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THE IMPACT OF INTERNAL AUDIT FUNCTIONS ON FINANCIAL REPORTING QUALITY IN LIBYAN COMMERCIAL BANKS

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Abstract

This study evaluates the impact of internal audit functions (IAFs) on financial reporting quality (FRQ) among Libyan commercial banks. An analysis is conducted using International Standards on Auditing (ISAs) regarding attributes and evaluation standards. To achieve the research aim, questionnaires were distributed to auditors across Libyan banks. Responses were collected from 309 participants, of which 297 were deemed suitable for analysis. Results indicate a statistically significant positive relationship at the 0.05 level between strength of IAFs and FRQ. Dimensions of effective IAFs like strategic planning, independence and productivity promotion each demonstrate individual influence. Additionally, evidence suggests ISAs and their standards/attributes moderate the link between IAF dimensions and FRQ. Specifically, adherence to ISA attributes and evaluation criteria significantly affects the association between independent and dependent variables. These findings imply challenges to ISA adoption must be addressed through establishing globally recognized high-quality accounting standards. This would enhance transparency, accountability and efficiency across global financial systems.

Keywords : Internal Auditors, Planning, Banks, roductivity development, Independence, International Accounting Standards, Attributes, Evaluation Standards.

1. INTRODUCTION

As defined by IASs, financial reports provide information on the financial position, performance, and cash flow changes of organizations. Such reports play a critical role in economic decision-making by stakeholders, as this data is essential given rising focus on revitalizing capital markets and evolving business environments. There is growing need for reliable financial statements that can be depended on for various economic decisions (Baqas et al., 2018; Abdel Sattar, 2020; Muhammad, 2017).

Undoubtedly, one of the most significant developments in the history of accounting regarding financial reporting has been widespread adoption of IASs (Houqe, 2018). As a result, publicly listed companies must furnish enhanced disclosure in financial statements to serve the interests of external investors. The overarching goal of IASs is to facilitate comparability of financial statements/reports for stakeholders through strengthening the role of the internal auditor function.

There have undoubtedly been substantial advancements internationally in the internal audit function (IAF), especially in recent decades. Originally, the average internal auditor's responsibilities were limited to reviewing financial documents twice annually (Kotb et al., 2020). However, internal control and financial compliance are now core IAF activities according to Ahmad et al. (2009) and Alzeban (2010).

To enhance financial efficiency and deliver high-quality financial reports, the environment in which internal auditing occurs has undergone significant changes (Ahmad, 2015). The Institute of Internal Auditors (IIA) recently redefined internal audit as "an independent, objective assurance and consulting function designed to add value and improve an organization's operations." It aims to systematically evaluate risk management, control, and governance processes (IIA, 2017).

Hence, internal audit has evolved to offer diverse services like assurance, audits, and management advice on various topics to strengthen organizational processes. In this regard, Mihret (2010) notes that organizations can benefit from a successful IAF, increasing interest in and focus on its effectiveness. Internal auditors, as highlighted by Gustavson and Sundström (2018), are critical to achieving organizational goals and safeguarding assets when properly developed, implemented, and managed in adherence with IAS interpretations. Therefore, a well-functioning IAF ultimately benefits the organization (Mihret & Yismaw, 2007). In essence, internal auditors play a vital role in assisting management and shareholders prevent fraud or other financial misconduct as indicated by Assakaf et al. (2018) and Bou-Raad (2000). Internal auditing is now considered an essential function for both public and private sector firms. The success of internal auditing hinges on an auditor's ability to achieve predetermined objectives (Badara & Saidin, 2012; 2014). Furthermore, management may find efficient internal auditing critical to fraud and misconduct prevention (Abu-azza et al., 2015; Betti & Sarens, 2021).

The proliferation of economic and financial issues impacting major global corporations in recent decades, such as those that led to the collapses of Enron, Xerox, Parmalat, Vivendi, Le Credit Lyonnais, Adecco, Tyco and Olympus, has fueled increased internal auditing activities across developed nations. Since 2000, professional oversight institutions have taken initiative to develop internal auditing practices by reviewing underlying principles and guidelines. As a result, these failures underscored the need for organizations to stay abreast of enhancements to relevant standards and practices (Hussaina, & Abdulahad, 2022).

Many studies indicate there is broad consensus among governments that financial crises cause significant economic damage through increased unemployment, poverty, inequality and strained public investments (Ma, et al., 2022). Thus, high-quality, globally recognized accounting standards are vital to facilitate emerging markets' globalization. Productivity has also been substantially impacted by IAS implementation for financial reporting and quality (Di Vaio, et al., 2022; Hussain, 2022; Ma, et al., 2022). Assessment of banking sector efficiency has grown in importance over three decades, with new contributions to this field (Di Vaio, et al., 2022; Hussain, 2022; Ma, et al., 2022). Economists now appreciate the need to evaluate efficiency and address productivity variations among organizations. Studies suggest enhancing IAS auditing standards of attributes and evaluation improves precision regarding organizational context (De George, & Shivakumar 2016; Ma, et al., 2022). However, limited evidence exists on internal audit's impact on Libyan bank financial reporting quality via IAS auditing standards (attributes, evaluation). Thus, identifying effectiveness influences from IFRS adoption is urgently needed. Libyan banks providing stronger, usable balance sheets through IFRS enable businesses to report assets' fair value minus depreciation.
This study focuses on the impact of the internal audit function's role (planning, independence, promoting bank productivity) on Libyan bank financial reporting quality via IAS auditing standards (attributes, evaluation). More specifically, the study aims to study the effects of audit planning and auditor independence on Libyan bank reporting quality. It examines the impact of enhancing bank productivity through auditing on reporting quality and tests the moderating impact of IAS standards (attributes, evaluation) on the relationship between the internal audit function's role (planning, independence, productivity promotion) and Libyan bank reporting quality.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. The concept of internal audit standards

