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International Standards on Auditing (ISAs) Adoption: An Institutional Perspective

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Abstract: This study seeks to examine the factors that influence the adoption of ISAs, intending to stimulate establishing a responsible and efficient auditing regime in Libyan auditing practice, shedding light on challenges in auditing practices in the North African region. This study conducted semi-structured interviews with 43 participants that represented 5 key actors from within the auditing field in Libya, including preparers and users of annual reports. Regarding ISAs adoption, the study focused on those institutional isomorphism drivers that are found to produce a greater impact on the experience of auditing practice in Libya. The identified factors are (a) foreign corporations, such as accountancy firms, (b) economic systems and the stock market, (c) international financial institutions (IFIs), and (d) the legal system. The research demonstrated that these drivers systematically and consistently predict the level of ISAs adoption commitment and associated harmonisation. Given the growing interest in harmonising auditing practice not only by scholars but also by policy and decision-makers, the relevance of this research cannot be questioned since it addresses significant concerns and contributes to the development of an under-researched topic in Africa. This paper expands the literature on the importance of harmonising auditing practices and provides fresh insights into auditing practices in a politically unstable country. Awareness is also raised about the most relevant drivers of adopting ISAs and several implications for policymakers and regulators in pursuing international harmonisation of auditing standards.

Keywords: institutional theory; auditing environment; laws and regulations; international institutions and firms; emerging economies

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1. Introduction

Although some studies argue that voluntary ISAs adoption enhances harmonisation among users of financial information prepared to engage in business across countries (Elmghaamez et al. 2022; Elmghaamez and Elmagrhi 2022), others provide a contrary view that regulations and legal embarkment should mandate ISAs adoption. Our study used combinations of institutional theory and Libya as the context, sampled from emerging and developing economies, to address this gap in the extant literature to investigate the factors influencing ISAs adoption in the North African region.

According to the current trends in the literature and the public debate, the auditing profession assumes a vital role in the international forms of an institution that offers financial assistance to developing economies as the process of auditing ensures prudent use of funding and avoidance of corruption (Lamoreaux et al. 2015; Kurniawati and Achjari 2022). Implementing ISAs in any country may be inadequate without complementary strategic planning to reform education and training to qualify accounting and auditing practitioners (Wong 2004; El-Helaly et al. 2020). That view is consistent with the perspective of Michas (2011) in highlighting that the harmonisation of the profession of auditing across the world is a considerable way from being a reality without the auditing profession and its practice being improved by the standard setters of auditing and national regulators within their particular jurisdictions. Achieving coherence at both the national and international level is essential to increase the reliability and comparability of financial outputs. In recent decades, the debate focused on developing international standards of auditing and their adoption within large developed economies, such as the European Union, the USA, and Canada (Humphrey et al. 2009; Michas 2011). It is similar to the adoption of internal reporting in UK organisations, according to Robertson (2021); however, inadequate development was recorded in developing countries, particularly in the North African region.

Hence, this study aims to provide a theoretical contribution to the literature in addressing the paucity of research concerning international standards on auditing adoption within the emerging economy of Libya, considered a consistent case study representative of North Africa, similar to its neighbours, and to scrutinise the dynamics regarding ISAs implementation. Additionally, the paper has implications for practitioners in providing valuable insight to various stakeholders. Therefore, this paper tests the existing knowledge about the factors that impact ISA adoption in different ways—at a theoretical level and a practical level. Scholars, i.e., DiMaggio and Powell (1991) emphasise a perspective that can be considered 'neo-institutional; as such, it is based on the premise that there is a tendency for organisations to respond to pressures that hail from within their environments as an institution and then to adopt procedures and structures that are considered socially acceptable in that they are considered as being appropriate choices in organisational terms.

A study by Tawiah (2019) examined the consequences of the African adoption of International Financial Reporting Standards IFRS and revealed that the auditing practice has been reshaped, reflecting the changes of the IFRS adoption. Hence, almost all countries that have adopted IFRS have adopted ISAs. Table 1 depicts the adoption level of IFRS and ISAs among North African countries. It clearly shows that North African countries lack full adoption of the ISAs except Tunisia, which adopted the harmonised international standards on auditing in 2017.

Table 1. Level of Adoption of IFRS and ISAs in North African Countries.

Year of Assessment	Jurisdictions	IFRS	ISAs
2016	Egypt *	Not Adopted	Partially adopted
2016	Morocco *	Partially adopted	Partially adopted
2017	Tunisia **	Not Adopted	Adopted
-	Libya ***	Not Adopted	Not Adopted
-	Mauritania ***	Not Adopted	Not Adopted
-	Sudan ***	Not Adopted	Not Adopted
-	Algeria ****	Not Adopted	Not Adopted

Source: Developed by the researchers (* IFAC (2019); ** Order of Chartered Accountants of Tunisia (OECT) (2020); *** Tawiah (2019); **** Deloitte IASPlus (2020)).

Many authors have adopted institutional theory to assess the institutional pressure on adopting new regulations (e.g., Boolaky and Soobaroyen 2017; Aburous 2019; Abdullatif and Al-Rahahleh 2020). Henceforth, this study used this theory to develop a perspective on how regulations are imported from developed countries. Hence, three different kinds of isomorphism are considered in this research, in line with the cross-national study performed by Judge et al. (2010), which sought to explain how IFRS (International Financial Reporting Standards) had been adopted in a total of 132 different countries; the authors argued that the adoption degree of IFRS (see the definition of Deloitte 2012) results from the careful balance of pressures that are mimetic, coercive, and normative kinds of isomorphism. A necessary but concise background of the research contest is carried out below, followed by a review of literature and hypothesis development. The research methods utilised within this current project are disclosed in section three, followed by the presentation of the research findings along with the provision of discussion, and finally conclusions concerning the ISAs adoption and harmonisation.

