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Towards an Effective Audit Committee Role in Corporate Governance in Libyan Banks: Composition Criteria and Membership Requirements

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Abstract
This study examines the criteria for audit committee composition and its membership requirements within the context of effective corporate governance in Libyan banks. Members of audit committees at Libyan banks, directors of internal audit departments, and members of board of directors at these banks in addition to a number of external auditors and academicians from Libyan universities were targeted by a structured questionnaire. The participants emphasized the importance of a well written charter stating the committee's responsibilities as an essential starting point. Other criteria considered important include quarterly regular meetings, sufficient size, non-executive chairperson and the committee to report to the board of directors regarding its duties and responsibilities. The results indicate that independent audit committee members with financial literacy and accounting expertise as well as banking business knowledge are significant ingredients to ensure an effective audit committee performing corporate governance. The findings provide regulators and researchers with a foundation upon which a model of audit committees' formation and structure in Libyan banks can be formulated.
Keywords: audit committee composition, membership requirements, corporate governance, Libyan commercial banks.

1. Introduction

As a result of the collapse of many large companies around the globe and the associated questions about the role of accounting and auditing in such collapses as in the case of the collapse of the American company of energy “Enron” and the role of the external auditor “Arthur Andersen”, and the legal proceedings against the company of “KPMG” with respect to the accounting and ethical issues at “Xerox” in the late 1990s, there has been an increasing importance of implementing corporate governance mechanisms.

Throughout the world in the past two decades the financial industry in general and the banking sector in particular has witnessed significant developments including the consolidation of institutions, the globalisation of operations, and the introducing of new technologies. Consequently, this has led to an increasing competition in the industry. On the other hand, altogether these developments are increasing risks in banking systems. Subsequently, the unpalatable outcome might be loss of confidence in the banking system with dire consequences for management of the economic. Therefore, adapting to these developments is not an option but an absolute necessity. One of the main weapons that banks are using to respond is implementing corporate governance mechanisms.

Corporate governance is defined as “the system by which companies are directed and controlled” (Cadbury Committee 1992, p. 15). Later in 1999 the Organization for Economic Cooperation and Development (OECD) introduced this definition “Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined” (OECD 1999). Accordingly, it can be said that the corporate governance concept relates to a wide range of activities, rules, guidelines, processes and procedures that aim to ensure that the companies' resources are optimally managed and employed by boards of directors which will, in turn, lead to achieve the stated objectives of the companies and eventually protect the interests of corporate stakeholders in particular and the society as a whole (Abdulsaleh 2014).

For the banking sector, corporate governance is particularly significant due to the important role this sector plays in an economy. Most of the funds used by banks to conduct their business come from their creditors, in particular their depositors, who belong to the general public. As such, banks are reliable to the general public. In addition, banks are the sole source of financing for the great majority of enterprises, particularly in emerging economies. Furthermore, due to their highly leveraged balance sheets structure and, more recently, financial deregulation and globalization, banks are very vulnerable to shocks. Given these characteristics it is, therefore, of great importance that banks have strong corporate governance practices in place.

In addition to both internal and external auditing, audit committees have a key role in improving the quality of corporate governance system in banks (Krishnan 2005; Bishop *et al.* 2000). Among other duties and responsibilities, these committees monitor compliance with banks' policies and procedures and review internal

and external audit reports and banks' examination reports. In this respect, McMullen (1996) described the role of the audit committee as a supervising body which has the ability to provide a carefully monitoring of the process of financial reporting and ensuring the audited financial statements are reliable as central to corporate governance effectiveness.

In Libya, as in many other countries in the region, the banking sector has undergone significant changes and reforms over the past few years. The entry of foreign banks such as the European bank "BNP Paribas" and the Jordanian bank "Arab Bank" is a case in point. This is in addition to the adoption of the recommendations of Basel Committee on Banking Supervision's Accord which set standards for sound banking practices. These changes have put more pressure on domestic banks to grow and compete. Essentially, good corporate governance practices are supposed to positively and greatly affect their performance and hence building effective competitiveness (Abdulsaleh 2010).

