

DOES AUDIT EVIDENCE TYPE EFFECTS ON QUALITY OF AUDITOR'S OPINION?

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Abstract

This paper investigates the extent of sufficiency and appropriateness of audit evidence obtained by auditors in the Libyan context. Particularly, this study examines the effects of the types of evidence on the quality of auditor's decision.

A questionnaire was used to collect data regarding the perceptions of the external, internal, state and taxation auditors on the effect of evidence type on auditor's decision. To confirm and support the questionnaire findings semi-structured interviews were conducted with four target group.

The results of the study indicate that evidence type has an impact on auditor's report. The research makes a significant contribution to knowledge and practise in the auditing field in emerging countries. This is especially important given the changing economic climate in Libya and findings from this research can be applied to other emerging economies.

Keywords: Libya, Audit Evidence, ISA 500, Auditor's decision, Type of Evidence

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1. Introduction

This paper investigates the extent of the sufficiency and appropriateness of audit evidence used by Libyan auditors as part of the auditing process. There are a number of reasons why this paper is necessary. First, emerging market economies are becoming more integrated into the global economy as a whole and have become more important to investors worldwide in recent years. The share of global economic output generated by emerging markets is currently just below 50 percent and rising (Francis and Wang, 2008). This has highlighted the increasing importance emerging market economies are playing in the global business environment and signals a need for additional academic research that investigates the audit process in these countries (Michas, 2010). Prior to the 1960s, the Libyan economy was predominately agricultural. With the development of the exploration for oil and gas (hydrocarbon) into full production facilities the economy of Libya changed. The income from oil was used to support the provision of infrastructure services and facilities (Salama and Flanagan, 2005). This provision of infrastructure and communication of ideas with the rest of the world was constrained during the political challenges of the United Nations [UN] sanctions due to Libya's isolation from the rest of the world (Salama and Flanagan, 2005; UN, 2007). The UN sanctions on Libya finally lifted in 2003 and as a result the national economy underwent rapid change (UN, 2007).

While the external national politics was effecting the development of Libya, there have also been some

major internal changes to Libya's economic structure and policies in the last twenty years (Almajberi, 2003; Zakari and Menacere, 2012).

With the political infrastructure changes there has been a move to alter the economic structure of Libya. One of the reasons why the Libyan government has adapted its policies and is encouraging the development of new industry sectors is the realisation that the economic structure was too dependent on the oil revenues and these were finite (Fayad, 2006). An indication in the change in government policy can be found in the Development Plans which have been introduced since 2001 according to Fayad (2006). To encourage the move from state ownership and development of privatisation the General People's Committee [GPC] has undertaken a number of legislative changes which has included the establishment of the Libyan Stock Exchange [LSE] (GPC, 2005).

The establishment of the LSE was an important policy action to encourage foreign investors to participate in the Libyan economy, allowing foreign banks such as Hong Kong and Shanghai Banking Corporation [HSBC], and other international financial businesses such as audit firms. As a result of the changing economic policy there was entry into the Libyan accounting environment of PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst and Young and KPMG. These large multinational firms are collectively known as the Big 4 of international accountancy, auditing and professional service firms and all have opened branches in Libya (Alfajori, 2007; Faraj and Akbar,

2010). Due to the presence of the Big 4 companies and their activities along with the LSE and foreign investment there has been an increased number of financial information users in recent years in Libya and, as a result, the importance and reliance on the auditor's report has increased in significance. All of the changes to the economic environment have generated the need to investigate the use of audit evidence practices by professional auditors within Libya and the results of this study aims to improve the professional activities of Libyan auditors, audit firms and regulators.