This paper is organised in the following manner. In Section 2, the background of the Libyan auditing profession is presented. Section 3 includes a literature review of ISAs in developing countries, especially of literature concerning factors affecting the adoption of ISAs categorised in the foreign corporations and international accounting firms; the influence of the economy and the stock market; the influence of international financial institutions; and a framing of the legal system. It is followed by an explanation of the methods employed and how the sample was selected in Section 4. The following section, Section 5, includes the qualitative findings and a discussion of four factors. Finally, conclusions are presented in the last sections of this paper.

2. Background: A Profile of the Libyan Accounting Profession

Financial and ethical reporting plays a significant role in sustainable commercial development, as it provides the information required to assess sustainable performance (Almagtome et al. 2020). In recent times, sustainability reporting has constantly increased and is now a common business practice. Historically, countries that set the financial and ethical standards were not far from the US, Europe, and parts of Asia. However, the recent role of emerging and developing nations requires that other regulations be devised regarding not only financial stability but also inclusiveness and economic development (Jones and Knaack 2017; Boolaky Doorgakunt et al. 2021). This view is further supported by Wang et al. (2016), who suggest that because of the maturity of the institutional financial system, the efficient market mechanism allocating resources to social commitments by organisations in developed countries yields higher performance than their counterparts in developing countries.

Within the literature, there have been many suggested reasons for international differences concerning the context of financial reporting. This research highlights the importance of the auditing profession regaining and retaining the confidence of the public, with duties performed in alignment with public interests. So, international standard adoption ought to have support within all contexts of finance; however, as those standards were formulated within more advanced countries, support ought to be given to developing countries as they try to ensure they are adopted and implemented (Mir and Rahaman 2005).

The law lacks sustainable national standards for accounting and auditing; the primary tools for controlling the ethical practice of accountancy can be viewed in the Income Tax, Commercial Code, the stock market, and Banking and Petroleum Laws. According to the tri-dimensional viewpoint of Epstein et al. (2018), sustainability is concerned with the economic, social, and environmental value that an organisation adds or destroys. Acknowledging the tri-dimensional aspect of sustainability is important because, as Reinecke et al. (2012) explain, whilst sustainability is ambiguous and open to debate, a common sustainability vocabulary around the pillars of economic prosperity, environmental quality, and social equity has helped to narrow this concept.

Many authors have shown how the country's legislation impacts auditing and accounting practice; see, for instance, the work of Sawani (2009) on tax law. Regardless of those particular variations to practice within other countries, it remains a fact, however, that the LAAA has not addressed the issues of standards for auditing and accounting, and, as a consequence, the relevant professionals have a primary reliance upon the regulations above and laws for the performance of duties, other than Law No. 134 of 2006 which has the requirement that listed companies implement ISAs/IFRS in the preparation and auditing of financial statements, including the national bank. However, according to El-Firjani et al. (2014), the US-GAAS and its counterpart the US-GAAP are still applied by companies in auditing their financial statements.

Therefore, it may be understood that the international institutions "financial" for the world, for instance, the World Bank and the IMF (International Monetary Fund), exercise a fundamental part in the promulgation of the international standards (ISA/IFRS) and encourage their adoption in the developing countries; hence it is possible to constantly observe the existence of the so-called institutional isomorphism (DiMaggio and Powell

1991). In the context of the practical nature of ISAs, a perspective that is 'neo-institutional offers the necessary underpinning for the hypotheses within our research that form clear statements concerning the problem to be investigated.

Research Propositions

Propositions are findings of an inductive study; they explore a studied phenomenon without prior empirical evidence. We supposed that the specific Libyan context deserved to be assessed through the lens of institutional theory. In this case, auditors' behaviours are given authoritative guidelines (and affected by) country-specific structures, including schemes, rules, norms, and routines that become established over time. These consolidated routines might have affected the application of international best practices.

3. Theory

3.1. The Relevance of ISAs to Developing Countries: A Review of the Literature

Within the literature, there have been many suggested reasons for international differences concerning the context of financial reporting. This research highlights the importance of the profession of auditing regaining the confidence of the public and retaining it, with duties performed in alignment with public interests. So, international standard adoption ought to have support within all contexts of finance; however, as those standards were formulated within more advanced countries, support ought to be given to developing countries as they try to ensure they are adopted and implemented (Mir and Rahaman 2005). Furthermore, as there is more to drive sustainability through the harmonisation and communication amongst countries and between financial institutions, e.g., various donor agencies and the World Bank, there would be encouragement and support for countries with those aims.

Institutional isomorphism helps to justify mechanisms that allow an organisation to align itself with stakeholders' expectations, characteristics, and responsibilities concerning the organisation's practice to boost its legitimacy within the context of societal norms and cultural values. Institutional theory has been used by Carpenter and Feroz (2001) in the analysis of the role played by the auditing profession; they concluded that there is a tendency for auditors to hold on to legitimacy through affiliation with the norms and values of society. In the context of the practical nature of ISAs, a 'neo-institutional' perspective offers the necessary underpinning for the hypotheses within our research that form clear statements concerning the problem to be investigated.

3.1.1. Foreign Corporations and the International Accounting Firms

Foreign corporations are considered to influence policymaking of auditing, given a growing increase in sustainable economic activities worldwide. It is done by having agreements with overseas counterparts, local audit firms and audit regulators, as well as local companies looking for business expansion internationally and nationally; see (Samsonova 2009; Carson et al. 2016; Abdullatif and Al-Rahahleh 2020). According to many authors (Hopper et al. 2017; Balsmeier and Vanhaverbeke 2018), international institutions, such as the World Trade Organisation (WTO) and the European Commission (EC), are also able to exercise an influence upon activities within a country by the dictation of a need for compliance with the international services and regulations for auditing and accounting.