It is important to note that the term "internal audit" has multiple definitions. This may be because the goals and nature of the internal audit role have undergone several changes. Internal audit definitions have expanded over time to represent the concept's developing nature as a result of these changes and subsequent advancements in the field (Cevahir & Çalıyurt, 2021). According to Brown et al. (2020), the American Institute of Bank Management's Audit Committee has defined internal audit as an administrative function that conducts an independent assessment of the facility's control systems' accuracy, sufficiency, and effectiveness as well as the standard of continuous operations. The American Institute of Internal Auditors, in this regard, states that internal auditing is an impartial, independent advisory and evaluation process that was developed to enhance bank operations and assist them in reaching their goals by using a methodical and practical approach. It can also include assessing and improving the efficiency of processes for management, oversight, and control over banking operations (Chiarini, et al., 2020; Hussaina, & Abdulahad, 2022; Alzeban, 2019).

It can also be described as an auditing standard, which means that it serves as a gauge for the consistency and professional competence of auditors in the course of their work (Boolaky, & Soobaroyen, 2017). Harahap et al. (2018), state that the standards are meant to serve as a reference framework for carrying out and improving a variety of value-added internal audit services, as well as to direct adherence to the mandatory components of the international professional framework for the practice of internal auditing. They also serve as a basis for assessing internal audit performance and encouraging advancement. The internal audit function's operations and services can also be assessed in accordance with the IASs for the professional practice of internal auditing, since following them helps the function achieve its goals (Anwar et al., 2021; Talha, 2020). The foundation for internal auditors' work, outlining their technical duties and overseeing their professional performance, is regarded as internal audit standards (Simunic et al, 2015).

2.2. International accounting standards

A set of widely accepted laws, guidelines, and regulations that are released by a specialized accounting body or governmental organization to clarify the ways in which financial transactions are treated, recognized, and disclosed in order to provide financial data for annual reports and financial statements which is known as an accounting standard (Pacter, 2015). Thabit and Al-Nasrawi (2016) explain that an accounting standard can also be described as business standards that direct the accountant in explaining the issue, talking about potential solutions, and providing suitable answers. In order to prepare consolidated financial statements that improve financial statement reliability, promote foreign investment, and advance international trade, IASs have internationally agreed rules for explaining financial transactions and non-financial events (Al-Nasrawi, & Thabit, 2020).

2.3. The importance of international accounting standards

Muhammad (2017) highlighted that there is an essential importance for IASs. They can create a unified and common accounting language that is accepted internationally and nationally to unify accounting treatments and eliminate the contradictions that exist in the scope of accounting between countries. They allow presenting the economic reality of an organization's transactions, and presenting an authentic as well as clear picture of the organization when providing information about it based on a financial and economic view rather than a legal view. They can facilitate the process of tax authorities in different countries by coordinating the application of methods for recognizing costs and revenues. If these standards are not available, there will be something like accounting chaos due to the large differences between accountants in treating the same accounting practices. The adopting IASs' process allows multinational companies of designing integrated information systems to link activities of companies with all their own branches. In other words, Al-Qudah, (2020) pinpointed that using IASs increase financial investments between countries. It widely spreads the trade exchange between countries of the world greatly. It encourages the use foreign currencies for commercial operations and enhances the development of the international institutions and companies.

2.4. Strategies of IAS/IFRS standards adoption

Adoption of IAS/IFRS can be somewhat challenging, particularly in dynamic economies. Before implementing these standards, it is essential to confirm their efficacy and alignment with regional norms. The following are the various approaches that various nations have taken to embrace these standards (Al-Nasrawi, & Thabit, 2020)

- International organizations' approval procedures

The method of approval procedures is among the most effective ways to implement IAS/IFRS standards. The world's leading financial authority mandates that businesses adhere to international organizations' norms ; yet, few nations have really implemented this method.

- Recasting the standards of IAS/IFRS without noteworthy changes to be into the law

This method can be seen as a conventional one to using local accounting standards that has been modified to meet IAS/IFRS standards, which are subject to change over time.

-IAS/IFRS support

By using this method, the IAS/IFRS can be updated after being compared to national or regional standards.

- IAS/IFRS standards' full convergence for compliance

By converting selected concepts to local terminology, this method allows the IAS/IFRS standards to be tailored to the local environment. As a result, the local accounting standards are similar to the IAS/IFRS standards but differ in a few key areas to enable their effective application.

-Partial IAS/IFRS accreditation

IAS/IFRS can be adopted through this method as a starting point and then, making some necessary changes during the implementation to suit local environments.

- IAS/IFRS Standards' recognition

Using this method, governments can create reports and financial statements using IAS/IFRS rather than local accounting standards when needed.