Although the subject of corporate governance in developing countries has recently received a lot of attention in the literature (e.g. Piesse *et al*. 2012; Rossouw *et al*. 2002; Lin 2001), the corporate governance of banks in such economies has been almost overlooked (Caprio & Levine 2002). Specifically, most of the investigations dedicated to the audit committee's role in corporate governance have been mainly focused on the effectiveness of this role regarding its duties and responsibilities (e.g. McMullen 1996; Porter & Gendall 1998; Beasley *et al*. 2000), with very little attention given to other relevant aspects which are arguably equally important in enhancing this role. Therefore, as an attempt to fill this void in the literature this paper addresses the criteria for audit committee composition as well as the characteristics and qualities of its members in the context of corporate governance in commercial banks in a developing country which is Libya by exploring different opinions on this issue. This investigation is also motivated, in addition to the vital role of audit committees in the corporate governance system, by the significant importance of the banking sector in the current transitional period taking place in the country.

This paper contributes to the existing literature on the role of audit committee in corporate governance. Whilst most studies, in general, focus on audit committees' best practices in the governance of public and private organisations, the current paper explores some of the key concepts for the effectiveness of corporate governance role of audit committees namely; the formation and structure of audit committees and their members' qualifications and expertise with special reference to banking sector in a developing country. In practice, it is hoped that the results of this paper are going to have positive implications for Libyan banking sector governance mechanism.

The rest of the paper is organised as follows; in the next section related literature is reviewed. The research methodology is described in the following section. The subsequent section presents the empirical results. The last section is dedicated to the study's conclusion, contributions, limitations, and suggestions for further research.

2. Literature Review

In recent years an increasing attention has been given to audit committees in both areas of academia and policymaking. As a result, the establishment of audit committees has been mandatory in several countries. Audit committee can be defined as "a committee of directors of an organization whose specific responsibility is to review the annual financial statements before submission to the board of directors. The committee generally acts as liaison between the auditor and the board of directors and its activities may include the review of nomination of the auditor, overall scope of the audit, results of the audit, internal financial controls, and financial information for publication" (Canadian Institute of Chartered Accountants CICA 1992, p. 20). Another definition is that of Arthur Andersen which states that "an audit committee is a committee of directors who are charged not with the running of the business but with overseeing how the business is controlled, reported on and conducted" (1992, p. 5).

Typically, the main role of audit committee was, almost exclusively, to supervise the financial reporting process. However, recently, within the corporate governance system, audit committee's role has become, in general, concerned with all aspects of corporate governance. As such, the role of audit committee in corporate governance encompasses duties and responsibilities in a number of areas such as financial statements and reporting, evaluation of internal audit and the internal control systems, external audit planning, risk management, and environmental management systems (e.g. Abdulsaleh 2014; Bahsin 2012; Al-Mudhaki & Joshi 2004; DeZoort 1997; Porter 1993).

Porter & Gendall (1998) argued that establishing an audit committee is one thing; establishing an effective audit committee, one which carries out its responsibilities competently, is another. In this context, to effectively play this role there are two aspects that should be given especial consideration. Those aspects are; one pertaining to composition of audit committee and the other pertaining to audit committee's membership requirements.

2.1Criteria for Audit Committee Composition

In line with establishing audit committees their formation and structure has received especial focus in academic and practitioner literature. According to the Australian Stock Exchange Corporate Governance Council (2003) audit committee should be structured to consist of no less than three members from only non-executive directors. In the same vein, Cadbury Committee (1992) emphasised the importance of audit committee's structure to effectively accomplish its role. The committee report stressed that audit committee should consist of a minimum of three members and should be confined to non-executive directors. Likewise; the Blue Ribbon Committee recommendation number 3 (BRC 3) requires an audit committee size of three directors minimum (Blue Ribbon Committee 1999). However, Braiotta (2000) reinforced different argument. He argued that audit committee should be large enough to include members with a good mix of business judgement and experience.

While limited, some evidence in the literature suggests that size may matter. For example, a study by Archambeault & DeZoort (2001) found a significant negative association between the size of audit committee and suspicious switches of auditors. Another study by Abbott *et al.* (2004) concluded that there was no significant relationship between audit committee size and misstatements. A general agreement seems to exist on that the optimal size is the one which provides the necessary strength and diversity of expertise and views to ensure appropriate monitoring that is not too large as to become unwieldy. In general, it is recommended to limit the size of audit committee to five (Arthur Andersen 1998) or six members (National Association of Corporate Directors 2000).