Therefore, a coercive isomorphism is observed when the ethical behaviour of social actors, perceived as being successful, is forced by other social actors to enhance their acceptance and legitimacy (DiMaggio and Powell 1991). It is considered that coercive isomorphism is a key factor that leads to standardisation (Mizruchi and Fein 1999). In that regard, the commitment of a country to the adoption of ISAs and their harmonisation may be influenced by the presence of commercial partners of foreign countries. It was stated by El-Helaly et al. (2020); Khlif et al. (2020); Abdullatif and Al-Rahahleh (2020); Elmghaamez and Elmagrhi (2022) and Cieślik and Hamza (2022) that the greater the openness of a country to foreign investment and foreign trade, the greater its exposure to international best practices. Consequently, there could be a greater inclination for commitment to the adoption of ISAs and associated harmonisation to be signaled so that a greater level of legitimacy is gained within the global marketplace.

Among the various studies that have commented upon the diffusion of ISAs, some issues for enforcement within national settings were also identified (Humphrey et al. 2009; Simunic et al. 2017). Chalmers et al. (2011) demonstrate that coercive isomorphism may hail various stakeholders or interest groups in financial reporting that demand better financial information. Similarly, Hassan et al. (2014) conducted a study that revealed the important influence of institutional pressure, which was "coercive, mimetic and normative", upon the IFRS adoption process within accounting practice in Iraq. According to Hopper et al. (2017), the developed countries' accounting systems are transferred and adopted by international accounting firms, maximising the effort in the standardisation of practice across regions and countries all around the globe. From that wider perspective, auditing standards-setters, auditing firms, and regulators play essential roles (ICAEW 2010). Furthermore, international auditing and accounting firms have many other opportunities for influencing policymakers, i.e., the public, politicians, and regulators (Loft et al. 2006; Sikka 2009).

3.1.2. The Influence of the Economy and the Stock Market

It became evident that the complications of worldwide trade and commercial activities led to the consideration of the factor that impacts the shape of strategy with respect to accounting: the market economy itself. Therefore, with the adoption of those international standards of accounting and auditing comes economic improvement through the attraction of foreign investment, the development of stock markets and the achieving of the prerequisite required to secure the loans provided by financial bodies, such as the WB and the IMF (Law et al. 2016; Bondar 2018; El-Helaly et al. 2020). However, Boolaky and Omoteso (2016) and Boolaky and Soobaroyen (2017) discovered controversial results in that they showed a significant and positive relationship between the implementation of ISAs and the extent of stock exchange capitalisation. DiMaggio and Powell (1991) noted that mimetic isomorphism arose as concerns over legitimacy and dependence; the authors argued that this kind of isomorphism, which might hail from institutions, is at the highest level and may influence the actions and structures of economic and social actors.

Economically, many countries have adopted the international standards on auditing as a consequence of the Asian financial crisis in 1997 in order to mitigate the effect and to enhance the immune system to avoid future occurrence (Elmghaamez and Elmagrhi 2022; Elmghaamez et al. 2022).

DiMaggio and Powell (1991) stated that mimetic isomorphism raised concerns over legitimacy and dependence and argued that this particular kind of isomorphism might hail from institutions at the highest level that can influence the actions and structures of economic and social actors. The state is an example of a powerful institution since organisations based in a nation are impacted by the regulations and rules institutionalised and legitimated by the State (Lasmin 2011). According to several authors (i.e., Simunic et al. 2017; Boolaky and Soobaroyen 2017; Ben Cheikh and Rejeb 2021), the adoption of international standards for accounting and auditing within emerging economies is tied in with the progression of education and constitutional systems within those countries and, taken together, those efforts serve to promote the growth of the economy. Moreover, it was concluded by Simunic et al. (2017) that ISA adoption within the US was impacted greatly by the legal environment, with the legal system being rather different from that within other countries.

For any capital market, a vital component is investment. The environment for sustainable accounting plays a key role in securing foreign investment to enable the growth of such a market. Thus, it was argued by Bondar (2018) that information of a financial type has to be trustworthy and accurate. For example, within Germany, banks are the primary sources of finance that underpin its stock market, and they demand financial information at a high standard when making decisions to provide funds. Therefore, the stock market within a country influences the accounting and auditing standards adopted (Sawani 2009; El-Helaly et al. 2020; Elmghaamez et al. 2022).

3.1.3. The Influence of the International Financial Institutions

The International Monetary Fund (IMF) and the European Union (EU) are examples of institutions that may also pressure countries or their organisations to force them to comply with international standards to enhance their sustainability and responsibilities. That is shown within recommendations formulated in most ROSC reports of the World Bank; recommendations such as those are frequently related to the local professional accounting body setting and the establishment of a local audit regulator. The implementation of international and best practices is often an inherent aspect of the loan agreements of conditionality (so-called) that are enacted between developing country governments and supranational institutions (see, for example, Neu and Ocampo 2007). It is particularly the case if the country in question is facing considerable financial distress with foreign aid provided by the IMF, with that institution making the strong recommendation that ISAs, corporate governance codes, and IFRS be adopted.

It was suggested by Hassan (2008) that there may, thus, be a rise of coercive pressures in such foreign aid agreements wherein the international institutions may seek to bring pressure to bear upon a country for it to ensure that supposed 'best practice standards are adopted (see, for example, Ashraf and Ghani 2005). Judge et al. (2010) and Elmghaamez et al. (2022) emphasised that the indicator of international support is an apt proxy for the degree to which a nation-state could have vulnerability to various external pressures. As argued by Zeghal and Mhedhbi (2006) the extent of the country's readiness and openness toward a sizeable institution of foreign governance, e.g., world financial institutions, may be a relevant variable; however, significant direct results were not found by the authors to back up their claim about the impact of economic openness upon the levels of adoption of ISAs.