2.5 Impact of adopting IAS/IFRS standards

Adopting IAS/IFRS standards has been shown to have a number of favorable effects on a variety of financial and accounting transactional aspects (Al-Nasrawi & Thabit, 2020). It Enhances financial institutions' capacity to provide loans to other countries and imporves The uniform development of credit institutions across borders and contributes to the unification of corporate credit rates boosting consequently the flow of cash and investment and the reliability of accounting information to promote economic development. It increases the sellers' capacity to assess clients' financial standing in various nations prior to granting credit or making sales.

It enhaces the uniformity of audits as well as enabling accounting instruction and training. It accelerates the global Financial statement standardization process. It provides global decision-makers with consistent, largely dependable, and comparable accounting information facilating hence the communication as well as the relationships between managers and stakeholders. Consequently, it reduces the agency cost and the cost of issuing capital. However, implementing IAS/IFRS standards can have a number of detrimental implications on several facets of accounting and financial operations (Al-Nasrawi & Thabit, 2020) it increases the expenses and responsibilities for businesses and organizations, accounting procedures when using adopting IAS/IFRS standards.

IAS/IFRS standards cannot be implemented without first making the necessary adjustments in accordance with the local environment. Failure to do so could result in the purposeful or inadvertent distorting of the standards' guiding principles and reduce the efficacy of their primary purposes. High levels of transparency and excessive disclosure negatively affects companies/organizations due to international competition. Also, Widening the gap between developed and developing countries by not applying these standards in less developed countries and skewing their applications in nations with negative economic developments.

When industrialized countries have had numerous financial crises, IAS and IFRS were created as responses to those crises. Many researchers think that these standards are unhelpful in addressing certain accounting difficulties, such fair value assessment, because they are historical answers rather than future ones. Impeding the accounting profession’s ability to compete in the local market because not all situations can accommodate the application of these standards equally.

2.6. Central Bank of Libya

First, it is critical to note that banks are among the organizations that have a significant impact on the economy of every nation, particularly when it comes to financialization of the economy. Banks require capital to finance their operations in order to perform their duties. According to Kasmir (2012), a bank is a business that receives deposits from the general public and disburses funds to society in the form of credit or other means in an effort to enhance the lives of a large number of people. Thus, through transforming liquidity, banks promote economic growth by facilitating investment and production. The security of the availability of cash and the accessibility of financial resources are strongly related to the banking sectors’ liquidity. If banks are able to borrow money or if assets can be swiftly and profitably converted into cash, then they can fulfill their responsibilities. But because of the disparity between their assets and liabilities, banks may have an unstable capital structure. To deal with liquidity issues, they may lend from or borrow against their excess financial reserves, which makes them even more inefficient.

In Libya, banks are key to the distribution of the nation’s financial resources because they effectively provide as a constant conduit for monies from depositors to investors (Ongore & Kusa, 2013). In addition, banks offer all other necessary services like lending and deposit options to both individual and corporate customers, supplying credit and liquidity during volatile markets, and granting entry to the nation’s payment networks. Furthermore, banks in Siddiqui and Shoaib (2011) indicated that Libya have a shared accountability for stabilizing the economy since they are the primary means of communicating efficient monetary policy to the central bank. As a result, the nation’s overall economy depends on the banking industry’s performance. In this regard, Makkar and Singh (2013) stated that numerous studies have shown that a bank’s effectiveness is mostly determined by its financial performance, which reveals the strengths and weaknesses of that specific bank.

More deeply, in Libyan context, the Central Bank of Libya (CBL) and twenty commercial banks (CBL, 2023) including the Libyan financial system, as Table 1 below illustrates. In order to preserve financial stability and guarantee the ongoing expansion of the Libyan economic system in accordance with the nation's general economic policy, the CBL was founded in 1956 and is now the country's highest monetary authority (CBL, 2008). According to El-Firjani et al. (2014), it is empowered to monitor and oversee all banks in Libya in order to preserve the integrity of their financial standing and safeguard the interests of their clients and depositors. The Libyan government has allowed foreign investment into the nation for the last 20 years (Gerged & Almontaser, 2021).

Consequently, in order to promote economic development, the CBL took actions from 2002 to 2010 to align the banking industry with the new policies of the Libyan government. Reforming commercial banks, passing a corporate governance law in 2005, giving the private sector ownership of public banks, and permitting foreign investors to join the market were some of these actions (CBL, 2010b). These actions as highlighted by Gerged and Almontaser (2021) have led to the current ownership of commercial banks being divided between the state, the private sector, and a consortium of foreign and local investors.

Certain foreign banks were permitted to manage and own up to 50% of the shares in commercial banks located in Libya (Kumati, 2008). For instance, in 2008, Jumhouria Bank of Libya, the fifteenth foreign bank to operate in Libya by the end of 2010, had around half of its capital owned by First Gulf Bank, a bank with its headquarters in the United Arab Emirates (Elsakit, 2017). Commercial banks in Libya collectively run 494 branches and have assets of 98.4 billion Libyan dinars (£46.8 billion) as of 2016 (CBL, 2016). Some specialist banks were established to provide funding for particular commercial endeavors. They offer loans for agriculture, give loans to people looking for work, and offer loans for real estate (CBL, 2016).