The adoption of IASs, IFRSs and ISAs by the developing countries is not only imperative (Faraj and Akbar, 2010), but also required in order to access the capital markets at the global level. It is an international trend, which is recognised as 'best practice' around the world (Obaidat, 2007). In addition, the adoption of IASs, IFRSs and ISAs had become a significant global phenomenon (Al-Hussaini et al., 2008). Richter Quinn (2004) concluded that accounting and financial information originating from developing countries is still difficult to trust, despite the urgent need for these countries to attract foreign investment and foreign capital, and despite the pressing demands from individual and institutional investors, lending institutions, and multinational agencies. Some developing countries have taken the initiative to adopt IAS, IFRS and ISA such as Jordan, China, Poland and the United Arab Emirates [UAE] or adapt them to their particular reality as observed in Egypt. This process is expected to improve the quality and credibility of accounting and auditing information and develop the flow of capital and investment, resulting in economic development. Libya, as a developing country, aims to be part of the global economy and it is suggested by Obaidat (2007) that developing countries should adopt the international standards such as ISAs, IASs and IFRS. Libya at this point in time has not adopted any of the current international standards in auditing or accounting practices (Faraj and Akbar, 2009). Therefore, this paper will focus on International Standard on Auditing No.500 "Audit Evidence".

Another reason why the researcher wanted to carry out the study was that the majority of studies, which investigate audit processes and practices, tend to be related to developed countries. As a result there are only a limited number of studies which address the issues that developing countries have in attempting to improve their professional accountancy and auditing practices and the challenges that policy makers along with local professional bodies encounter (Dixon et al., 2006; Pratten and Mashat, 2009; Michas, 2010). Blay et al. (2003) highlight the concerns that investors and stakeholders have in relation to risk and their capital. Libya with its past political world history, the rapid economic developments and the increasing presence of multinational organisations participating within its

growing economy will face similar issues that other developing nations have faced as a result of globalisation and the open market structure. Harrison et al. (2001), Pratten and Mashat (2009), Faraj and Akbar (2010), Michas (2010) and Siddiqui (2010) all stress the need that there needs to be further studies about auditing in developing countries. Kalel (2000), Glover et al. (2004) and Jarboh (2006) all draw attention to the specific need to focus on audit evidence in particular relating to the quality and quantity of evidence utilised to complete the professional opinion report.

Audit evidence is information that provides a factual basis for the audit opinion. It is the information documented by the auditors and obtained through observing conditions, interviewing people, examining records, and testing documents (Kaptein et al., 2009; Agoglia et al., 2009). This information can come in many different forms such as documents or oral information, from many different sources such as the accounting system of organisation which is being audited, and may be obtained in several different ways such as observation or inspection (Marris, 2010). This objective will study the type of evidence and extent of its quality. Therefore, this paper will address *does type of audit evidence effects on quality of auditor's decision?*

The remainder of this study is organised in 7 parts. Section 2 critically reviews the literature on audit evidence type. The methods utilised to examine the research question are provided in section 3. Section 4 reviews Libyan Context. Section 5 presents the results of the data obtained from the study questionnaire and interviews. Then, the paper discusses the results of the empirical study. The next section provides the conclusion.

2. Literature Review

The crux of audit work is the collection and the evaluation of evidence (Abou-Seada and Abdel-Kader, 2003; Rittenberg et al., 2009). Auditing standards suggest that the auditors should obtain evidence to support their opinions (IFAC, 2010) and it is also argued that audit evidence is the substance of the audit process (Soltani 2007).

In 2010, the International Auditing and Assurance Standards Board [IAASB] updated two standards in relation to audit evidence (IFAC, 2010). These two standards are: International Standard on Auditing No. 500 'Audit Evidence' and International Standard on Auditing No. 501 'Audit Evidence-Additional Considerations for Specific Items' (IFAC, 2010). The ISA 500 requires the auditors to meet an expected minimum standard in relation to the audit evidence that they gather and base their professional opinion upon (IFAC, 2010). The second standard, ISA 501 provides additional guidance to support ISA 500 so that auditors have examples along with defined testing criteria for specific items (IFAC, 2010). The

specific items discussed in ISA 501 include evidence for financial statements account balances and disclosures (IFAC, 2010).