Coercive isomorphism hails from dependence on resources and concerns over legitimacy (DiMaggio and Powell 1991). So, creditors or lenders do represent a constituency that is critical for the auditing profession regarding their reliance upon financial information that has been audited as well as their abilities in dictating the terms within lending agreements, including identification of external auditors for appointment as well as the basis on which accounting and auditing should be undertaken. Interestingly, studies related to IFRS adoption do not tend to highlight the relevance of the rights of borrowers/lenders. Instead, they tend to focus on the investors or the stock market's characteristics and assume that there is a consistent legal system concerning the protection of shareholders, lenders, and minority interests (El-Helaly et al. 2020; Elmghaamez et al. 2022).

3.1.4. Framing the Legal System

In light of agency theory, the absence of conscientiousness in management exists among the key players of any establishment. It is argued, see, for instance, the work of Denis (2001), that when regulation is absent, the organisation's stakeholders, including the principal (owner) of the particular entity, will assume that the management team is working for their interests instead of that of the particular stakeholder or shareholders. However, in theory, if accounting standards have not been geared so that the demands of investors are met within a context potentially characterised by low levels of institutional and legal enforcement, then ISA adoption could potentially fail to reflect positive consequences in economic terms. Hence, coercive government pressure and legalisation can push organisations to undertake organisational changes and adopt specific standards to achieve legitimacy for their activities (Asiri et al. 2020). Hence, coercive pressures should be maximised by regulatory bodies in the selected MENA countries in order for auditing practices to be widely accepted. Therefore, coercive isomorphism in a country consequently compels its institutions to adopt high-quality auditing standards to respond to pressure from political bodies and gain greater institutional legitimacy (Hopper et al. 2017; Abdelhadi et al. 2021; Elmghaamez and Elmagrhi 2022).

Therefore, not every country has a sustainable legal system that is developed sufficiently so that statutory frameworks can be created to achieve that aim; in such circumstances, there can be great difficulty in implementing ISAs (Samsonova 2009; El-Helaly et al. 2020). As numerous scholars have noted, the profession of accounting and auditing within a country is affected significantly by the legal framework that serves as a context; see, for example, the work of Zeghal and Lahmar (2018). A clear difference in countries has existed wherein Common Law countries have better protection for investors and financial markets that are more advanced than countries of Civil Law (Elmghaamez and Elmagrhi 2022). Sawani (2009) highlighted that the regulatory framework has similarities between the USA, Australia, and the UK, and these have slight differences from the frameworks within Germany and France.

Those laws may be considered as resulting from the kind of political environment, which, as Sawani (2009) opined, can be extremely impactful on the policymakers of accounting. Countries that have a high degree of freedom have the requirement of a greater degree of financial disclosure. Regarding developing countries, it was observed by Lassou et al. (2019) that the primary aspect of influence was the actions of previous colonisers who had worked at formulating and implementing their kinds of political and legal systems and, as a consequence, the practice for accounting became a reflection of those particular kinds of histories. Commercial law is the most important legislation for the profession of auditing within most countries of the GCC (Gulf Cooperation Council) since it dominates most regulations for reporting and accounting, and that results in direct impacts upon the degree of essential transparency required for a rigorous model of corporate governance (Baydoun et al. 2012; Al-Obaidi and Awaid 2021). According to Altaher et al. (2014) and Tahat et al. (2018), the accounting and auditing profession (AAA) in an Arab country "Kuwaiti" has been influenced heavily by the regulations and laws within Arab countries as it has had a susceptibility to the political movements of Arabia within the 1970s which came to overthrow the protectorate treaty with the British Empire.

4. Methods

Given the identified research gap, a qualitative analysis is carried out through a systematic literature review and interviews with several participants (see Appendix A for Interview Questions). The rationale for using semi-structured interviews was to grant the researchers access to a comprehensive range of information to assess a wide spectrum (Sekaran 2003; Easterby-Smith et al. 2012). The selected groups of interview participants have first-hand experience and knowledge in dealing with the Libyan auditing environment. Moreover, the usage of this approach is justified by several researchers (see, for example, Blumberg et al. 2011; Bernard 2013), who note that researchers are generally unable to interview participants more than once when they are important people (i.e., elites, executives, or high profile individuals) and therefore, as much information as possible must be gained during that one encounter.

Research sampling is a process wherein a set of subjects is selected for inclusion within a study so that those included for participation are representative of the larger subject group from where the participants have been selected; the smaller representative group is referred to as a form of 'subset' (Sekaran 2003). The sample has been referred to by Bell et al. (2019, p. 188) as the "segment of the population selected for investigation'. Therefore, the essential quality is the representativeness of the sample. However, the actual size of the sample is also a key aspect of sampling; indeed, it is not a straightforward matter to select an appropriate size for a sample. Representativeness and size (representation and precision) are key factors that have to be considered when a sample design is being determined (Easterby-Smith et al. 2012); for a representative sample to be created, it has to hold those characteristics that are the same as those within the main population, as well as being of a size that is sufficient for a response rate to be ensured that sufficiently confirms its representativeness.

In qualitative research, the sampling technique is considered as important as in quantitative research, and questions such as "who" should be interviewed and "how many" interviews should be conducted must be asked (Bell et al. 2019). Indeed, how the sample is selected is associated with the credibility and validity of a study (Bernard 2013).

Therefore, there was the adoption of a non-probability technique for sampling; expressed more precisely, the researchers utilised the purposive sampling method to select the sample size. The term' purposive sample' is an approach wherein the participants are targeted for testing based on understanding the question and providing answers with their expertise (Easterby-Smith et al. 2012). Morse (1994) considers that the minimum sample size for interviewing is 6. Within this particular study, the number of targeted interviewees far exceeded the minimum, as there were 100 interviewees selected for the sample. Although, due to the current turmoil in Libya, only 43 individuals agreed to participate, the sample can be considered undoubtedly representative and reliable. This research is predominantly qualitatively as the emphasis is on acquiring knowledge based on qualitative data, with a combination of meanings, facts, and words to strengthen finding equivalency at a wider level. Several interviews undertaken for each group and their responders are illustrated in Table 2.

Table 2. Participants' Groups Demographic.

