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The auditors perception on the quality of financial reporting in Libyan banks

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Abstract
This study is conducted to investigate the perception of auditors about reporting quality in Libyan's banking sector. Reporting quality presents information to the user which is free from any biases and errors presenting a fair picture. Overall results show that auditors perceive good reporting quality in Libyan banking sector with most of the annual reports containing the qualitative characteristics of faithfulness and understandability for the users of the accounting information.

Keywords: Auditor's Perception, Quality of Financial Reporting, Libyan Banking Sector

Introduction

Organizations are require to publish annual report at the end of financial year as a source of information to investors and many other related parties (Lee and Tweedie, 1975) [14]. Stakeholders use this information for making effective decision making and efficient allocation of resources (Knippenberg, Dahlander, Haas & George, 2015) [24]. These annual report consist of both financial and non-financial information for the stakeholders. As stakeholders, use these annual reports for economic decision making, therefore these reports must contain quality element in terms of reporting (Mirshekary and Saudagaran, 2005) [16]. These reports should be designed to fulfill the needs for making effective decision making. Different stakeholders use this information differently according to their needs and requirements (Pijper, 1993) [21]. So the quality of financial reporting is very essential in any financial market for making efficient resource allocation and effective decision making. Banks play an important role in economic development of any country via advances credit to different sectors of the economy, financing individuals to set up their business, project financing and foreign credit and investment facilities (Central Bank of Libya, 2006) [6]. According to Libya government article 51 of 1993, the key role of banks is to provide credit to developmental projects and finances to corporations for economic projects (Libyan Government 1993) [9].

By considering the important role played in economic development by this financial institution and the current developmental and progressive environment of banking sector in Libya, it is important that stakeholders must be confident on reporting quality of these banks. In this domain auditors play an important role in maintaining the quality of financial reporting (Alrshah 2015) [3]. In Libya, auditing practices are based on Law No. 116 developed in 1973 and is based on American and British accounting standards. These regulations have been issued by the Government of Libya. In this study different perceptions and opinions of auditors regarding the reporting quality of Libyan will be investigated

Literature Review

Libya is the developing Arab country and is ranked as fifteenth largest state in the world (Otman & Karlberg 2007) [20]. The period of 1956 was the most important period in the development of banking sector in Libya. After the formation of Bank of Libya, drastic changes have been made in banking system and its operations. The development of banking rules and regulations and new laws related to services, products, operations and functions were also established after the era of 1956 (Hamuda 2014) [11]. The era of 1970 is considered to be the most initiative era in the banking history of Libya because of the introduction and

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Development of nationalization and liberalization practices and regulations in banking system John and Bruce, (2014) [22]. The outcome of these liberalization rules is the entry of foreign banks like BNP Paribas of Europe and Arab Bank of Jordan started their operations in Libya. They also implemented and adopted the Basel Committee on Banking Supervision's Accord for sound financial system and mitigating risk via capital adequacy management Michael and Sinclair (2003) [13]. This liberalization and adoption of BASEL have generated competitive environment for domestic banks and generated an opportunity to grow in a sound banking system. Corporate governance practices and regulations help these banks to grow large and perform positively in terms of profitability and to sustain in the competitive environment (Abdulsaleh, 2010) [1]. Currently there are sixteen banks currently working in Libya but s ninety percent assets are held by four major banks (Central bank of Libya, 2016).

Quality and reliability of financial reporting is an emerging issue of corporations since industrial revolution and has gained much importance since financial crisis (Taylor, 2003) [23]. FASB (2006) [7], define reporting quality as the information which is free from any biases and errors and represent a fair picture to end users. Bribesh (2006) [5]. stated that quality of financial reporting consists of relevance of information, information should be complete and whatever the information is presented it must be reliable and understandable for decision making. Obaidat (2007) [19]. categorized the quality of financial reporting as reliability and must contain the factors of neutral and faithfulness. The persuasiveness or quality of audit evidence depends on the reliability of its source (Gronewold, 2006; Missah, 2008) [10, 17]. According to Goodwin (1999) [8]. the independent source is perceived by the auditor as more credible than the non-independent source, but to confirm the reliability of this source, the source should be known to the auditor.