Audit evidence is dependent on information that provides a factual basis to enable the auditor to develop an audit opinion. Kaptein et al. (2009) and Agogliaet al. (2009) state that auditors document a range of information types that provide evidence to support their opinion. It is the information documented by the auditors and obtained through observing conditions, interviewing people, examining records, and testing documents (Kaptein et al., 2009; Agogliaet al., 2009; Marris, 2010).

The different types of audit evidence can be classified as being: physical evidence, oral evidence, documentary evidence, confirmations (third-party representations), and analytical procedures (Aldhizer and Cashell, 2006; Payne and Ramsay, 2008; Zhang et al., 2009; Pany and Whittington, 2010; Janvrin et al., 2010; ISA 500, 2010). Most these studies analysed each type of evidence separately, discussing peculiarities, exceptions, special factors that influence reliability, and then describe certain situations, in which evidence is either more or less reliable.

2.1 Physical Evidence

Physical evidence is described by Gray (2008), and Oprean and Span (2009) as the inventory or the examination of the quantitative existence and qualitative status of the tangible assets (stocks and cash) and other items reflected in the balance sheet (licenses, patents, trade effects, securities, and others). Physical examination is useful for verifying the occurrence of production operations making or receiving of goods and execution of works (Gray, 2008; Pany and Whittington, 2010). The Inventory process and physical examination of tangible assets provide conclusive audit evidence or a high probative force (Oprean and Span, 2009). According to Jarboh (2006) and Joshi and Deshmukh (2009), physical evidence provides reliable audit evidence with respect to existence. However, it cannot provide sufficient evidence about the ownership of goods (rights and obligations) or on the valuation of these assets (historical cost, realizable value or recoverable amount) (IFAC, 2010, ISA 500).

2.2 Oral Evidence

Oral information obtained by interviewing different people within the entity or beyond, who know well enough the conditions and other specific issues that have developed audited transactions and operations, is widely used as primary evidence in auditing (Gray, 2008; Marris, 2010; IFAC, 2010, ISA 500). Oprean and Span (2009) point out that oral evidence is frequently used in audits by auditors to obtain specific knowledge of the entity, its working environments and to review internal control. The interview is a

procedure commonly used by auditors in order to obtain particular knowledge of the entity, its environment including internal control and may take the form of free discussions of informal or formal writing interview (Oprean and Span, 2009). However, it alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls (IFAC, 2010, ISA 500). Thus, under International Standard on Auditing No. 330 'The Auditor's Responses to Assessed Risks', professional scepticism should be applied during inquiries of management and employees.

2.3 Documentary Evidence

Documentary evidence has traditionally been defined as paper based information and recently this definition has been refined to include any type of recorded information such as a computer or video or audio (Gray, 2008; Jarboh, 2006; Agogliaet al., 2009; Marris, 2010). Documentary evidence is described by ISA 500 (2010) and Joshi and Deshmukh (2009) as a reliable form of evidence. The ISA 500 (2010) states that "documents that have not passed through the client's organisation are usually considered the most reliable ones, followed by those created outside that are in the possession of the client. However, those that were prepared inside the client's entity are considered the least reliable ones" (IFAC, 2010: Para.7).

The degree of credibility of this type is dependent on the independence and objectivity of the document's source, and the effectiveness of internal control (Ross and McHugh, 2006; Oprean and Span, 2009). External documents such as confirmations form third parties are more credible than documents created inside the entity (IFAC, 2010, ISA 500). Prior literature related to auditing evidence (Ross and McHugh, 2006; Gronewold, 2006; Marris, 2010) and ISA 500 (2010) advised the auditor to consider the independence, integrity and reliability of the source of documents, the effectiveness of the control, and the method of delivery (direct or indirect), and the form of documents (original or copy) when s/he is evaluating the sufficiency of this type of evidence.

2.4 Confirmations

Confirmation is an interview process which is directly obtained from third parties such as customers, banks and other business partners. According to Janvrin et al. (2010) confirmation can consist of some written statements as a result of requests made to third party organisations and individuals such as lawyers' letters and specialist reports (Gray, 2008; IFAC, 2010, ISA 505). Client's confirmation and other claims by debtors is a costly procedure and creates some inconvenience to third parties (Allen and Elder, 2001; Hammami and Fedhila, 2009). However, the

requested answers for confirmations are received directly from independent sources of the audited entity and, therefore, they are considered reliable audit evidence (Oprean and Span, 2009; Caster *et al.*, 2008; Marris, 2010).