	External Auditors	State Auditors	Internal Auditors	Researchers	Regulators	Total
Sample selected	20	20	20	20	20	100
No of responses	7	11	8	12	5	43
% of response	35%	55%	40%	60%	25%	43%

As already indicated, in this study, five participant groups were targeted to represent the range of stakeholders involved in the topic area. External auditors are registered on the Libyan Certified and Public Accountants Union active list, while internal auditors hold internal auditor positions in Libyan companies. On the other hand, state auditors work for the Libyan Audit Bureau, while regulators take responsibility for the regulators, such as those who work in the Libyan finance ministry and the board of governors of the Libyan Certified and Public Accountants Union. At the same time, the researchers' group is deemed to be the academic and other researchers in the field.

This study uses telephone interviews for reasons associated with Libya's political situation and participants' geographical dispersion. Quite simply, Libya's atmosphere, especially during data collection, was (and remains) one of civil unrest, and travel within the country was extremely dangerous. It precluded the use of face-to-face interviews. However, a further reason for using the telephone is that face-to-face interviews can generate stress for people, especially in war-torn environments where people are afraid and feel as though they are being put on the spot for an answer. An interview mediated by the telephone was thought to allow more opportunities for interviewees to provide information in a more secure setting (see Bell et al. 2019). Nevertheless, it is acknowledged that telephone interviews have the limitation that they are generally shorter than personal interviews, and it is known that the participation rate is lower in telephone interviews (Bell et al. 2019).

5. Findings and Discussion

5.1. Foreign Corporations and the International Accounting Firms

The finding is consistent with numerous other studies that have confirmed that foreign corporations and international accounting firms have a substantial influence upon regulators and governments in the shaping of regulatory frameworks so that they represent the interests of the firms; see the work of (Chand and White 2007; Bhatia and Makkar

2019; Abdullatif and Al-Rahahleh 2020; Rykaczewski et al. 2022). As Humphrey et al. (2009) argued, major international accounting firms can potentially become involved in and responsible for setting global auditing standards. As a result of the above, coercive isomorphism can be considered a driver when a corporation is pushed into adopting certain kinds of behaviour shown by another successful trading partner or corporation, such as foreign owners, foreign companies, or suppliers. Changes may, in other words, be imposed from a variety of powerful kinds of external sources or constituents regarding some structure, or practice (Tuttle and Dillard 2007); this could be the case when a company is coerced into adopting IFRS to satisfy the demands and expectations of the associated powerful stakeholders. Such pressure may be felt as coercion, belief, or encouragement to join the collusion.

Coercive isomorphism applies if social actors have coerced behaviour in other social actors who are considered successful in their bids to enhance their acceptance and legitimacy (DiMaggio and Powell 1991). Furthermore, Mizruchi and Fein (1999) state that coercive isomorphism is deemed a principle player towards uniformity. In that regard, a country's commitment to the adoption and harmonisation of ISAs may be impacted by the existence of international business partners. It was stated by El-Helaly et al. (2020) that the greater degree of openness a country has concerning foreign investment and trade, the greater its exposure to international best practices and, as a consequence, the greater its willingness to demonstrate a pledge to the implementation of ISAs to acquire a superior level of conformity to the law and regulations within the international marketplace.

Several other researchers have observed the positive impact that foreign companies have upon the adoption of standards that are internationally sustained and recognised, e.g., the ISA, for instance, the work of Sikka (2009); Oulasvirta (2014); Estevam et al. (2021); Elmghaamez and Elmagrhi (2022). Hence, interviewees expressed their cynical view of the influence of foreign firms. Reference was made to the types of benefits that companies receive concerning the ability to offer an environment wherein Libyan practitioners with more qualifications can find employment; as such, there is a greater appeal to becoming more skilled and seeking to extend the field of their practice. On the other hand, many interviewees saw the role of foreign companies in the motivation of adoption of auditing standards of high quality, e.g., the ISAs, as leading to progress being hindered. It may be attributed to those companies contributing to the auditing profession of Libya to a low extent since its existence from the 1950s. That move seems justified as Libya, a developing country, seeks greater foreign investment to enhance the national economy. The comments that follow indicate support for the view that international companies assist in persuading companies in Libya to go for the adoption of the ISAs:

"In my view, international firms within any particular sector such as accounting or the oil industry, i.e., the so-called Big Four kind of firms, would be supportive of ISA adoption for two primary reasons: movement of expertise across borders; and opportunities for investment wherein Libya is seen as a place with plenty of opportunities because of the developments in numerous sectors, such as power, tourism and infrastructure for example" (Internal Auditor 2). In the same vein, two state auditors stated: "I think that their role in driving the adoption in the country would depend upon who would be the beneficiaries, as ISA adoption has the potential of increasing national competitors. The national firms (practitioners), on the other hand, consider the existence of those companies as a form of motivation since they could compete if such standards that have been internationally accepted are adopted" (State Auditor 2). This participant highlighted that Libya, as a developing country that is rich with resources and opportunities that are not exploited in the right manner, would benefit from intervening in the international companies; hence, to attract international firms, regulators would have to integrate into the international arena and pave the road for them to value such a country as good fortune. This evidence is in line with many scholars such as (Boolaky et al. 2020; Abdullatif and Al-Rahahleh 2020; Keldiyorqizi 2021).

On the other hand, other interviewees blamed the international companies for failing to uphold their responsibility to deliver or contribute enough to the advancement of the auditing profession through the lack of provision of the financial support needed for seminars and conferences that could act to enhance the awareness in the nation of international forms of auditing practice and, in general, could serve to keep the auditing profession in Libya up to date.