Another dimension of audit committee effectiveness is the frequency of its meetings. It was reported that companies whose audit committees meet at least twice per year are less likely to be sanctioned for fraudulent or misleading reporting (Abbott *et al*. 2002). McMullen & Raghunandan (1996) and Song & Windram (2000) found that companies with less frequent audit committee meetings had more reporting problems. Moreover, Beasley *et al*. (2000) examined the link between the number of audit committee meetings and the probability of having fraud financial reports in the technology and health-care industries. Their results indicated that while fraud companies generally held one meeting per year, non-fraud companies met two or three times a year. For a committee with normal activities, in addition to an annual meeting with the board of directors there should be at least four meetings each year (Saudi Arabian Monetary Agency 1994). Best practices of audit committee performing corporate governance proposed by Blue Ribbon Committee (1999), KPMG (1999), and Cadbury Committee (1992) suggested three or four meetings per year. However, without providing any justification for its selection, the Blue Ribbon Committee used two audit committee meetings as the criterion in determining the active audit committee.

The responsibilities of audit committee are diverse and seem to be expanding. This makes it very hard for audit committee members to understand all these responsibilities particularly in the absence of an audit committee charter. The literature highlights the importance of the audit committee charter in aiding audit committee members to understand their specific responsibilities and duties (Coopers & Lybrand 1995; Kalbers & Fogarty 1993). The study by Bedard *et al.* (2004) concluded that the presence of a clear mandate charter defining the responsibilities of the audit committee seems to lead to a decrease in aggressive earnings management. Blue Ribbon Committee recommendations 4 (BRC 4) requires the audit committee to have a formal written charter that is approved by the full board of directors and that specifies the scope of the committee's responsibilities, and how it carries out those responsibilities, including structure, processes, and membership requirements (Blue Ribbon Committee 1999).

In addition, rotation of audit committee members can provide a practical way to refresh and introduce new perspectives to audit committee processes (KPMG 2013). Further, another aspect in relation to the composition of audit committee is that the members are chosen by shareholders. As such, there are two main channels of communication between the audit committee and shareholders; the written report which forms part of the published financial statements, and the annual general meeting, at which the audit committee chairperson is generally available to answer questions (KPMG 2013).

2.2 Membership Requirements

Membership requirements are fundamental determinants of audit committee effectiveness. These requirements have been used frequently in the literature to evaluate audit committee effectiveness in different contexts. For example, Public Oversight Board (1993) affirmed that the audit committee effectiveness is affected, first and foremost, by the expertise of its members in areas of accounting, financial reporting, internal control, and auditing. In the same vein, Levitt (1998) argued that qualified, committed, independent, and tough-minded audit committees represent the most reliable guardians of the public interest.

2.2.1 Independence

The impact of audit committee independence was the focus of a number of studies (e.g. Chen *et al.* 2005; Archambeault & DeZoort 2001; Scarbrough *et al*. 1998). Blue Ribbon Committee recommendation 1 (BRC 1) is based upon the contention that independent directors are better able to objectively evaluate the propriety of

management's accounting, internal control and reporting practices. This recommendation defines audit committee independence as the exclusion of current and former employees, relatives of management, and persons receiving compensation from the company (except directors' fees) (BRC 1999). This recommendation also recommends excluding directors who are partners in, a controlling shareholder or an executive officer of, any for-profit business organization to which the company made or from which the company received significant payments in the last 5 years.

Prior literature found that greater independence of audit committee members is associated with greater monitoring of management in a variety of settings (Carcello & Neal 2000; Beasley 1996). Raghunandan *et al.* (2001) indicated that audit committees whose all members are independent are more likely to have longer meetings with the chief internal auditor, meet privately with the chief internal auditor, review the internal auditing program and results, and review management's interaction with internal auditing. Another study by Klein (2002) concluded that audit committee independence was negatively associated with abnormal accruals and that reductions in audit committee independence were associated with large increases in such accruals.

While most of the literature addressed the independence of audit committee from a dichotomous perspective that is inside and outside directors, some studies (e.g. Carcello & Neal 2000; Vicknair *et al.* 1993) adopted a different approach. According to that approach audit committee independence was examined in the case of grey directors, the ones who are not insiders but still have ties to management or the organization. The results of these studies revealed and underlined the potential grey director issue in audit committee independence.

