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Professional Standards for Internal Auditing and Its Role in Reducing Financial Corruption in Libyan Industrial Companies

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المعايير المهنية للمراجعة الداخلية ودورها في الحد من الفساد المالي فى الشركات الصناعية الليبية

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Abstract:
This study aimed to examine the role of internal audit standards (attributes and performance) in curbing financial corruption in Libyan companies. A descriptive-analytical approach was used. To achieve this objective, a questionnaire was distributed to external auditors. The study concluded that these standards (attributes and performance) of internal audit help in curbing financial corruption in Libyan companies.

Keywords: attribute standards, performance standards, financial corruption.

الملخص:
هدفت الدراسة إلى معرفة دور معايير المراجعة الداخلية (الصفات والأداء) في الحد من الفساد المالي في الشركات الصناعية الليبية من وجهة نظر المراجع الخارجي. وقد استُخدم المنهج الوصفي التحليلي. ولتحقيق هذا الهدف، تم توزيع استبيان على المراجعين الخارجيين. وتوصلت الدراسة إلى أن معايير المراجعة الداخلية (الصفات والأداء) تلعب دورًا في الحد من الفساد المالي في الشركات الليبية.

الكلمات المفتاحية: معايير الصفات، معايير الأداء، الفساد المالي.

Introduction:

The phenomenon of financial corruption is widespread in most countries, though it is more prevalent in developing countries than in developed ones. Recently, this phenomenon has attracted the attention of researchers due to the negative effects of financial corruption on the development process. Corruption also has a negative impact on the economy, as it drives up inflation and unemployment rates. Naturally, these economic consequences affect sustainable development in societies by undermining the quality of the education and health sectors, widening income disparities among social groups, and increasing poverty, which in turn affects crime rates, theft, and fraud. According to Transparency International's 2025 Libya ranks 177 out of 182countries and score13 out of 100 on the Corruption Perceptions Index 2025 (Transparency International's2025).

Previous studies:

There are several studies that have addressed internal auditing and financial corruption as Alfayi study 2023 the objective of this study was to examine the role of internal audit in combating corruption and abuse of power in the Kingdom of Saudi Arabia. To achieve this objective, the study employed an analytical approach based on a review of previous studies and sought to understand the importance of information technology and digital transformation in enhancing the effectiveness of internal audit and its role in combating corruption and abuse of power. The study's findings revealed that there are multiple definitions of corruption, all of which involve a breach of official duties or an abuse of power. This is where the importance of the internal audit function lies in governing mechanisms and procedures, managing risks, and oversight in general, in addition to serving as a tool for combating corruption in particular.

In 2006 Kent& Stewart conducted study aimed to investigate the extent to which Australian publicly listed companies voluntarily utilize internal audit and to identify the factors that led these companies to establish an internal audit function, the study utilized a questionnaire distributed to Australian companies listed on the stock market. It relied on the Institute of Internal Auditors' definition, which identifies internal control, risk management, and governance as factors encouraging the adoption of the internal audit function, the study found that only one-third of Australian companies utilized internal audit as a function in accordance with the Institute of Internal Auditors' definition, and that the primary factor behind this was company size. The most important findings of this study are: a strong relationship between internal audit and the internal control system, as well as a strong relationship between internal audit and the ability to manage risk; however, there is a weak relationship between corporate governance and the presence of internal audit within the company, And the study recommended strengthening the relationship between internal audit and the audit committee; it also recommended supporting the internal audit team with staff who are professional and competent, as many companies do not have sufficient staff to conduct internal audits in accordance with modern standards.

The study by Jantan, et al, 2005 aimed to determine the extent to which companies listed on the Malaysian stock market comply with the internal audit standards issued by the Institute of Internal Auditors (IIA), as well as to determine whether compliance with these standards affects the internal control systems in these companies. The results showed that the professionalism, competence, and objectivity of internal audit departments in companies listed on the Malaysian stock market significantly affect the effectiveness of their internal control systems. Furthermore, the scope of internal audit and the professional performance of internal audit departments influence the communication and reporting characteristics of the internal control system and the characteristics of the internal control system environment. This study also concluded that the management of the internal audit department, the performance of audit work, the internal audit plan, and the internal audit report significantly influence the risk assessment characteristics of the control system as well as internal control activities.