Some participants were not as positive and often presented controversial views on state auditors; they were of the view that it was a hindrance to have foreign companies present as the history of them conducting business within Libya has shown no valid contribution was made by them to development within that professional field. In that regard, according to one interviewee:

"As far as I know it, foreign companies, particularly those operating within the oil industry, have been present within Libya for more than fifty years, before the establishment of the LAAA profession, and the contribution that they have made to the development of the practice of auditing and accounting within Libya has been, at most, very minor. So, I think those companies are a factor of a hindrance concerning ISA adoption" (State Auditor 1). Similarly, other answers echoed the same view: "The Big Four companies are not officially in practice, but they do indirectly perform their work in the country with their alliance with Libyan national or Arab offices such as Grant Thornton Libya, supported by Grant Thornton Malta, which will be operational with Badi Chartered Accountants and Auditors as its name. Therefore, adopting the ISAs in the country is essential to enhance such opportunity". These participants were unsatisfied with the role played by the international firms, highlighting oil and gas companies that were present in the context of the study over the five decades yet showed no sign of significant integration with the international arena. Therefore, their existence was deemed as hindering rather than supporting such adoption. These views align with (Wang and Miraj 2018; Khdir and Białek-Jaworska 2020; El-Helaly et al. 2020) that the weaker institutions and politicians, obstacles to infrastructure, and infrastructure corruption would impair the foreign investments inflow in greater ways than the adoption of international harmonised standards.

5.2. The Economy and the Stock Market

The adoption decision comes in response to the pressure from a variety of stakeholders aimed at maximising their particular benefits; which appeared to lead to unintended consequences, including decreasing the degree of market capitalisation due to conflicts of interest amongst stakeholders (Samaha and Khlif 2016; Sayumwe and Francoeur 2017). Nonetheless, the adoption of international auditing and accounting standards has led to significant consequences for financial markets that are both intended and unintended; these consequences may result in impacts on capital markets that are either positive or negative at the macroeconomic scale (Brüggemann et al. 2013). Companies listed on the stock exchange can, in doing so, demonstrate that their financial statement quality has been enhanced and, so, they can achieve the expected potential consequences to the financial market due to the adoption of the ISAs (Elmghaamez and Ntim 2016; Elmghaamez et al. 2020).

A study within Jordan was conducted by (Alshbiel and Al-Awaqleh 2011) that discovered that since the ISAs/IFRS was adopted, a great deal of improvement has been seen in the national economy because of the familiarity of investors with those kinds of standards, the enhanced credibility and greater confidence held in financial report audit quality and, consequently, the greater willingness of potential and current investors to seek further investment opportunities within Jordan. The Libyan participants acknowledged such benefits, and their opinions had consistency with those that were expressed within numerous similar studies that have shown the national economy to be of strong influence in the determination of whether international standard adoption is encouraged; see the works of Zeghal and Mhedhbi (2006); Sawani (2009); Baruni and Sentosa (2013); Harahap et al. (2018) and El-Helaly et al. (2020).

This study further explored the stock market presence because of the evidence brought to bear showing that if a stock market exists within a country, there is an impact upon international standard adoption, such as the implementation of ISAs/IFRS; see Zeghal and Mhedhbi (2006); Baruni and Sentosa (2013). Hence, the interviewees believed the Libyan stock market to be influential. These findings are in alignment with those acquired by the work of Darwish et al. (2004), which made the argument that any stock market has the fundamental requirement of information that is reliable, produced by accountants who are qualified, is based upon recognised standards of accounting, and that is audited by auditors who are qualified and who use standards that are also recognised. So, the stock market highly recommends adopting high standards, such as the ISAs/IFRS; (see Archambault and Archambault 2003).

The interviewees stated that Law No. 55 of 2005, which requires the adoption of standards internationally recognised by all of the companies that wish to list, had been enacted by the LSM authority, ISAs for the practice of auditing, and the IFRS for accounting. Interviewees also mentioned that benefits would come from adhering to those standards that could involve LSM expansion to include foreign participants as, to date, only national banks and companies that are Libyan are permitted to engage with LSM activities. Those findings are consistent with Zeghal and Mhedhbi (2006), which state that any country's stock exchange participants could encourage other companies to follow the particular stock exchange practice to ensure compliance with their legislation.

Furthermore, it was stated by Zeghal and Mhedhbi (2006) that nations that have stock exchanges that are developed have a tendency to establish financial regulations (standards for auditing and accounting) that are more sophisticated, or they adopt financial regulation that is internationally recognised (ISAs/IFRS). Those highlights were echoed in the opinions shared by a number of the interviewees in referring to both the Libyan stock market and the Libyan economy in general being still only in their early phases and, in relative terms, still weak, and that, therefore, a need exists for support for financial regulations that are clear so that confidence is boosted within the marketplace.

Among the interviewees who were able to comment in-depth about the issue of Libya's economy and the role of the LSM, the regulator made the following statement: "For me, it seems obvious that the economy would play a vital role in driving the adoption or establishment of rigorous and high standards of auditing and accounting by the authority, adoption of ISA being no exception. Furthermore, regarding the stock market, I think there is already a legal requirement to prepare financial information to align with IFRS, with auditing based upon the ISAs". (*Regulator 1*). The comments of the second external auditor about the role played by the economy in influencing the decision over adoption had similarities to the views put forward by the regulator: "As Libya is viewed as a place with lots of opportunities, and because of the willingness of the Libyan authorities to enhance welfare in the society of the nation, I think it is believed to be a factor that is supportive to ISA adoption and, also, that could be beneficial to the LSM as there is a requirement for companies to adopt and apply ISAs/IFRS". (*External Auditor 2*). These participants agreed that the economy has a vital role in this country like any other country, where resources are available to be used and enjoyed by the country's people and others willing to seize such opportunity to invest in a wealthy country. This evidence is supported by many scholars, such as (Brüggemann et al. 2013; Elmghaamez and Ntim 2016; Haapamäki and Sihvonen 2019; Mexmonov 2020; Elmghaamez et al. 2020).