The current international audit confirmation standard, ISA 505 'External Confirmations' was recently revised and updated (IFAC, 2010). According to this standard, confirmatory applications take several forms such as positive and negative forms (IFAC, 2010, ISA 505), each of them have some advantages and disadvantages. For example, confirmation received from third parties can represent audit evidence regarding the existence and accuracy of accounting, but does not provide sufficient evidence of accounting or completeness on the debtor's solvency to enable to the recoverability of receivables (Oprean and Span, 2009).

Examining the audit confirmation process is important since confirmations are commonly used in the audit process and are often perceived to be one of the more persuasive forms of audit evidence (Janvrin *et al.*, 2010). However, in Bahrain, Joshi and Deshmukh (2009) identified that auditors had difficulties in gathering confirmations from third party organisations and issues in the trustworthiness of third party information providers.

2.5 Analytical Procedures

In 2010, the International Federation of Accountants Committee [IFAC] updated International Standard on Auditing [ISA] No. 520 'Analytical Procedures'. This standard aims to guide the auditor when s/he performing analytical procedures. According to this standard, the term analytical procedure means "Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data" (IFAC, 2010: Para. 4). Analytical procedures also include investigating the fluctuations that are not consistent with other relevant information or that deviate from expected values (Oprean and Span, 2009). The purpose of substantive analytical procedures is to obtain assurance that accounts are fairly stated, detect fraud and error in transactions and account balances, and provide evidence about audit objectives (Harrison *et al.*, 2001; Arens and Loebbecke, 2000; Oprean and Span, 2009).

ISA 520 'Analytical Procedures' (2010) indicated that the analytical procedures assist the auditor when forming his/her opinion. For example, numbers, missing from the sequence may indicate incompleteness of the financial statements (IFAC, 2010). This assists the auditor to draw reasonable conclusions on which to base the auditor's opinion.

3. Study Methodology

Creswell (2009) indicated that the most common and well-known approach to mixing methods is the triangulation design. Creswell and Clark (2007: 18) state that:

"Triangulation research is important today because of the complexity of problems that need to be addressed, the rise of interest in qualitative research, and the practical need to gather multiple forms of data for diverse audiences".

Given the growing body of opinion favouring the use of multi-methods in obtaining or analysing data (Saunders *et al.*, 2009), triangulation was used in this study as a method for collecting and analysing study data.

To answer study question which is *does type of audit evidence effects on quality of auditor's decision?*, self-administered questionnaires were used to collect data concerning the perceptions of external, internal, state, and taxation auditors. Statistical analysis was undertaken on the resulting data.

To confirm and support the questionnaire findings semi-structured interviews were conducted with 12 Libyan auditors. This process enhanced and supplemented the questionnaire findings providing in-depth clarification and understanding of the effects that the type of evidence has on quality auditor's reporting. Content analysis tool was used to analyse the collected data from the interviews.

The first part of the questionnaire was designed to obtain some personal information of participants relating to their background. The second section was designed to gather the opinions of Libyan external, internal, state, and taxation auditors regarding the effects of evidence type on auditor's opinion. The third section of the questionnaire used an open question to enable the participants to provide the researcher with additional information which they felt would help the study and to identify any missing subject topics which should be considered when reviewing audit evidence and auditing practices.

A 5-point Likert-scale ranging from strongly undermines quality auditor's opinion to strongly enhances quality auditor's opinion was utilised to measure perceptions regarding auditor's opinion.

In this study the random sample method was used because there is a sample frame, and it was also more representative of the current Libyan auditor population (Sekaran, 2003). In addition, Hussey and Hussey (1997) indicated that a representative sample should be large enough to satisfy the need of the study and should be chosen at random and be unbiased. Thus, 70% of the external auditors at Libyan Accountants and Auditors Association [LAAA] and 80% of the state auditors at Institute of Public Control [IPC], and taxation auditors were included in the sample selected for this study. For the internal auditors, all auditors at 8 Libyan major banks were used as participants for the study sample.