The Basel Committee's recommendations are used by the CBL to monitor the banking industry and gauge bank safety. Apart from the CBL's oversight or observation, banks are recommended to implement both LCGC and CBL-CGC. The CBL-CGC is meant exclusively for Libyan banks, whereas the LCGC is applicable to all listed corporations. Both the LCGC and the CBL-CGC, which were created in 2007 and 2005, suggested the creation of an audit committee at that time. According to Larbesh (2010), listed firms are increasingly implementing these guidelines. The CBL-CGC was updated for the banking industry in 2010, and advisory committee creation became required (CBL, 2010a). Indeed, keeping an eye on the transparency as well as fairness of financial statements, reviewing the internal audit plan, and ensuring that internal control measures are appropriate and functioning properly are all responsibilities that fall under the purview of the audit committee (CBL, 2010a).

Moreover, audit committees are responsible for providing the board of directors with reports that assist it in evaluating the financial performance of the banks (Shalba, 2016). In addition, audit committees provide advice to the board about the appointment or removal of the director and external auditor of the internal audit unit. Besides, the audit committee is an essential component of corporate governance. Its primary function is to provide assistance to the board of directors in the execution of its duties and to protect the interests of shareholders. The CBL-CGC stipulates that the audit committee shall consist of a minimum of four directors, with at least two of those members being required to be directors who are independent. A select few members of the audit committee ought to have expertise in risk assessment, financial reporting, bookkeeping, and auditing. The audit committee is required to have meetings at least once every three months, or more frequently if it is deemed necessary, and their chairperson is the one who will extend invitations. In addition, it is required to hold regular meetings with the head of the internal audit department and the external auditor, with the minimum frequency being twelve times each year (Shalba, 2016).

The audit committee, a board committee, and the internal audit function are two of the most significant corporate governance mechanisms (Fichtner, 2010; Eulerich et al., 2019). Both of these mechanisms seek to safeguard shareholders' interests and increase financial transparency in businesses, and the interaction between these two processes not only enhances each one's governance capabilities but also has a significant impact on how well businesses monitor and manage risk (Marx & Voogt, 2010; Alzebana & Sawan, 2015). As per Masli's (2018) research, upholding transparent communication between the internal audit department and the audit committee is a crucial element in attaining effective governance. In this regard, Tusek (2015) stated that internal audit is viewed as a crucial contributor in supplying information to the audit committee, and that the audit committee is the primary source of support for internal audit and the tasks it completes.

In such context, the CBL points out the important role played by the function of the internal auditor and audit committees, including governance and internal control systems. It encourages the Board role of Directors is to exercise the tasks stipulated in Article (5) of Law (1) of 2005 AD regarding banks. These tasks, if carried out in accordance with the banking principles, principles and standards of central bank management, will lead to achieving the general objectives of the bank, the most important of which are general price stability and maintaining the purchasing power of the currency (currency value).The Board of Directors must activate the Supreme Committee for Monetary Policy by exercising its powers stipulated in Resolution (63) of 2011 AD and immediately convene to follow up on local and international monetary developments and study their effects and repercussions due to the impact of these developments on the national economy. The bank's continued practice of selectivity, as well as its refusal to provide the audit committees responsible for the Audit Bureau with all the papers and data requested, even though many of the requested data were illegal. It Prepars the necessary and important reports and information to identify the actual financial situation. In addition, the unit failed to prepare work manuals, forms, and the annual plan that explain its work mechanisms, set performance standards, measure the organization's efficiency, and activate the unit's supervisory role.

In order to determine the relationship between the independent and dependent variables and the role of the moderating variable, the following hypotheses were developed :

H_1 : The internal auditor's role with following dimensions (planning, independence, the bank's productivity development) impacts the financial reporting quality of Libyan commercial banks.

H_{1-1} : The auditors' planning impacts the financial reporting quality of Libyan commercial banks.

H_{1-2} : The auditors' independence affects the financial reporting quality of Libyan commercial banks.

H_{1-3} : The banks' productivity development by auditors impacts the financial reporting quality of Libyan commercial banks.

H_2 : There is a moderating role of International Auditing Standards (attributes, evaluation) on the relationship between the internal auditors'role (planning role, independence, banks' productivity development) and the financial reporting quality of Libyan commercial banks.

H2-1 : There is a moderating role of attribute standards on the relationship between the RIAs (planning role, independence, banks' productivity development) and the financial reporting quality of Libyan commercial banks.

H2-2 : There is a moderating role of evaluation standards on the relationship between the RIAs (planning role, independence, banks' productivity development) and the financial reporting quality of Libyan commercial banks.

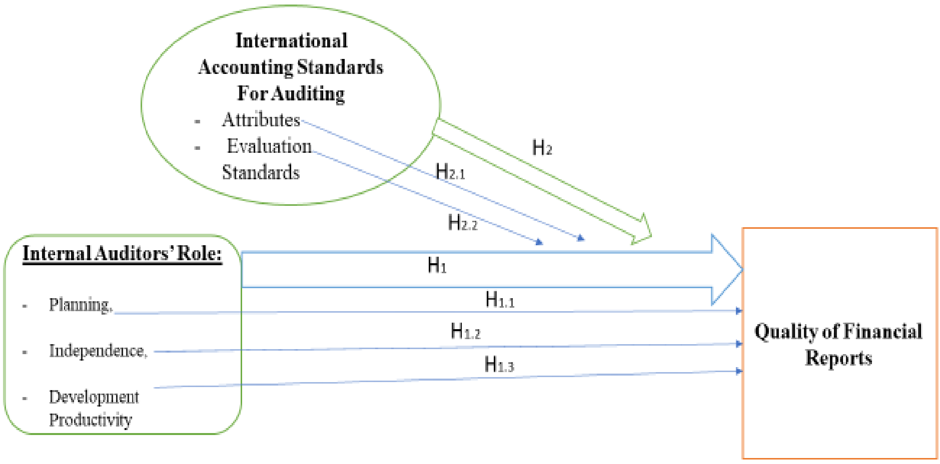

Figure 1 Study model (Developed by the Researchers)

3. METHODOLOGY DESIGN

3.1 Sample

A descriptive research approach was undoubtedly essential to characterize and classify the data regarding the phenomenon among the target population (Al-qadi, & Naser, 2022; Alzobidy et al, 2022; Naser & Hamzah, 2018; 2022). Accordingly, this study employed a quantitative research design utilizing a questionnaire distributed to the target population.