Nasser et al. (2003) [18]. conducted a study to investigate the perception of users of annual reports in Kuwait. They found that users of financial reports consider annual reports as the vital source for decision making with income statements and balance sheet as the most important source of information. Abu-Nassar and Rutherford (1996) [2]. conducted a study in Jordan to investigate the opinion annual reports users as a source of information for effective decision making. They concluded that users consider annual reports as an important tool for decision making and also found that users read some of the important information from annual reports and don't go for a thorough review of these reports due to information need and lack of understandability. The participants have given more importance to auditor's report in terms of reliability in annual report contents giving more weightage to the auditors perception about the report and the quality of reports Based on the literature, the auditors' perceptions about the financial reporting by the Libyan Banks have been examined in the study.

Methodology
Variables and Hypothesis Development
The study is based on primary data gathered from auditing firms in Libya using questionnaires for the measuring the quality of reporting in terms of relevance, faithfulness and understandability following (Alrshah, 2015; IASB, 2008) [3, 12].

Relevance means to what extend information presents in financial reports capable decision maker to use for investment decision making. This relevance is measured by the construct of ability of future of forecast, disclosure of opportunities and risks and fair value of company. So our first hypothesis is that;

H1: Annual reports contain relevant information for decision makers.
Faithfulness represents that financial reporting must be error free, neutral and complete from end user's perspective. The constructs include information should be free from biases, neutral, and unqualified reports of auditor. So our second hypothesis is that;

H2: Annual reports present faithfulness in terms quality of reporting.
Understandability refers to information which is categorized as clear and concise and the user can learn the meaning of the information. The constructs includes organization of financial information presented in annual reports, presentation via tables and charts, and use of easy words in reporting. So our last hypothesis is that;

H3: Annual reports of Libyan banks are understandable to users.

Econometric Model
Quality of Reporting $= \alpha 0 + \beta 1 REV + \beta 2 FTH + \beta 3 UND + \varepsilon$
REV= Relevance of Information
FTH = Faithfulness of the information
UND = Understandability of Information
ε = Error term

Data Collection and Sampling
We used the approach of questionnaire survey of three hundred auditors who are involved in auditing practices in Libya. We used personally administered questionnaire technique for data collection in order to ensure the improved and complete response rate. The first part of the questionnaire is related to demographics of the auditors i.e. experience as auditor, education, and gender. The second part is related to the opinion of auditors regarding the quality of financial reporting in Libyan banks. For this purpose likert scale is designed to find the perception on auditors regarding relevance, faithfulness and understandability of financial statements as a measure of quality (reference again). We used random sampling approach in data collection where sample represents 68% of total population of Accountants and Auditors Association of Libya. The analysis is performed by using SPSS.

Results and Discussion
Demographics
Descriptive statistics is used to find the demographic characteristics of auditors in Libya as participant of the current study. The demographic include education, experience and gender. Fifty eight percent of respondents are having master degree and rests are bachelors and intermediate level (see table 1). Majority of the auditors are middle carrier auditors in Libyan market having experience of 3-9 years and only 11 percent are having experience of above 20 years (see table 2). Interesting results are found in gender as only 5.67% auditors are female and rest is dominated by males (see table 3).

Table 1: Qualification of Auditors in Libya

Qualification	Number	Percent
Masters	176	58.67 %
Bachelors	85	31.63 %
Intermediate	41	31.66%
Total	300	100%

Table 2: Year of Experience

Years of Experience	Number	Percent
Less than 3 Years	61	20.33%
3-9 Years	156	52%
10-19 Years	50	16.67%
Above 20 Years	33	11%
Total	300	100%

Table 3: Gender profile

Gender	Number	Percent
Male	283	94.3%
Female	17	5.67%
Total	300	100%

Descriptive Statistics

Table 4 explains the descriptive for the first variable measuring the quality of reporting in Libya i.e. Relevance. Relevance is measured via three constructs related to ability of reports to forecast future, disclosure of opportunities and risk, and fair value of the company. The mean value of overall score of relevance is 2.90 on 5 scale likert scale, shows less level of relevance of financial information from auditor's perspective. According to auditors information disclosed in financial reports does not make user to be able to use this information for future forecasting. Another issue is that information contain in annual reports does not represent company fair value with a mean value of 2.35.