The study by Al-Mouife2025 aimed to examine the role of modern internal audit activities, (risk management, governance, and value-added) in reducing financial corruption in Libyan commercial banks. The study employed a descriptive-analytical approach and concluded that internal audit activities play an effective role in reducing financial corruption. It recommended that banks continue to strengthen the independence of internal audit, provide regular training for internal auditors on anti-corruption methods, and develop their digital skills in the audit process.

The study by Alina and Raluca 2018 aimed to identify the main role played by internal auditors in reducing corruption and bribery in the area of public governance. Risk mitigation begins at the top of the organizational hierarchy and requires a strong compliance environment and a well-established organizational culture, as well as the development and implementation of anti-corruption corruption. Public and private organizations have become more aware of bribery and corruption, and are attempting to combat them by adhering to international and regional conventions, best practice guidelines, and indicators and cases of perceived corruption. Combating corruption also

Identifying risks as a major global concern. The most effective way to combat it is through prevention, by developing and implementing ethical standards, procedures, and policies, executing processes, and establishing clear and robust laws.

In another study, Bahul2023 conducted a study aimed at analyzing the role of government auditing in combating corruption and promoting integrity in public administration in Nepal. He employed content analysis based on a systematic review of secondary literature drawn from various relevant sources, using content analysis as the primary research strategy. With regard to anti-corruption efforts, government audit. In Nepal has played a crucial role in both preventive and promotional efforts, as well as corrective measures. However, preventive measures are not always implemented. The findings indicate that government audit has a significant impact on combating Corruption through the Office of the Auditor General of Nepal. This study also revealed that the level of corruption and government performance had a significant impact on governance. However, this study indicates that the efficiency of the Auditor General should be improved to make him more accountable in identifying fraud and detecting corrupt activities.

The study's findings strongly supported strengthening good governance and utilizing government audits and their recommendations to enhance transparency and accountability in the Nepalese government, thereby benefiting political parties, governments, civil society organizations, and other stakeholders. We note that previous studies have not addressed the role of internal audit standards in curbing financial corruption; therefore, this study aims to examine the role of professional internal audit standards in curbing financial corruption within Libyan institutions from the perspective of the external auditor.

Financial corruption:

Corruption can take many forms, including embezzlement of public funds, bribery, and nepotism. The effects of corruption are long-lasting, leading to a loss of trust in government agencies, unequal distribution of resources, limited investment opportunities, stunted development, and increased poverty. According to Transparency International, 2000 corruptions is s the abuse of the official authority granted to him, whether in the realm of public funds or influence, or negligence in enforcing regulations and laws, or favoritism, or anything else that harms the interests of other parties. Furthermore, a 2000 report by Transparency International states that corruption is the abuse of power in a specific position to achieve personal interests at the expense of the public interest, including the issuance of decisions to obtain unlawful personal benefits without legal justification

Internal Audit:

According to the Institute of Internal Auditors (IIA, 2017), internal auditing is an independent and objective activity designed to provide assurance and consulting services, with the aim of adding value and improving an organization's operations. Internal auditing helps an organization achieve its objectives by taking a systematic and structured approach to evaluating and improving the effectiveness of its risk management, control, and governance processes.

Study problem:

The widespread corruption that has accumulated over the past decades has brought Libya to a dire state, a situation further exacerbated by post-revolutionary administrative chaos. Libya's ranking in the fight against corruption has declined, as evidenced by Transparency International's Corruption Perceptions Index reports, which reveal rising levels of corruption in the Libyan economy and a decline in the government's ability to combat it.

Libya ranked 177th out of 182countries in the 2025 Corruption Perceptions Index (CPI) and scored 13 out of 100 on the index (Transparency International, 2025). Scores range from 0 (high level of corruption) to 100 (high level of integrity) to 100 (very clean). This rank and score show that public sector corruption is rampant In Libya. This corruption stems from the weakness of regulatory bodies in combating it.

Therefore, the research problem boils down to understanding the role of internal audit standards in Libyan industrial companies in preventing financial corruption, given the effective role these standards play in curbing financial corruption through the activities carried out by internal auditors, which increase credibility, improve the conduct of company employees, and reduce the risks of financial and administrative corruption.

Research Hypotheses:

- **H_{01}:** There is no role of attributes standards in internal auditing in curbing financial corruption in Libyan industrial companies from the perspective of the external auditor.
- **H02:** There is no role of performance internal audit standards in reducing financial corruption in Libyan industrial companies from the perspective of the external auditor.

Methodology of the study:

In this study, a descriptive-analytical approach was used to examine the role of professional internal audit standards in curbing financial corruption in Libyan industrial companies from the perspective of the external auditor.