Specifically, the questionnaires were administered among auditors at Libyan commercial banks. This allowed collecting data to answer the study's research questions and identify the impact of internal audit functions on financial reporting quality among Libyan banks via IAS auditing standards (attributes, evaluation).

Table : Libyan Commercial Banks (LCB, 2024)

No.	Bank Name	Location	Website
1	Jumhouria Bank	General Administration – Omar Al-Mukhtar Street – Tripoli – Libya	www.jbank.ly
2	National Commercial Bank	General Administration – Al Bayda – Libya	www.ncb.ly
3	Wahda Bank	Al Fadil Bou Omar Square – Al Baraka – Benghazi – Libya	www.wahdabank.com
4	Sahara Bank	December 24th Street – Tripoli – Libya	www.saharabank.ly
5	Bank of Commerce & Development	Gamal Abdel Nasser Street – Al Baraka – Benghazi – Libya	www.bcd.ly
6	North Africa Bank	Dhahra – Tripoli – Libya	www.nab.ly
7	Aman Bank	Al-Andalus District – Tripoli – Libya	www.aman-bank.com

8	Ejmaa Arabi Bank	Sidi Hussein – Benghazi – Libya	ejmaa.aabank.ly/
9	Libyan Foreign Bank	Dhat Al-Emad Complex – Tripoli – Libya	www.lfb.ly
10	First Gulf Libyan Bank	7th November Street – Tripoli – Libya	www.bankfab.com/ar-ly/
11	Waha Bank	Souq Jumaa – Tripoli – Libya	www.alwahabank.ly
12	UBCI Bank	General Administration – 17 February Street, Mansoura – Tripoli – Libya	www.ubci-libya.com
13	Al-Saray Bank for Trade and Investment	Gurji Road – Tripoli – Libya	www.atib.ly
14	Mediterranean Bank	Al-Wakalat Street – Benghazi – Libya	www.meditbank.ly
15	Nuran Bank	Abu Miliana – Tripoli – Libya	www.nub.ly
16	Al-wafa Bank	General Administration – Tripoli – Libya	www.alwafabank.com/
17	Tadhamun Bank	Bin Ashour – Tripoli – Libya	www.tab.ly
18	Libyan Islamic Bank	Abu Miliana – Tripoli – Libya	www.lib.com.ly
19	Yaqeen Bank	General Administration – Shat Road – Tripoli – Libya	www.yaqeenbank.ly
20	Andalus Bank	General Administration, Tripoli Tower – Tripoli – Libya	www.andalus

3.2 Scale measurement method

The five-stage Likert scale was adopted (strongly agree, agree, neutral, disagree, strongly disagree). When the mean values from (1 to less than 2.33= low degree; 2.34 to less than 3.67= moderate degree; and 3.68 to less than 5= high.

Table 2 : Respondents' demographic information

Categories	Frequency	Percent
Gender		
Male	186	62.6%
Female	111	37.4%
Age		
Less than 35 years	72	24.2%
35-45 years	81	27.3%
46-55 years	124	41.8%
More than 55 years	20	6.7%
Qualifications		
Diploma	23	7.7%
Bachelor Degree	202	68.0%
Master Degree	52	17.5%
Ph.D. Degree	20	6.7%
Specialization		
Audit committee member	195	65.7%
Review department manager	46	15.5%
Head of review department	56	18.9%
Work Experience		
Less than 5 years	90	30.3%
5-10 years	121	40.7%
11-15 years	37	12.5%
More than 15 years	49	16.5%

Table 2 reveals that there were 37.4% females and 62.6% males. Men make up the largest share as a result. This is a result of the dominant culture in the community, where a large number of people hold the belief that men should have more authority over women in non-educational fields because this is the field in which women can work the best. This is supported by a study by Abu Melhem (2017), which found that the education sector employs the greatest proportion of working women in Arab society.

Additionally, Table 2 shows that the largest percentage of respondents 41.8% were between the ages of 46 and 55. This group was followed by respondents 27.3% who were between the ages of 35 and 45, and respondents 24.2% who were under the age of 35. The group with the lowest percentage, those over 55, made up 6.6% of the population. This outcome could be explained by the fact that the majority of bank workers fall into the most experienced age group, which is between 46 and 55. Banks constantly look to improve the role that experience plays in enhancing their effectiveness, and they work to achieve the best and most notable performance to give them a competitive advantage.

Table 2 also shows that 68% of the respondents have a bachelor degree seen to be the highest percentage, followed by the percentage of those who hold a master's degree, which is 17.5%. As for the respondents who hold a diploma degree, they were 7.7%, and the lowest percentage is for the respondents who have a Ph.D. degree with the percentage of 6.7%. This shows that the commercial banking sector employs a bachelor's degree mostly. This is because the banking sectors in general and Libyan banks in particular seek to attract educated people who hold a bachelor's degree or higher in a greater proportion.