Table 4: Relevance test

Constructs	Item	Mean	S. Deviation	Min	Max
R1	Ability to Forecast Future	2.80	0.76	3	5
R2	Disclosure of Opp. And Risk	3.56	0.48	4	5
R3	Fair value of company	2.35	0.40	2	3
	Total	2.90	0.54	3	4.33

The constructs of faithfulness includes that information should be free from biases, information in annual reports should be neutral, and must be complete for decision making. The overall mean score of faithfulness which is 3.96 shows that auditors perceive that annual reports are fulfilling the faithfulness and are representing quality. The highest mean value is 4.12 related to information is complete for decision making. The annual reports are also free from biases as the mean value is 3.80 and the information is also neutral with a mean value of 3.97. So information in annual reports is faithful.

Table 5: Faithfulness test

Constructs	Item	Mean	S. Deviation	Min	Max
F1	Information is free from biases	3.80	0.35	4	5
F2	Information is Neutral	3.97	0.39	4	5
F3	Information is complete	4.12	0.60	4	5
	Total	3.96	0.44	4	5

The constructs of understandability includes the organization of financial information presented in annual reports, presentation of information via sufficient tables and charts, and use of language in reporting. The mean value 3.5 of organization of information shows that information is well organized in annual reports for users. The highest mean value is 3.86 of use of sufficient charts and tables in annual reports shows that these charts and tables are helpful for understanding information presented. These banks use easy language and words s that users can understand it easily is also witnessed by a mean value of 3.70. The overall mean score of understandability shows that the information contains in annual reports is having the characteristics of understandability.

Table 6: Understandability test

Constructs	Item	Mean	S. Deviation	Min	Max
U1	Information is well organized in financial reports	3.5	0.57	4	5
U2	Sufficient charts and tables are available for understanding	3.86	0.54	4	5
U3	Language of reports is easy for user to understand	3.70	0.46	4	5
	Total	3.68	0.52	4	5

The overall results shows that the quality of annual reports is good in banking sector of Libya in the perception of auditors. But the relevance score is not satisfactory as compare to faithfulness and understandability. Our results are in line with the findings of (Beest, 2009) [4].

Regression Analysis

Regression analysis allows in predicting the value of dependant variable from independent variables so we have applied the regression analysis. The result shows that faithfulness is highly significant and positively related to quality of reporting with a significance level of 0.000 and a coefficient of 0.10 shows the positive relationship. Relevance is positively related but this variable is insignificant. The understandability is also significant and is positively related to quality of reporting in Libya. The overall model has a R^2 of 0.456 shows the explanatory power of the model and is within the acceptable range (Gujrati, 2003).

Table 7: Regression Analysis

Variable	Standard Coefficients Beta	t-Value	Sig
C	0.391	1.7	.092
REV	.010	.26	.789
FTH	0.267	4.6	.000
UND	0.169	3.2	.001
R^2	0.456		0.456
Adjusted R^2	0.442		.325

Conclusion and Recommendations

The Libya is a developing country of Arab and the importance of quality of financial reporting is very important especially in developing countries. The opinion of auditors is very important in terms of the current reporting quality as they are involved in auditing services and have reporting knowledge. We found that auditors perceive that the reporting quality is very good in Libyan's banking sector. The auditors perceive that mostly annual reports having the qualitative characteristics of faithfulness and understandability for the users of the accounting information. It is observed that financial reporting in Libyan banking sector lack the element of relevancy, which reduces the quality of reporting in this market. The authorities are require to look into this particular phenomenon and to come up with new regulations and policies to overcome this issue to make Libyan market more efficient and effective. Furthermore, there is need of fair representation of company value as the results suggest the lack of fair value of market, so the Accounting and auditing associations in Libya should play important role to overlook these unfair presentations and make sure the compliance of accounting standards in this regard. This study has many limitations as we have only used auditors perception regarding quality of financial reporting, the results can be different if researcher focus on other end users. This study is purely survey based but different results can be obtained if researchers use reporting data of annual reports and compliance to accounting standards.

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