2.2.2 Financial Knowledge and Expertise

In fact, members of audit committee could come from a wide variety of backgrounds and, hence, may not have the experience or technical knowledge needed for effective accounting and auditing monitoring. However, in order to fulfil their responsibilities audit committee members should have the necessary knowledge and expertise. The Blue Ribbon Committee recommendation 3 (BRC 3) defines financial literacy as the ability to read and understand fundamental financial statements (Blue Ribbon Committee 1999). The same recommendation requires each of audit committee members to be financially literate and at least one of whom has accounting or related financial management expertise.

Prior research found evidence of a positive relation between accounting expertise of audit committee members and the quality of the firm's financial reports suggesting that audit committee members with accounting backgrounds improve financial monitoring. DeFond *et al.* (2005) reported positive abnormal returns for companies that have an accounting experts as members of their audit committees. McMullen & Raghunandan (1996) found that companies with fewer members who have a Certified Public Accountant (CPA) in their audit committees were more likely to have financial reporting problems. Moreover, Zhang *et al.* (2007) found that corporations with a larger percentage of financial experts (both accounting and non-accounting) in their audit committees are less likely to report weaknesses in internal control over financial reporting.

According to Bill (2006) each of the major stock exchanges (i.e. NYSE, NASDAQ, and AMEX) requires that all members of audit committees to be able to read and understand financial statements. It was found that companies with an audit committee with a higher level of financial literacy are less likely to have problems in financial reporting (Song & Windram 2000). Coates *et al.* (2007) found a positive association between financial literacy of audit committee and stock market return.

In addition, knowledge in audit seems to be important as well. DeZoort & Salterio (2001) found that audit committee members having relatively high audit knowledge are more likely to support the auditor in auditor-management disputes over accounting policy. Similarly, Raghunandan & Rama (2007) reached a conclusion that an audit committee that consists of knowledgeable directors is better able to contribute towards auditor independence. Taken together, these results suggest that within audit committees, possessing individuals with experience in accounting, finance and auditing is associated with high quality of corporate governance.

3. Methodology

The aim of this paper is to explore various opinions regarding the criteria for audit committees' formation as well as the characteristics of their members that should be adopted in Libyan commercial banks in the context of effective corporate governance. The data for this study was extracted from a large survey questionnaire on the role of audit committees in activating the methods of corporate governance in Libyan commercial banks conducted by the researcher in late 2010.

The questionnaire was designed and developed based on the relevant literature. It covered some important aspects in relation to activating the role of audit committees in the context of corporate governance in Libyan commercial banks. Among these aspects (which concerning the paper in hand) were; the criteria for audit committee composition and the requirements of audit committee membership. Participants targeted by the questionnaire were members of audit committees in the major Libyan commercial banks namely; Wahda Bank, Sahara Bank, and the National Commercial Bank. In addition, directors of internal audit departments as well as

members of board of directors at these banks responded to the questionnaire. To gain richer insights a number of external auditors and academic staff from Libyan universities who had either publications or teaching experience in this specific field also participated in the study.

In order to allow respondents to express their agreement or disagreement about the statements relating to the suggested criteria for audit committee composition and the characteristics of its members a five Likert-scale ranging from 5 (strongly agree) to 1 (strongly disagree) was provided for each statement. In addition, all the respondents were offered the opportunity to propose other criteria or characteristics which, in their opinions, can enhance the effectiveness of the corporate governance role of these committees in the Libyan banking sector.

The questionnaire was distributed, wherever applicable, using E-mail addresses of the targeted participants, otherwise the questionnaire was self-administrated by the researcher with the assist of some friends who have close relationships with some of the targeted respondents. Out of 37 questionnaires distributed, only fourteen were received of which (100 per cent) were valid and usable leading to a response rate of (37.8 per cent). Considering the fact that this study is the first of its kind in the Libyan context, and also the fact that these two concepts (corporate governance and audit committee) have been just recently introduced to the Libyan banking sector, a response rate of (37.8 per cent) can be considered as relevant.

4. The Results

Since the aim of this paper is to arrive at a general perception on the criteria for audit committee composition and membership requirements in the Libyan banking sector in the context of corporate governance this section is divided into two sub-sections accordingly. Thus, the first one deals with the respondents' perspectives regarding the criteria should be adopted when audit committees are composed whereas the second concerns the characteristics that audit committee members should possess in order for the committee to effectively play its role as an important tool of corporate governance in Libyan commercial banks.