It is also shown in table 2 that job specialization of the respondents is divided into three categories. The highest percentage was for those in the audit committee membership, at the percentage of 65.7%. It is followed by those who are the head of review department, at 18.9%, followed lastly by those in the position of review department manager, at 15.5%. The lowest percentage. Table 2 also shows the practical experience of the respondents, as it was divided into four categories. The highest percentage was for those whose experience ranged from 11 to 15 years, at a rate of 40.7%, while the next percentage was for those whose experience ranged from 5 to 10 years, at a rate of 30.3%. %, followed by those with more than 15 years of experience at 16.5%, and the lowest percentage was for those with less than years of experience at 12.5%. For the purpose of ensuring the reliability of the study instrument, the internal consistency coefficient using the Cronbach-Alpha equation was conducted.

Table 3 : The Cronbach-alpha values

Variables	Cronbach-alpha	Items
Attribute Standards	0.888	10
Evaluation Standards	0.926	10
Planning	0.862	4
Banks' Productivity Development	.0695	5
Independence	.0797	9
QFRs	0.884	10

The internal consistency coefficient of the questionnaire items was measured. In this regard, Hair, et al., (2014) indicate that, given the reliability values (Cronbach's alpha), if the values are between 0.60 - 0.70, they are acceptable, and if they are between 0.70 - 0.90, they are acceptable and satisfactory, with more reliability and consistency, and showed Cronbach's alpha test showed that the current study tool was internally consistent, as the Cronbach-alpha value in the fields and the study as a whole was above 0.695.

4. RESULTS

4.1. Descriptive statistics

Table 4 shows the descriptive statistics for each item of the planning variable

Table 4 : The descriptive statistics for each item of the planning variable

Items	Mean	SD	Rank
Internal auditors' plan for the work mission is clear	4.29	.711	High
It is possible to audit and review each activity on time, covering the planned scope of audit activities	4.28	.641	High
Internal Audit develops appropriate annual audit plans	3.97	.759	High
Internal audit reviews compliance with policies, plans, procedures and regulations	3.92	.830	High

The means and SD for the planning variable are displayed in this table. The table displays the SD of the results, which varied from 0.830 to 0.641, and the average scores for all the planning items vary from 4.29 to 3.92. The item "Internal auditors' plan for the work mission is clear" had the highest mean scored 4.29 and a SD of 0.711, with a high degree. This was followed by the item "It is possible to audit and review each activity on time, covering the planned scope of audit activities," which had a mean of 4.28 and a SD of 0.641, also with a high degree. The item "Internal audit reviews compliance with policies, plans, procedures, and regulations" had a lower mean of 3.92, a SD of 0.830, and a high degree. Table 5 shows the descriptive statistics for each item of the bank's productivity development variable

Table 5 : The descriptive statistics for each item of the bank's productivity development variable

Items	Mean	SD	Rank
Internal audit provides adequate follow-up to ensure that appropriate corrective actions are taken and are effective	4.21	1.042	High
Taking timely action to implement the recommendations contained in the internal audit report	4.01	.769	High
Internal audit improves the productivity of the organization	3.97	.794	High
Internal audit improves organizational performance	3.80	.790	High
Internal audit makes recommendations to improve the internal control system when necessary	3.69	.809	High

Table 5 shows the descriptive statistics for each item of the bank productivity development variable. Deeply, table 5 shows the means and SDs for the items on the banks' productivity development. The table shows that the average scores for all the items on banks' productivity development between 4.21 and 3.69, while the SD between 1.042 and 0.769. It is also shown that the highest mean was for the item "Internal audit provides adequate follow-up to ensure that appropriate corrective actions are taken and are effective" with a mean of 4.21 and a SD of 1.042, with a high degree, followed by this item "Taking timely action to implement the recommendations contained in the internal audit report" with a mean of 4.01 and a SD of 0.769. With a high degree, as for the items that had least mean, is "Internal audit makes recommendations to improve the internal control system when necessary" with a mean of 3.69 and a SD of 0.809 ranking a high degree. Table 6 shows the descriptive statistics for each item of independence variable.

Table 6 : The descriptive statistics for each item of independence variable

Items	Mean	SD	Rank
The Board of Directors (Chairman for government agencies) approves the appointment and replacement of the Head of Internal Audit	4.40	.619	High
Internal audit staff have sufficient independence to perform their professional duties and duties	4.19	.671	High
The Chief Audit Officer reports to a level within the organization that allows Internal Audit to fulfill its responsibilities	4.13	.583	High
The internal audit department has direct contact with senior management other than the CFO	4.06	.665	High
Internal audit staff are not required to perform non-audit functions	4.00	.740	High
Internal audit staff have free access to all departments and employees in the organization	3.94	.842	High
The head of internal audit has direct communication with the Board of Directors (to the head of government institutions)	3.87	.926	High
Internal auditors rarely encounter interference from management while carrying out their work	3.76	.859	High
There are rarely conflicts of interest in the work of internal auditors	3.70	.854	High

The table 6 shows the means and SD for the independence variable items. Deeply, the table shows that the average scores for all the independence items range between 4.40 and 3.70, while the SD ranged between 0.926 and 0.583. The highest mean was for the item "The Board of Directors (Chairman for government agencies) approves the appointment and replacement of the Head of Internal Audit" with a mean of 4.40 and a SD of 0.619, with a high degree, followed by "Internal audit staff have sufficient independence to perform their professional duties and duties" with a mean of 4.19, and a SD of 0.671, with a high degree. As for the paragraphs that had a least mean, it was "There are rarely conflicts of interest in the work of internal auditors" with a mean of 3.70 and a SD of 0.854, and with a high degree. Table 7 shows the descriptive statistics for each item of QFRs variable.