Consequently, a sample size of 288 auditors was selected from the four target groups (81 external, 77 internal, 67 state, and 63 taxation auditors) out of the 387 auditors making an overall percentage of 74%.

4. The Libyan Context

4.1 History of Accounting Practice in Libya

When income tax was first introduced in 1923, accounting was at its starting point in Libya (Kilani, 1988). When this tax law was introduced Italian enterprises brought with them Italian accountants, but there was no evidence that Libyans practiced accounting during that period, as the Italian colonial authorities kept their accounting practices to themselves (Kilani, 1988; Abozyredh, 2007). Since the early 1950s, the development of the Libyan accounting profession has been significantly influenced by several factors. These include Libyan accounting education, accounting academics, international oil companies, international accounting firms, and, to some extent, rapid changes in the Libyan social, economic, political and legal environment (Kilani, 1988; El-Moghirbi, 2003; Central Bank of Libya, 2006).

The discovery of oil in the early 1960s provided the country with the financial resources to develop business activities leading to a significant growth of the economy (Ahmad and Gao, 2004). Accordingly, there were increasing needs from investors, creditors, business managers and governmental agencies for financial information and resulting accounting services. Subsequently, many foreign accounting firms from Egypt, the US and the U opened branches in Libya, predominantly providing audit services.

The accounting practice in Libya is influenced by four key factors of impact namely (Mahmud and Russell, 2003; Ahmad and Gao, 2004; Al-Badre, 2007; Alfajori, 2007; Pratten and Mashat, 2009; Zakari, 2013):

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

4.2 Accounting Education in Libya

Prior studies in accounting education conducted in Libya (e.g. Kilani, 1988; Mahmud and Russell, 2003; Ahmad and Gao, 2004) concluded that since most

university lecturers undertook their education at American universities, the accounting system has shifted from British oriented textbooks to American oriented textbooks. research has found that the main impediments to the development of accounting education in Libya are :(a) the outmoded accounting curricula and syllabuses; (b) the scarcity of modern textbooks and references in Arabic, (c) the lack of active professional societies, and (d) insufficient public knowledge of the role of accounting (Mahmud and Russell 2003).Furthermore, it is argued that Libya needs to plan strategically in order to modify and modernise both its accounting education and practice (Mahmud and Russell, 2003).

Research in accounting and auditing in Libya has been quite insignificant (Ahmad and Gao, 2004; Pratten and Mashat, 2009) With only a few staff members of accounting departments in the universities actively researching in this field and then only on a small scale (Abofars, 2008). Accounting and auditing research in Libya is conducted in two ways: firstly by publishing articles in the journals by academic accountants. The other way to conduct research in Libya is through the research project which is one of the requirements for either MSc or PhD degrees.

4.3 Libyan Accounting and Auditing Regulations

graduates from abroad, many Libyan-run accounting firms were established. As a result of the increase of accounting firms in both number and size, and the lack of regulation over accounting and auditing standards and practices, there was an urgent need to set up a professional body, to take the responsibility for developing a general framework of accounting and auditing. To meet the demand, *Accounting and Auditing Professions Law No. 116* was enacted in 1973 (Libyan State, 1974). This is the first law to develop the accounting profession and related areas in Libya. It covers (Libyan State, 1974):

- The establishment of the Libyan Accountants and Auditors Association [LAAA]
- Registration of accountants
- Exercise of profession
- Fees
- Pension and contribution fund
- Obligations of accountants and auditors
- Penalties
- General and transitional provisions

The LAAA was established in 1974 with the following objectives (Libyan State, 1974):

- a) To organise and improve the conditions of the accounting profession and to raise the standards of accountants and auditors professionally, academically, culturally and politically

- b) To organise and participate in conferences and seminars related to accounting internally and externally and to keep in touch with new events, scientific periodicals, lectures and so on
- c) To establish a retirement pension fund for its members
- d) To increase co-operation between its members and to protect their rights
- e) To take action against members who violate the traditions and ethics of the profession.