Population and Sample of the study:

The study population consists of audit offices in two municipals, totaling 60 offices. A random sample of 51 offices was selected, and 51 valid questionnaires were returned, all of which were suitable for analysis.

Data collection:

1. **Primary data:** The researcher has collected primary data through administered questionnaire to sample study.
2. **Secondary data:** Secondary data has collected from a periodicals, existing studies in the field

Data Analysis and Hypothesis Testing This part is divided into two Parts:

The first part deals with the demographic characteristics as qualification and years 'of experience, the second part focuses on the analysis and discussion of the data as well as the testing of hypothesis

1. Analysis of the Demographic characteristics:

The researcher deals in this paragraph with the exposition of the demographic characteristics of the sample respondents and drawn from general information paragraph contained in the questionnaire.

A. Qualification:

Table (1): Frequencies and percentages

qualification	frequency	percentage
Bachelor	18	35.3%
Master	17	33.3%
Ph.D.	16	31.4%
Total	51	100%

Source: Field survey

Table (1) shows that approximately 64.7% of respondents have high qualifications, masters and doctorate, while the rate of 35.3% belongs to holders of a bachelor's degree. This reflects a high and specialized qualification, and is an indicator reflecting that all respondents are qualified enough to understand the questionnaire items and answer them in a way that enhances the reliability of the opinions used in the analysis.

B. Years of experience:

Table (2): Frequencies and percentages

experience	frequency	percentage
Less 5 years	9	17. 6%
5-10 years	21	41.2%
10-15 years	10	19.6%
More 15 years	11	21.6%
Total	51	100%

Source: Field survey

It is evident from Table (2) that the majority of respondents have distinctive and long experience in the field of auditing profession as the number of those with over five years' experience is 42 chartered accountants, representing 82% of the total sample. This is appositive indicator that highly experienced individuals form a significant proportion of the total members of the sample, which enhances the scientific and practical capacity to absorb Questionnaire items.

2. Testing hypothesis:

First Hypothesis:

- **H_{01}:** There is no role of attributes standards in internal auditing in curbing financial corruption in Libyan industrial companies from the perspective of the external auditor. For the purpose of measuring the views of respondents to identify the role of attribute standards of the internal audit to reducing financial corruption the first axis of the questionnaire has devoted 11 paragraphs to inspect the views of auditors in this regard answers obtained have been summarized and the results have been statistically analyzed, as illustrate in the following table.

Table (3): arithmetic Means and Standard Deviations for Respondents' Views on the role of attribute standards of internal audit to facing financial corruption

S. N	statement	mean	St. deviation
1	The auditor maintains independence while doing his job	4.69	0.547
2	The internal auditor has the ability to make decisions without guidance from those who are affected by those decisions	4.14	0.960
3	The internal auditor is appointed and removed with the approval of the Board of Directors and the Audit Committee	2.53	0.946
4	The internal auditor performs duties with competence and professional attention.	3.90	0.500
5	The Head of Internal Audit notifies the Board of Directors of all findings.	4.00	0. 447
6	The internal auditor has sufficient expertise in internal audit standards.	3.98	0.510

7	The internal auditor's organization ensures that the internal auditor adheres to integrity and objectivity in the fulfilment of his duties and obligations.	4.12	0.516
8	The internal auditor has experience and expertise in the company's affairs, targets and problems.	4.20	0.601
9	An internal auditor can ensure compliance with the law and expose any violations of the law or conduct that brings the profession into disrepute.	4.25	0.595
10	There are clear guidelines that prohibit internal auditors from doing anything that would bring the profession or the company they work for into disrepute.	4.16	0.543
11	The Head of Internal Audit maintains a quality assurance and improvement program that covers all aspects of the internal auditor's activities	3.95	1.023

Source: Field survey

To test the validity of the hypothesis, a one-sample t-test was conducted at a significance level of [α=0.05] and on one side. Table 4 shows the results of this test and the statistical decision regarding the hypothesis.

Table (4): Result of T-Test of first hypothesis

hypothesis	mean	St. deviation	calculated value(t)	sig	d. f	result
H_{01}	3.96	0.3432	19.95	0.000	50	reject

Source: Field survey

Result of testing the First Hypothesis:

- **H_{01}:** There is no role of attributes standards in internal auditing in curbing financial corruption in Libyan industrial companies from the perspective of the external auditor.