Table 7 : The descriptive statistics for each item of QFRs variable

Items	Mean	SD	Rank
Providing investors with a unified reading of financial reports, which adds credibility to accounting information and reliance on it when making decisions.	3.78	.730	High
It contributes to reducing information asymmetry between contracting parties associated with the bank	3.63	.964	Moderate
It contributes to improving the QFRs so that they truly reflect the company's economic reality	3.57	.963	Moderate
Reducing opportunistic or utilitarian management behavior by narrowing the scope of choice between accounting alternatives	3.56	.925	Moderate
Expanding requirements for disclosure of financial and non-financial information, which encourages the provision of additional disclosures that provide investors with useful information.	3.20	.989	Moderate
Clarity and transparency in the accounting procedures followed in preparing the financial statements in a way that investors can understand	3.19	.984	Moderate

Encouraging the attraction of foreign investments, which contributes to raising the efficiency of the financial market and increasing the rate of economic growth.	3.07	1.087	Moderate
The value of banks that apply IFRS standards increases. Thus, increasing investors' interest in investing in it	3.03	1.041	Moderate
It positively affects investors' perceptions regarding their future vision for the bank's survival and continuity	2.89	1.102	Moderate
It enables improving the quality of accounting performance by providing information with better qualitative characteristics such as: (relevance, trustworthiness, and comparability)	2.63	1.110	Moderate

Table 7 illustrates the descriptive statistics for each item of the financial reporting quality variable. It specifically shows the means and SD for the financial reporting quality items. The average scores for all the financial reporting quality items range between 3.78 and 2.63, while the SD between 0.730 and 1.110. The highest mean was for the item stating that "Providing investors with a unified reading of financial reports, which adds credibility to accounting information and reliance on it when making decisions", with the mean of 3.78 and a SD of 0.730, with a high degree, followed by this item stating that "It contributes to reducing information asymmetry between contracting parties associated with the bank" with a mean of 3.63 and a SD of 0.964, ranking a moderate degree. As for the items that had the least mean stating "It enables improving the quality of accounting performance by providing information with better qualitative characteristics such as: (relevance, trustworthiness, and comparability)" with a mean of 2.63 and a SD of 1.110, with a moderate degree.

4.2 Regression results

In order to present an answer to the research questions, this study conducted a simple and multiple linear regression test between each relationship as shown in the hypotheses to determine the extent of the impact of the RIAs on the QFRs among Libyan commercial banks through IASs for auditing. Table 8 presents the relationship between the RIAs on the QFRs.

Table 8 : The relationship between the RIAs on the QFRs.

Coefficients[a]							
Model		The Value of (f)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		6.083	B	Std. Error	Beta		
1	(Constant)		1.962	.478		4.107	.000
	RIAs		.292	.118	.142	2.466	.014
a. Dependent Variable: The QFRs							

Table 8 reveals that there is a statistically significant relationship at the level of significance ($0.5 \geq \alpha$) between the RIAs and the QFRs, where the significance value was (0.014), which is less than (0.05), and the value of the (F) value is (6.083). Therefore, this study accepts the first main hypothesis (H_1) regarding the relationship between the RIAs and the QFRs, which is at a significance level ($0.5 \geq \alpha$) among the Libyan banking sector.

This study also presents the following hypotheses ($H_{1.1}$; $H_{1.2}$; $H_{1.3}$) derived from (H_1). Accordingly, table 9, 10, 11, and 12 presents the results. Table 9 presents the relationship between the planning of internal auditors and the QFRs

Table 9 : The relationship between the planning of internal auditors and the QFRs

Coefficients[a]							
Model		The Value of (f)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		18.704	B	Std. Error	Beta		
1	(Constant)		1.696	.336		5.046	.000
	Internal Auditors' Planning		.352	.081	.244	4.325	.000
a. Dependent Variable: The QFRs							

It is shown in the table that there is a statistically significant relationship at the level of significance (0.5 ≥ α) between internal auditors' planning and the QFRs, where the significance value was (0.000), which is less than (0.05), and the value of the (F) value is (18.704). Therefore, the sub-hypothesis (H1-1) is accepted, which states that there is a statistically significant impact at the significance level (0.05 ≥ α) of the internal auditors' planning on the QFRs among Libyan commercial banks. Table 10 presents the relationship between internal auditors' independence on the QFRs

Table 10 : The relationship between internal auditors' independence on the QFRs

Coefficients[a]							
Model		The Value of (f)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		43.193	B	Std. Error	Beta		
1	(Constant)		.591	.390		1.515	.131
	Internal Auditors' Independence		.635	.097	.357	6.572	.000
a. Dependent Variable: The QFRs							