The primary professional qualification of accountancy in Libya is membership of the LAAA. Accountants who want to qualify as members must meet the following requirements (Libya State, 1974):

1. Hold Libyan nationality.
2. Have a bachelor's degree in accounting.
3. Have five years experience of accountancy related jobs in an accounting office after obtaining the bachelor's degree.
4. Be of good conduct, reputation and respectability, commensurate with the profession.

Accountants who are registered on the list of accountants in practice have the right to certify accounts and balance sheets of all types of firms and taxpayers. Registration with the LAAA ensures that an accountant or auditor has the accreditation to work in the private sector as a professionally accredited individual. Accounting firms in Libya, which are required to be licensed by the LAAA, can offer services in such areas as preparing financial reports, auditing, tax services, bankruptcy, management consulting, system design and installation (Libya

State, 1974). Because of a shortage of expertise and experience in many service areas, along with low demand from companies and organisations for other services, most of the public accountants are predominantly occupied in preparing and auditing financial reports. Other services are seldom provided (Buzied, 1998).

In 1988, Libyan State established the Institute of Public Control [IPC] by State Accounting Bureau [SAB] Law No. 7. The IPC is responsible for auditing all the state agencies, departments, organisations aided by or in receipt of loans from the government together with any other corporations to which the state contributes more than 25% of the capital (Libyan State, 1988).

The variation in professional registration body for Libyan auditors is highly likely to affect their professional perceptions based on the different rules and expectations that they have from the professional bodies (Ahmid, 2000). The IPC versus the LAAA division is likely to create variables based on the sectors that the auditors are individually focused upon (Haron et al., 2004; Michas, 2010; Lopez and Smith, 2010).

5. Analyses and Results

Table 1 and 2 demonstrate the means, frequency and percentage for evidence type items. The result of overall mean (3.24) indicated that opinion of auditors were perceived by participants to be enhanced when the type of evidence are original documents (item 2) and expert written representations (Item 4). The standard deviations ranged from 1.116 to 1.801.

Table 1. Means of evidence source items

<i>No.</i>	<i>The Statements</i>	<i>Mean</i>	<i>Std. Deviation</i>
1	There is oral information that is given to the auditor as audit evidence	2.35	1.801
2	The audit evidence is provided by original documents	4.83	1.348
3	The audit evidence is provided by copy documents	2.33	1.116
4	The auditor relies on the expert's written representation to determine quality, condition or value based on the physical evidence	4.17	1.310
5	The auditor obtains audit evidence from a single type	2.53	1.209
Overall mean		3.24	

Table 2. Frequency of type of evidence items

No	The Statements	STUAO		SLUAO		N		SLEAO		STEAO	
		No	%	No	%	No	%	No	%	No	%
1	There is oral information that is given to the auditor as audit evidence	68	36.4	34	18.2	44	23.5	33	17.6	8	4.3
2	The audit evidence is provided by original documents	0	0	0	0	8	4.3	15	8.0	164	87.7
3	The audit evidence is provided by copy documents	69	36.9	34	18.2	38	20.3	46	24.6	0	0
4	The auditor relies on the expert's written representation to determine quality, condition or value based on the physical evidence	0	0	3	1.6	34	18.2	79	42.2	71	38.0
5	The auditor obtains audit evidence from a single type	47	25.1	62	33.2	21	11.2	45	24.1	12	6.4
<p>Sample Size = 187</p> <p>STUAO = Strongly Undermines Auditor's Opinion (1) SLUAO = Slightly Undermines Auditor's Opinion (2) N = Neither (3) SLEAO = Slightly Enhances Auditor's Opinion (4) STEAO = Strongly Enhances Auditor's Opinion (5)</p>											

Three key points were discussed in the interviews in relation to the type of evidence and auditor's opinion used as audit evidence:

- Oral information given to the auditor used as audit evidence.
- Audit evidence provided by original or copy documents.
- Physical evidence.