A state auditor, however, had an opposite viewpoint than that of the second academic in considering that the economy of Libya was a hindrance to ISA adoption in auditing practice in Libya. He considered that Libyan economic weakness and the consequent LSM infancy were obstacles in that regard. Concerning that issue, their individual opinions were as follows: "I think weaknesses in the economy of Libya and Libyan financial institutions are not supportive of adoption unless there is development and flourishing". (*State Auditor 1*). Hence, this participant view is in line with Zeghal and Mhedhbi (2006), that the country's economic status and the level of stock exchange would matter when taking such a decision.

However, in this case, Libya is rich in resources, yet the country heavily relies on the capital generated from crude oil rather than investments.

5.3. International Financial Institutions

It is considered that international institutions of finance, e.g., the WB, IMF, WTO, and EC, are extremely influential in the decisions of regulators within a particular country that is seeking financial help (Mir and Rahaman 2005; Samsonova 2009; Arnold 2012; Tawiah 2022). That is supported through coercive institutional pressures directly resulting from experts and professionals who, through channels of legitimacy seeking, adopt innovative policies as a form of signal for a collective identity.

Therefore, most interviewees were aware of the international financial institution requirements, i.e., those of the World Bank, European Bank, and the IMF, and awareness of the preconditions needed before attaining membership in the WTO. They confirmed the capability of leverage of those institutions regarding the adoption by a country of international standards that were rigorously designed and accepted, e.g., the ISAs. Therefore, implementation of standards of auditing and accounting that are internationally recognised as expressed in:

"I believe that financial institutions impact greatly upon the rules and regulations of countries, such as, for example, the standards for auditing and accounting. Libya has, for instance, been an IMF member for more than fifty years" (*State Auditor 1*). The regulator expressed the same opinion in emphasising those institutions' impact on that type of decision-making: "If we consider Libya's financial position, the country would not be close to seeking the funds from those international institutions. However, financial institutions like the WTO (World Trade Organisation) may put a prerequisite condition on countries so that they make a membership application; that type of demand may be observed in the application for auditing and accounting standards that are internationally accepted (ISAs/IFRS)" (*Regulator 1*). Furthermore, those views were reiterated by a researcher, saying: "For sure, international financial institutions are seen as 'The Money Guardians', with no country managing to isolate themselves from them. They offer numerous services including preparation of consultation papers, perhaps in collaboration with the particular country or with the expertise, funds and advice about the economic stability of other institutions" (*Researcher 1*). Hence, all participant groups in this study acknowledged the role played by these institutions, an unsurprising outcome perhaps as the development of the auditing and accounting profession within Libya has been a requirement of the WTO prior to the country being considered acceptable for membership (Darwish et al. 2004; Mir and Rahaman 2005; Samsonova 2009; Arnold 2012; Tawiah 2022).

5.4. Legal System

It was discovered that "in the case of Africa, foreign investors appear to be concerned with the cost of operating in an IFRS-regulated environment" (Nnadi and Soobaroyen 2015, p. 228). As such, those foreigners investing in Africa may not have the same attraction to IFRS as counterparts elsewhere. In addition, the analysis of Nnadi and Soobaroyen (2015) and Kurniawati and Achjari (2022) shows that the institutional factors, including the system and the rule of law and perceptions that corruption levels are low, had a positive effect that was significant on net FDI levels within African countries, whilst adoption of IFRS had a significantly negative effect; the suggestion is that for many African countries, a trade-off exists between the more targeted kinds of IFRS investments and other investments aimed at improving society-wide kinds of institution. Given that, Western African countries are already trying to harmonise their systems since there is a requirement for all SMEs to either use the full standards of IFRS as the IASB issues or to follow SYSCOHADA (IFRS 2018). Therefore, the 17 African member countries of the OHADA (Organization for the Harmonisation of Commercial Law in Africa) are pioneering the harmonisation of their accounting and auditing practices in Africa.

DiMaggio and Powell (1991) pointed out that there may be the occurrence of coercive isomorphism due to the imposition of standard procedures of operation and rules that are legitimated by government mandate in addition to conformation to societal responsibility and expectations. So, there is the conjecture that informal and formal pressures are exerted upon organisations. These hail from various stakeholders, including legislative and political bodies, lending institutions, shareholders, and the general public. Whilst we agree with the arguments presented by Simunic et al. (2017), we contend that the cost-benefit analysis subsumed in that legal perspective reflects an interpretation that is rather narrow in respect to its relevance in the light of political and social issues.

Regarding the regulatory framework governing auditing and accounting, four common approaches can be seen worldwide. In the USA, for example, the government enacted regulations and legal statutes by working with the profession for auditing and accounting in partnership. There has not been the formulation of such legislation within Libya, and so, consequently, the participant group responses showed that the sample of the research did not consider the legal framework for Libya to be supportive of ISA adoption. The absence of supporting regulations and laws has been noted within the literature as being a barrier to ISA adoption; see Samsonova (2009). It has been noted that many countries have suffered that way, and, in that regard, Libya is no exception. As discussed above, there is Law No. 116 of 1973 for the country; however, that law is now more than forty years old; it can be considered fairly outdated, which may be easily noticed because of the poor standard of auditing and accounting within the country.

Regarding accountancy practices, the opinions expressed by the interviewees showed the high level of influence of the laws and regulations of Libya concerning deterring ISA adoption. In essence, regarding ISAs, the view held was that existing statutes in law were negatively impacting since they did not align with developments internationally, and they were preserving a situation wherein the presence of high levels of fraud in Libya was allowed to continue to thrive.

Libyan Laws and Regulations

The ISAs adoption accord likewise has a high correlation to the regulations and laws for any particular jurisdiction; as such, the researcher investigated the relationships between the decision to adopt and the legal framework of Libya through an exploration of that issue with the participating interviewees. Those involved showed that the legislative framework of Libya fails to support ISA adoption.