Table 10 indicates that there is a statistically significant relationship at the level of significance (0.5 ≥ α) between internal auditors' independence and the QFRs, where the significance value was (0.000), which is less than (0.05), and the value of the (F) value is (43.193). Therefore, this study accepts the sub-hypothesis (H_{1-2}), which says that there is a statistically significant impact at the significance level (0.05 ≥ α) of the internal auditors' independence on the QFRs among Libyan commercial banks. Table 11 presents the relationship between the banks' productivity development on the QFRs

Table 11 : The relationship between the banks' productivity development on the QFRs

Coefficients[a]							
Model		The Value of (f)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		32.226	B	Std. Error	Beta		
1	(Constant)		1.224	.340		3.601	.000
	Banks' Productivity Development		.478	.084	.314	5.677	.000
a. Dependent Variable: The QFRs							

Table 11 shows that there is a statistically significant relationship at the level of significance (0.5 ≥ α) between the banks' productivity development and the QFRs, where the statistical function was (0.000), which is less than (0.05), and the value of the (F) value is (32.226). Hence, the sub-hypothesis (H_{1-3}), which says that there is a statistically significant impact at the significance level (0.05 ≥ α) of the banks' productivity development on the QFRs among Libyan commercial banks was accepted. Table 12 presents the moderating role of the IASs on the relationship between the internal auditor' role and the QFRs

Table 12 : The moderating role of the IASs on the relationship between the internal auditor' role and the QFRs

Coefficients[a]							
Model		The Value of (f)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		42.692	B	Std. Error	Beta		
1	(Constant)		.659	.310		2.124	.035
	The RIAs		.382	.068	.351	5.626	.000
	IASs for auditing		.265	.094	.176	2.818	.005
a. Dependent Variable: The QFRs							

Table 12 displays that there is a statistically significant relationship at the level of significance (0.5 ≥ α) for the moderating role of the IASs on the relationship between both the RIAs and the QFRs, where the significance value was (0.000) for the RIAs, and (0.005) for international standards as a moderating variable as they both are less than (0.05), and the value of the (F) value is (42.692). Therefore, this study accepts the second main hypothesis (H_2), which says that there is a statistically significant impact at the significance level (0.05 ≥ α) of the moderating role of international auditing standards (attributes and evaluation standards) on the relationship between the RIAs on the QFRs among Libyan commercial banks. Table 13 presents the moderating role of attribute standards on the relationship between the RIAs and the QFRs

Table 13 : The moderating role of attribute standards on the relationship between the RIAs and the QFRs

Coefficients[a]							
Model		The Value of (f)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		41.018	B	Std. Error	Beta		
1	(Constant)		.602	.370		1.629	.104
	The RIAs		.400	.069	.368	5.832	.000
	Attribute standards		.258	.112	.145	2.297	.022
a. Dependent Variable: The QFRs							

Table 13 shows that there is a statistically significant relationship at the level of significance (0.5 ≥ α) for the moderating role of attribute standards on the relationship between the RIAs and the QFRs, where the significance value was (0.000) for the RIAs, which is less than (0.05), and (0.022) for attribute standards as a moderating variable, which is also less than (0.05), and the value of the (F) value is (41.018). Therefore, this study accepts the sub-hypothesis (H_{2-1}), which states that there is a statistically significant impact at the significance level (0.05 ≥ α) of the moderating role of attribute standards on the relationship between the RIAs (planning, independence, banks' productivity development) on the QFRs among Libyan commercial banks. Table 14 presents the moderating role of evaluation standards on the relationship between the RIAs and the QFRs

Table 14 : The moderating role of evaluation standards on the relationship between the RIAs and the QFRs

Coefficients[a]							
Model		The Value of (f)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		46.576	B	Std. Error	Beta		
1	(Constant)		.763	.254		3.004	.003
	The RIAs		.379	.063	.349	6.038	.000
	Evaluation Standards		.252	.067	.217	3.758	.000
a. Dependent Variable: The QFRs							

It is displayed in table 14 that there is a statistically significant relationship at the level of significance (0.5 ≥ α) for the moderating role of evaluation standards on the relationship between the RIAs and the QFRs, where the significance value was (0.000) for the RIAs, which is less than (0.05), and (0.000) for evaluation standards as a moderating variable, which is also less than (0.05), and the value of the (F) value is (46.576). Therefore, this study accepts the sub-hypothesis (H_{2-2}), which states that there is a statistically significant effect at the significance level (0.05 ≥ α) of the moderating role of evaluation standards on the relationship between the RIAs and the (planning, independence, banks' productivity development) on the QFRs among Libyan commercial banks.

CONCLUSION

This study revealed that financial reporting quality is impacted by internal audit function dimensions. Furthermore, a statistically significant moderating effect from IAS auditing standards on the relationship between independent and dependent variables was discovered. These results align with prior work (Nurunnabi et al., 2020).

It is crucial to emphasize, as stated by Elmghaamez and Ntim (2016), Libyan commercial law and regulations require public companies to establish internal audit departments led by directors and fully adhere to standards including planning, independence, and productivity development. External auditors must also review financial statements of Libyan public banks mostly for tax purposes.

The Libyan government established standards-setting bodies like the Libyan Society of Accountants and Auditors in 1975 and enacted the Legal Law of 1996 mandating the Auditor General to audit public entities including banks. Auditors must register with the Institute of Chartered Accountants per the 1973 Law prior to duties and comply with IASs for accounting and auditing. Hence, it can be concluded the auditing role is an essential factor enhancing Libyan bank productivity as mandated by Libyan context and regulations. Strengthening this function could benefit financial reporting quality across the banking sector.

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