With regard to oral information, all interviewees agreed that in some cases the oral evidence is less persuasive, sufficient, and appropriate in supporting auditor's report. In addition, they suggested that the auditor if they are relying on the oral information needs to ensure that this information is reliable and correct through other means. For example:

"I think that oral information collected to support and enhance internal auditors' report is very weak evidence, because it is not easy to keep it as material evidence. Thus, it is less persuasive than other material evidence" (Internal Auditor 7).

"In some cases, the oral evidence which I obtained was a key to finding out errors or bias in some accounts in the financial statements" (Taxation Auditor 11).

The second issue discussed in the interviews was original and copy documents. All interviewees agreed that documentary evidence has a high level of sufficiency and persuasiveness when it is original, legal, and without errors and biases. Ten interviewees stressed that original documents are more reliable than copies. Following are some quotations on these issues:

"In fact, accounting documents are a very important type of evidence to support auditors' opinions about the extent of the reliability and fairness of financial statements. From my experience, I think most external auditors of private firms rely on accounting documents in the majority of their decisions, after testing accounting and internal control systems" (External Auditor 3).

"As tax experts, we usually prefer to use accounting documents and records of companies as a basis to evaluate the tax. However, we should make sure that these documents are true and persuasive to evaluate the tax" (Taxation Auditor 10).

"Regarding accounting documents as audit evidence, the internal auditor should use the original documents, because they are legal and difficult to falsify. on the other hand, the copy documents could be used in some cases as evidence, but after checking them with the same

original documents to make sure they are correct" (Internal Auditor 7).

However, one interviewee explained that the type of document (original/ copy) used as evidence is not automatically enough to evaluate the level of quality of documentary evidence.

"From my past experience, in some cases, I find out that the original documents which are used as evidence are incorrect or untrue" (Taxation Auditor 12).

For the last point, the majority of interviewees (11/12) explained that the expert's written representation to determine quality, condition or value based on the physical evidence was highly persuasive evidence. In addition, they suggested that the auditor should consider the source of written representations. If they are provided by state experts they have more integrity and reliability than if from a private expert.

"As tax expert, I completely rely on the state experts' report as evidence for some issues that need a specialists' opinion" (Taxation Auditor 10).

6. Discussion

6.1 Oral Evidence

When surveyed about oral evidence it appears that this type of evidence is not strongly supported as an evidence type as it appears the auditors perceive that it slightly undermines the auditor's opinion they collect through method (mean=2.35). The IFAC (2010) in ISA 330 *'The Auditor's Responses to Assessed Risks'* advises that professional scepticism should be applied during management and employee interviews. The interviewees provided additional confirmation and clarification about why Libyan auditors are not confident in oral information when they highlighted the need to consider the bias of the information providers along with confirming that it is primarily used to gather additional information and evidence about organisations that they believe have weak internal controls.

6.2 Documentary Evidence

The use of original documents as part of the audit evidence is strongly supported in the Libyan context (mean=4.83) while there is a reluctant or negative impression by auditors in relation to copy documents (mean=2.33). A total of 36.9% of auditors strongly believe that copies strongly undermine quality auditor's opinion. This approach to documents follows the literature of Ross and McHugh (2006), Gronewold (2006) and Marris (2010) who discuss the implications and need for documentary evidence to convince the auditor of its reliability. The interviewees (83.33%) emphasised the need to use original documents preferably to copies. While there was

triangulation agreement about the use of originals between the three sources, literature, interviewees and survey respondents again the taxation auditors added a codicil about original documents. It appears that the taxation auditors are aware of fraudulent originals and advise that all originals should be assessed for their persuasiveness and if they are true originals presenting valid and reliable information. When seeking clarification about the level of queries and why they query original documents, interviewee (Taxation Auditor 12) confirmed that from their experience they have encountered "... original documents which are used as evidence [that] are incorrect or untrue". This statement has potential implications for auditors about the detection of fraud and the level of corruption in official and external agencies. If official documents which according to Joshi and Deshmukh (2009) are difficult to fraudulently obtain then the question remains is there a high level of deviance currently in the Libyan system and this could explain the high levels of scepticism found in the Libyan taxation auditor perceptions and guidance about ensuring that additional verification is undertaken to confirm the details on the original document when it is used as supporting evidence in the audit report. The implications for practice is that additional research should be undertaken to discover the rate of deviance so that a range of procedural practices can be developed for Libyan auditors so that they can confirm the validity and reliability of the original document which is presented in the audit process.

