarbanes-Oxley Act of 2002, of the PCAOB as an independent regulator with the responsibility to monitor the auditing profession in the USA. Undoubtedly, peer review is a system that contributes towards lowering the quality of performance in accounting, as argued by a large number of researchers (see for example, Hilary & Lennox, 2005; Pritchard & Puri, 2006; Casterella et al., 2009; Groff & Hocevar, 2009; Van De Poel, 2009; Jankovic et al., 2010; Vanstraelen et al., 2012; Sawan

& Alsaqqa, 2012; Humphrey & Samsonova, 2014).

It is important to appreciate that the USA does not provide the only example of a shift from one type of regulatory approach to another since this has also occurred in the United Kingdom where the independent approach to regulating the accounting profession has superseded the previous self-regulation system (Baker, 2014).

In this study, however, the participant groups showed high interest in moving to a direct regulatory approach for the supervision of Libya's auditing profession, since this was ranked as the second choice by all participant groups (the independent regulatory approach coming first). This result can be interpreted as an indication of the lack of trust and confidence on the part of the respondents' in the ability of the audit profession to self-regulate.

Additionally, it may be considered a reflection of the participants' appreciation of the global problems caused by the failure in the auditing profession which underpinned the financial crises already mentioned, and which has resulted in government intervention to remove the responsibility for regulation from the profession (Pritchard & Puri, 2006; Pagano & Immordino, 2007; Groff & Hocevar, 2009; Vanstraelen, et al., 2012; Jankovic et al., 2010).

It is clear that the majority of participants did not favour self-regulation of the profession in Libya. Only the group of regulators still maintained that this approach was more appropriate, and that is perhaps to be expected. However, the Libyan audit profession is not considered as fully self-regulated since the government does take control of a major part of the regulatory framework. And this was considered to be the right way by the majority of participant groups, despite their appreciation that the profession itself possesses knowledge and expertise yet such knowledge and expertise were still believed not to bring the ability to improve the quality of the profession.

Moreover, participants were aware that in most Common and Code Law countries, the self-regulatory approach is not trusted by society for the reasons already indicated, and as the Libyan accounting and auditing environment is not isolated from the international accounting and auditing environment, it is sensible for it to be as much in line with the rest of the world as possible.

Likewise, the participants also expressed the view that co-regulation was not an appropriate strategy, despite its identified benefits. The rationale for co-regulation lies in its involvement of more than one party in an attempt to overcome the limitation of a one-sided approach in which all the power is placed with one authority, and the natural combative atmosphere this brings (Kleinstauber, 2004; Sylph, 2005; IFAC, 2007; Levi-Faur, 2011). Certainly, co-regulation is very much favoured in some countries, as is the case in New Zealand, where the Minister of Commerce has noted that the audit profession perceives this as being extremely beneficial (Power, 2009). In this study, however, the finding is different, and the participants reject co-regulation, just as they do self-regulation.

Bearing in mind the fact that the co-regulation approach is growing worldwide, it can be concluded that the participants in this study remain cautious as to what will work in the Libyan context. Evidence

by Anantharaman (2012) reveals some preference within the audit profession for such a strategy. However, it is noted that in the distribution of responsibility between the government and the profession in several developed countries, the government actually delegates the majority of its duties (e.g. registration, monitoring, and disciplinary procedures) to the profession, and in countries where institutions are less developed, this may not be as effective.

Concluding this aspect of the questioning, it is shown that the findings revealed by the questionnaires were confirmed in the semi-structured interviews, thereby highlighting the fact that from this empirical work it emerged that the most appropriate regulatory approach for the Libyan context is considered to be one which relies on the services of an independent regulator. The interviewees preferred this approach because it overcomes the disadvantages of the others. Its 'independence' was believed to be absolutely crucial given the current position of the Libyan accounting and auditing profession, which one interviewee referred to as being "still in its infancy".

Given the increase in government involvement in audit profession regulation in many countries around the world, the researcher examined four areas in which such involvement occurs.

The results revealed that the majority of participant groups believed government involvement to be helpful in several ways, one being the issuance of auditing legislation, and another the establishment of an independent agency to enhance the performance of the profession, and another the direct regulation, if necessary, to formulate rules and regulations to control the practice of auditors. Moreover, the financial support provided by the government was appreciated as being important, but this was not seen as useful in the absence of other types of involvement since money alone might be perceived as a tool which could negatively influence other agencies in their dealings with the profession.

It can be seen that the views expressed by the participants are in agreement with those of several writers in the field (see for example, Hilary & Lennox, 2005; Baker, 2014), who argue that governments can enhance the quality of the audit profession through their involvement in the regulatory process, as for instance, through the enactment of the SOX Act in the USA, and the collaboration of the CNCC with the FEE to enhance the regulation imposed by the European Union on the French auditing practices. Likewise the views given regarding the potential for financial support from government are also in line with the literature, since Odendaal and Jager (2008) notes that financial incentives can be seen as a way of placing influence upon the profession to act in a certain way to please government, and this could threaten the profession's independence. In fact, Libyan Law No.116 (1973) addresses the sources of financial support for the profession, identifying that these are the governmental allowance, members' contributions, and returns from investments made by the profession (such as for example, rents obtained from leasing its buildings, fees paid by members for the occasional training course).

Irrespective of the issue regarding funding, however, the participant groups did support the involvement of government, thereby showing

consistency with the observations made by O'Regan (2010) to the effect that government may become involved in the regulatory process of the profession when it suspects the performance of the profession is detrimental to the welfare of society, as for instance has been shown by both the Irish and USA governments' involvement in the auditing profession.

5. CONCLUSION

As a means of attempting to improve the Libyan audit profession regulations, the LAAA's governance was discussed with five participant groups (External Auditors, State Auditors, Internal Auditors, Academics, and Regulators) which generated the following comments and recommendations in order to achieve the aims of this paper.

There was general agreement among the participant groups upon the necessity of having an independent body to govern the profession, and essentially to take over the responsibilities of the LAAA. In this respect, it was considered that independent regulatory and direct approaches were

the most effective and would serve the Libyan audit profession well. Indeed, the independent approach was preferred, with both the self-regulation and co-regulation approaches being deemed unsuitable in the Libyan context. This was a position confirmed by the interviewees who supported the idea of an independent regulator on the grounds that the profession was still in its infancy and insufficiently mature to regulate it.

Furthermore, the participant groups were in favour of greater government support for the profession in respect of intervention concerning the establishment of effective auditing legislation, and the establishment of an independent agency and/or governmental department to regulate the audit profession and develop its practices. This was viewed as the type of support required from the state, whereas currently, the only support provided is of the financial kind.

This study like other studies have some limitation. i.e. the context of research impeded the researcher from obtaining high volume of respondents due to the civil conflict in the country.

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