For the purpose of analysing the data obtained from the questionnaire the statements provided in the form of five Likert Scale were given the following weights: Strongly disagree (1); Disagree (2); Not sure (3); Agree (4); Strongly agree (5). Accordingly, the weighted average scores of the responses (the mean) were calculated by dividing the total score obtained for each statement by the total number of responses.

4.1 Criteria for Audit Committee Composition

Table 1 presents the responses to the statements concerning the criteria for audit committee formation. Most respondents (85.7per cent) agreed that audit committee of a bank should have a written charter approved by the board of directors clearly stating its objectives, structure, membership, responsibilities and duties. However, only 14.3 per cent of respondents disagreed. As a result, this can be considered as a very important principle to be taken into account when creating audit committees in commercial banks in Libya.

As for the size of the committee, half of the study sample (50 per cent) indicated that audit committee should be structured to include enough number of directors that is just sufficient. Only 14.3 per cent of respondents disagreed while the rest of the respondents were not sure. Most commonly, related laws and legislations in most countries recommend a size of three to five members for audit committees.

Table 1. Criteria for audit committee composition

Criteria	Strongly agree	Agree	Not sure	Disagree	Strongly disagree	Mean	SD
Existence of written charter	85.7	-	-	14.3	-	4.57	1.08
Sufficient size	14.3	35.7	28.6	14.3	7.1	3.35	1.15
Quarterly regular meeting	35.7	64.3	-	-	-	4.35	.49
Members to be appointed by shareholders	-	28.6	35.7	21.4	14.3	2.78	1.05
Non-executive chairperson	71.4	28.6	-	-	-	4.71	.46
Report annually to the board of directors	42.9	57.1	-	-	-	4.42	.51
Rotation of members	14.3	50.0	21.4	14.3	-	3.64	.92

The respondents recognised the great significance of audit committee's regular meetings. They all agreed that audit committees in Libyan commercial banks should have a regular meeting at least quarterly (100 per cent). It seems reasonable to suggest that having a minimum of four regular meetings to be held in one year could enable audit committees identifying and addressing any issues as early as possible as a result of them being, particularly, responsible of monitoring and evaluating internal control systems and internal audit.

With regard to the appointment of audit committee members the evidence seems to be mixed. When considering the nomination of audit committee members, participants who agreed that members of audit

committee including the chairperson to be appointed by shareholders made (28.6 per cent) of the study sample. Participants who did not agree accounted for (35.7 per cent) which may suggest that this group believe that the board of directors is responsible for appointing the members of the committee and its chairperson. The rest of sample (35.7 per cent), however, chose the answer of not sure. In parallel to this, 100 per cent of respondents agreed that the chairperson of the committee must be a non-executive director.

Also among the composition criteria for audit committee that had high agreement among the respondents is that audit committee should annually report to the board of directors regarding its performance. All the respondents supported this call (100 per cent). This implies that the committee should define in this report how it has discharged its duties. In addition, any significant issues arising during the financial year and the period up to the date of the report also should be included.

For an effective corporate governance role of audit committees the majority of participants in this study believed in the importance of the rotation of their members. More than half of the sample (64.3 per cent) agreed that over a reasonable period of time members of audit committees in Libyan commercial banks should be replaced. On the other hand, a minority of 14.3 per cent did not agree that rotation of members is important for running an effective audit committee in the banking sector.

4.2 Membership Requirements

As stated earlier in this paper, membership requirements of audit committees in Libyan commercial banks which are central to the investigation in this study are those relating to independence and expertise. The participants' responses to the statements relating to these requirements are showed in table 2 below.

Table 2. Requirements for audit committee membership

Members of audit committee should;	**Strongly agree**	**Agree**	**Not sure**	**Disagree**	**Strongly disagree**	**Mean**	**SD**
Have no family ties with directors of the board	28.6	28.6	42.9	-	-	3.85	.86
Have no financial dealings with directors of the board	-	21.4	50.0	28.6	-	2.93	.73
Have not previously hold an executive position in the bank	21.4	-	64.3	14.3	-	3.28	.99
Have not been at any time clients of the bank	-	14.3	85.7	-	-	3.14	.36
Have accounting or related financial expertise	28.6	71.4	-	-	-	4.28	.46
Have legal background and knowledge of banking business	28.6	57.1	-	7.1	7.1	3.92	1.14
Have a knowledge of risks involved in banks' operations	21.4	42.9	21.4	14.3	-	3.71	.99

There was recognition among the respondents to the importance of the independence of audit committees' members. The majority of respondents (57.1 per cent) agreed on the suggestion that all members of audit committee must be free from any family relationships with any of the directors of the board of the same bank which might be construed as a conflict of interest. However, other statements addressing audit committee independence seemed to receive less agreement. Only 21.4 per cent of respondents agreed on the statement suggesting that audit committee member should not have had any financial transactions with any of the directors of the board over the last three years preceding his/her appointment in this position. Participants who did not agree with the previous statement made up 28.6 per cent of the sample.