H_{01}: u0 ≤ 3:

Since the overall arithmetic mean of the views of respondents is 3.96, which is higher than the middle hypothesis (3) which could be interpreted as rejection of the null hypothesis and acceptance of the alternative hypothesis.

To ascertain of the point that the mean obtained by the responses is substantially higher Than the measurement tool, the One Sample T- Test has been used. and table (4) above indicates it appears that the value of sigma is less 0.05 and we therefore reject the null hypothesis (H0) and accept the alternative hypothesis. **This means:**

There is a role for attributes standards in internal auditing in curbing financial corruption in Libyan industrial companies from the perspective of the external auditor.

Second Hypothesis:

- **H_{02}:** There is no role of performance internal audit standards in reducing financial corruption in Libyan industrial companies from the perspective of the external auditor.

For the purpose of measuring the views of respondents to identify the role of performance standards of the internal audit to facing financial corruption the second of the questionnaire has devoted 13 paragraphs to inspect the views of auditors in this regard answers obtained have been summarized and the results have been statistically analyzed, as illustrated in the following table.

Table (5): arithmetic Means and Standard Deviations for Respondents' Views on the role of performance standards of internal audit to facing financial corruption

S. N	statement	mean	St. deviation
1	Internal auditing in local companies aims to achieve administrative and financial controls	4.00	.0632
2	The Head of Internal Audit effectively manages audit activities to ensure that they add value to the company.	4.06	0.676
3	The internal audit function includes verifying compliance with financial and administrative policies and procedures, as well as compliance with laws and regulations.	4.08	0.688
4	Internal audit reports are among the most important tools that senior management relies on	4.08	0.595

5	Internal audit staff have a good understanding of the internal control system, its procedures, and its components	4.06	0.614
6	The internal auditor is able to convey his opinion without hindrance to the audit committee or the board of directors when he detects risks that affect the achievement of objectives	4.10	0.831
7	The auditor verifies that the company’s assets have been properly accounted for and are adequately protected against loss, theft, and misuse.	4.16	0.579
8	The auditor verifies that all company employees are adhering to the control policies and procedures established for them by the company’s management.	4.25	0.796
9	The internal auditor confirms that duties and responsibilities are separated among employees with regard to the retention, performance and accounting functions.	4.04	0.488
10	Internal auditors have the ability to detect fraud, manipulation, and misstatements in financial reports and statements.	4.00	0.632
11	The increased significance of internal auditing and performance assessment by internal auditors helps reduce financial corruption within the company.	4.08	0.560
12	The internal auditor detects and reports on irregularities that have occurred and proposes corrective action	2.67	1.291
13	The internal auditor's function from a financial is to ensure the accuracy of financial information that assists management in planning and decision-making.	4.51	0.579

Source: Field survey

To test the validity of the hypothesis, a one-sample t-test was conducted at a significance level of [α=0.05] and on one side. Table 6 shows the results of this test and the statistical decision regarding the hypothesis.

Table (6): Result of T-Test of the second hypothesis

hypothesis	mean	St. deviation	calculated value(t)	sig	d. f	result
H_{02}	4.006	0.4540	15.825	0.000	50	reject

Source: Field survey

Result of testing the second Hypothesis:

- **H_{02}:** There is no role of performance internal audit standards in reducing financial corruption in Libyan industrial companies from the perspective of the external auditor

H_{01}: $u0 \leq 3$:

Since the overall arithmetic mean of the views of respondents is 4.006, which is higher than the middle hypothesis (3) which could be interpreted as rejection of the null hypothesis and acceptance of the alternative hypothesis.

To ascertain of the point that the mean obtained by the responses is substantially higher than the measurement tool, the One Sample T-Test has been used. and table (6) above indicates it appears that the value of sigma is less 0.05 and we therefore reject the null hypothesis (H0) and accept the alternative hypothesis. This means:

There is a role for performance standards in internal auditing in curbing financial corruption in Libyan industrial companies from the perspective of the external auditor.

Conclusion:

Based on statistical analysis and hypothesis testing, **the following conclusions were reached:**

1. The results of the study showed that the attributes of internal audit play a role in curbing financial corruption in Libyan industrial companies.
2. Internal audit performance standards play a role in curbing financial corruption in Libyan industrial companies.
3. There is a role for the independence of internal auditors in curbing financial corruption in Libyan industrial companies.
4. There is a role for the internal auditor’s commitment to enforcing the law in curbing financial corruption in Libyan industrial companies.

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