Moreover, the majority of participants believed that the auditing regulations within Libya were not meeting international standards, with one particular interviewee arguing that the reason for that was political corruption in the country. The government imposed heavy centralisation upon all kinds of business activities within the country and that, along with strong control politically, has been deemed to thwart all types of alignment to recognised international standards; this may be comprehended from several remarks made by numerous interviewees after being asked of their views concerning the impact of the regulatory framework and legislation within Libya upon the potential for ISA adoption:

"The regulations for auditing and accounting do not meet international standards and are outdated; furthermore, the laws and regulations of Libya regarding other kinds of the sector also fail to reach international standards. The laws and regulations of Libya do, therefore, play a central role in hindering ISA adoption". (*External Auditor 2*). Similarly, "In my opinion, politics plays a huge role in the failure to enact regulations and laws that could contribute to the chance of adoption of such standards of high-quality and strictness; such standards would harm small, self-interested groups who potentially have much control over the business within Libya—in other words, widespread corruption is a key aspect of reality". (*Internal Auditor 2*). These participants made clear that the regulators and those in charge of enacting laws and regulations were incapable of doing so, and if they succeeded, those laws and regulations did not meet international standards. Therefore, this theme is considered a hindrance to the adoption of international standards on auditing. This result is in line with many studies that linked local regulators with failing to meet international harmonisation (Nnadi and Soobaroyen 2015; Kurniawati and Achjari 2022).

Nonetheless, some interviewees expressed different sentiments. Internal Auditor 1, for example, held a different opinion: "To maintain the level of welfare desired in any particular country, great importance is attached to the regulations and laws. As such, I believe that the country is embracing the efforts to enhance the people's living style by enacting new forms of law and modifying certain kinds of regulation so that they meet international standards" (*Internal Auditor 1*). This participant valued the work performed by the local regulators and embraced their effort to enhance the people's living styles. This view is in line with the INTOSAI Auditing Standards that standards should not be construed as in conflict with local laws and regulations in order to ensure greater adoptability.

6. Conclusions

A conclusion may be brought out from the investigation findings of ISAs in light of the institutional theory according to different perspectives given a wide variety of stakeholders. In evaluating factors that influence ISAs adoption within Libya as an emerging economy aimed at establishing sustainability and efficiency in the Libyan regime for auditing, it was found that all the interviewees unanimously agreed on the pertinence and benefits of introducing an ethical standard such as the ISAs. As highlighted in the literature, whilst many companies have expressed high sustainability ambitions and developed extensive sustainability reports, the application of specific accounting tools has mainly been analysed in the research literature for single case studies.

The research findings provided theoretical evidence supporting neo-institutional drivers of pressure being considered influential on the extent of commitment to adopting and harmonising ISAs. In light of categorisation of institutional isomorphism into two kinds of classification by DiMaggio and Powell (1991), the authors found that mimetic and coercive pressures are significant forces that encourage or prevent the harmonisation of ISAs and, therefore, their adoption. Particularly among the three coercive-led variables, i.e., international accounting firms and foreign corporations, and the legal system and the international financial institutions, there is the imposition of change from external bodies (DiMaggio and Powell 1991). The fundamental grounding needed for ISAs adoption in developing countries is linked to donor agencies' required implementation of IFRS (Mir and Rahaman 2005). These are in line with interviewee State Auditor 1 in which "government intervention" is the core cause of non-adoption. Secondly, a rise of mimetic isomorphism hails from a tendency to apply 'best practice' amongst organisations (DiMaggio and Powell 1991); the variable, i.e., the stock market and economy, seem to be reliable predictors of the ISAs adoption degree.

The analysis suggests that national auditing and accounting policymakers face problems concerning adopting international standards due to legal and regulatory features within their country. Therefore, the status quo of the auditors, the regulations and laws, and those in control of the profession within the country have created a negative climate for the attempts to draw Libya toward the international market. It is accepted as well though that ISAs adoption enablers are in place for certain international firms of accounting and support of foreign corporations. Through the elimination of inhibitors, the key to the successful application of ISAs involves complete effort and focus of everyone and everything, with planning, a sense of readiness, and full commitment and support.

The implications of this study are twofold. First, an important significance for academic researchers, as this study emphasises the factors that influence the adoption and, more importantly, why these are imperative. Hence, curriculum redesign is needed to equip graduates and practitioners to apply more harmonised standards. Moreover, this study contributes to the auditing practice literature, and the findings have policy implications for countries sharing similarities with North African and other emerging countries. Further research is needed on what policymakers have triggered to steer the profession towards more harmonised standards internationally. These implications serve the paper's main objective to investigate the factors that influence the adoption of the ISAs in the North African region.

To conclude, the most challenging aspect of ISAs adoption is linked to the need for 'procedures' as opposed to the current content of any particular auditing standard. In the efforts to achieve satisfaction for foreign companies, international accounting firms, and western donor/lending institutions, the auditing profession in Libya and the stock market regulator seem to have an uncritically supportive stance concerning the rather awkward attempts at encouraging the adoption of global monetary establishment, i.e., IMF and WB. Legitimacies are related to their entities and the degree to which their financial information can be considered worthy. To obtain that legitimacy, they now attempt to build myths by perpetuating ceremonial and symbolic activities, including wholesale IFRS adoption for listed companies, without evidence of implementation.

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Appendix A

Semi-Structured Interview Questions List

Part A: Respondent details
Name of institution
Position
Qualifications
Years of experience

Part B: Auditing Profession Regulations
Q1. How do you assess the LAAA's role in developing auditing profession regulations? **Why**?
Part C: Auditing Standards
Q2. Why do or do not Libyan auditing educational curricula, auditors' quality, and ISA's understandability support ISA's adoption?
Q3. Why do or do not Libyan laws and regulations support the adoption of ISAs?
Q4. Why do or do not the existence of companies, such as international accounting firms and foreign companies, support ISA's adoption?
Q5. Why does or does not the Libyan economy, including the Libyan stock market, support the adoption of ISAs?
Q6. Why do international financial institutions' roles support or not support ISAs adoption?

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