The proposal that audit committee member should not have occupied any executive position in the bank during the last three years prior to becoming an audit committee member was a divisive one. Only 21.4 per cent of respondents supported this suggestion whereas the vast majority (64.3 per cent) chose to be a neutral regarding this statement. The remaining 14.3 per cent disagreed. The last statement dealing with the independence of audit committee members was the one suggesting that the nominee for such position should not have been at any time a major client of the bank. Similarly to the previous suggestion, this one did not seem to be important from the participants' point of view. Only 14.3 per cent of respondents agreed that this should be taken into account when appointing members of audit committees in Libyan commercial banks. The vast majority of respondents (85.7 per cent), however, doubted the importance of this proposition for the effectiveness of audit committees in the banking sector so they answered “not sure”.

Another important aspect of audit committee membership investigated by the current study is the requirements related to the financial literacy and expertise. All the participants (100 per cent) agreed that

members of audit committees should have a certain level of financial literacy which enables them to read and understand the information displayed in the fundamental financial statements of the bank. The same situation was for the proposal that audit committee members in Libyan commercial banks should possess accounting or related financial management expertise.

Also among the membership requirements of audit committees inquired by the study was the one related to having experience and knowledge of banking business and banking law. A large majority of respondents (85.7 per cent) agreed that such requirement is essential for audit committee effectiveness in the Libyan banking sector. Only a minority of 14.3 per cent disagreed on that. Finally, there was less agreement regarding the experience and knowledge of audit committees' members that relates to risks involved in operations of banks and risk management. Only 14.3 per cent of respondents disagreed on this to be a quality required in the members. However, more than half of the sample (64.3 per cent) maintained this as a condition of audit committee membership. The rest of respondents (21.4 per cent) indicated a neutral answer.

5. Conclusion

The necessity to investigate the way that audit committee is composed and structured is increasingly growing, especially in the context of increasing and ensuring the soundness of corporate governance mechanisms. In this context, as a starting point this paper was an attempt to provide, through the views of relevant participants, a ground on which a broader perspective for audit committee's role in corporate governance in the Libyan banking sector can be attained. The results are based on a structured questionnaire administrated in 2010 as a part of larger survey related to audit committee role in activating the methods of corporate governance in Libyan commercial banks (Abdulsaleh 2010). Members of audit committees at Libyan major commercial banks, directors of internal audit departments as well as members of boards of directors at these banks were targeted by the questionnaire. Additionally, a number of external auditors and academic staff from Libyan universities participated in the study. The study concluded that where an audit committee is established a clear and well written charter to guide the behaviour and activities of the committee should be prepared. Other criteria for compose such committee which were found important include sufficient committee size with a non-executive chairperson and frequent meetings throughout the fiscal year. Independence from the management, accounting expertise, financial literacy, and knowledge of banking business were the main criteria for the nomination of audit committees' membership found by the study.

The study contributes to the body of literature on corporate governance practices in developing economies. Moreover, the study offers a number of policy and practice implications. For example, the results of examining of audit committees formation and qualities within the context of corporate governance may benefit policymakers and regulatory authorities in the country in developing comprehensive national corporate governance regulations and codes. As for practical implications, to enhance the quality and effectiveness of corporate governance practices in Libyan banks structuring the composition of audit committees and the characteristics of their members might be reconsidered in line with the findings of this study.

One of the limitations of the research is its small sample size. Larger sample size or different style of survey could have the ability to provide different or additional insights. In addition, case study based research would be most appropriate on the actual functioning of the audit committees in terms of their effectiveness as a tool of corporate governance. Furthermore, extending the sample to include companies in the larger corporate sector in Libya would serve to verify if the situation is the same with entities other than those in the financial industry.

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