6.3 Confirmations

The respondents of the survey believe that external written representation was perceived a strongly persuasive (mean=4.17) confirmation evidence source for the audit reports. The majority of interviews (91.67%) supported the persuasiveness of written representations. It was interesting to note that 100% of the taxation auditors rated the state expert report more highly than the private expert.

"As tax expert, I completely rely on the state experts' report as evidence for some issues that need a specialists' opinion" (Taxation Auditor 10).

This discrepancy in opinion and perception about official and original documents leads to some additional questions. Why would a taxation auditor be so sceptical about original document but be more willing to accept an official expert report from a state agency? Is it a case of respect of other professionals as seen in Anderson et al. (2001) or is because of another reason unknown at this stage. Additional research in to the taxation auditors has already been suggested in relation to their organisational culture and the effect of the environment has on their work

practices. Faraj and Akbar (2010) identified that further studies of organisational culture need to be undertaken in Libya and the region as this may be impacting on the development of Libyan auditing. It may be necessary to consider why there is such a difference between original documents and the expert report when future studies on deviance in the Libyan context or if there is a taxation avoidance culture is undertaken. To address the concerns about the potential that there is some deviance in the system it is important for auditors in practice assess the potential bias that expert representative may have through the use of guidance such as ISA 505 (2010). Janvrin et al. (2010), Marris (2010), Oprean and Span (2009), Caster et al. (2008) all emphasise that independent of the sources needs to be considered and that any response from an official entity should be directly obtained from the third party to the auditor.

7. Conclusion

The research sought to answer the question "does type of audit evidence effects on quality of auditor's decision?". The study results which were found from the questionnaire and interview respondents indicated that auditor's opinion or report have effected by evidence type. It appears that there is some trust issues between the different professional branches along with concerns about official documentation and the reliability of originals which are stamped and dated. This issue about the validity and reliability of original documents in the Libyan practice will required further investigation as it implies that there is potential issues that practitioners within Libya face that may not be occurring in more developed audit environments.

A number of contributions to audit evidence and auditor's report theory and practice are made through this research. Initially, it is important to note that most previous audit evidence studies are based on quantitative methods. However this research has used both quantitative and qualitative method to ensure that 'triangulation' occurred in order to gain a clearer picture of how audit evidence is sufficient and reliable in supporting the auditor's decisions. Thus, this research adds a broader dimension to current audit evidence literature by the use of an additional technique to support future studies.

Recently Joshi and Deshmukh (2009) investigated the reliability and validity of each type of evidence used by Bahraini auditors. The results of the survey part of this study confirmed the Joshi and Deshmukh (2009) study findings that physical and documentary evidence was more reliable than the other types of evidence which may be utilised such as oral evidence. Yet it was found in the interview process that within the Libyan context there is some questioning about the documentary evidence presented to the auditor.

This study found that there are potential deviance issues which need further investigation for clarification. Joshi and Deshmukh (2009) advise that official documentation is difficult to manipulate yet the respondents and interviewees indicated that they have concerns over official documentation. From the interviewee comments it appears that they have experienced official documentation which was questionable in its legality and thus they are more likely to seek additional confirmation about the information provided on official documentation.

The study also provided additional confirmation to the recent Faraj and Akbar (2010) which identified that further professional development of Libyan auditors needs to be undertaken including the implementation of International Standards on Auditing [ISA]. The study has provided additional evidence identifying the issues and conditions which need to be addressed and can be addressed by implementing the current best practice for auditors as contained in the ISA documents.

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