

**THE INFLUENCE OF INTERNAL CORPORATE
GOVERNANCE CHARACTERISTICS ON
EXTERNAL AUDIT QUALITY IN LIBYAN
ISLAMIC BANKS: THE MODERATION
ROLE OF ISLAMIC WORK ETHICS**

TALAL SALEM IDREES ANNAKOUA

UNIVERSITI SAINS MALAYSIA

2025

**THE INFLUENCE OF INTERNAL CORPORATE
GOVERNANCE CHARACTERISTICS ON
EXTERNAL AUDIT QUALITY IN LIBYAN
ISLAMIC BANKS: THE MODERATION
ROLE OF ISLAMIC WORK ETHICS**

by

TALAL SALEM IDREES ANNAKOUA

**Thesis submitted in fulfilment of the requirements
for the degree of
Doctor of Philosophy**

August 2025

ACKNOWLEDGEMENT

I dedicate my work to
The Greatest Teacher of All Times
Prophet Muhammad peace be upon him

TABLE OF CONTENTS

ACKNOWLEDGEMENT.....	ii
TABLE OF CONTENTS.....	iii
LIST OF TABLES.....	ix
LIST OF FIGURES	xii
LIST OF ABBREVIATIONS	xiii
LIST OF APPENDICES.....	xiv
ABSTRAK	xvi
ABSTRACT.....	xviii
CHAPTER 1 INTRODUCTION	1
1.1 Introduction.....	1
1.2 Background of the Study	2
1.3 Problem Statements	11
1.4 Research Objectives.....	14
1.5 Research Questions.....	14
1.6 Operational Definition	16
1.6.1 Internal Corporate Governance Mechanisms.....	16
1.6.2 Board Characteristics	17
1.6.3 Audit Committee Characteristics.....	19
1.6.4 Internal Audit Characteristics	20
1.6.5 Internal Audit Characteristics	21
1.6.6 External audit Quality	22
1.6.7 Islamic work ethics	24
1.6.8 Islamic Bank	26
1.7 Significance of The Study.....	27
1.8 Scope and Limitations of the Study	29

1.8.1	Limitations of the Subject of the Study	30
1.8.1(a)	Limitation of Research Methodology	30
1.8.1(b)	Limitations of Data Collection	30
1.9	Contributions to the Study	32
1.9.1	Theoretical Contributions	32
1.9.2	Empirical Contributions.....	33
1.10	Organization of The Thesis	34
1.11	Summary of The Chapter	36
CHAPTER 2 LITERATURE REVIEW		37
2.1	Introduction.....	37
2.2	Past Research	38
2.2.1	Internal Corporate Governance Characteristics (ICGCs)	40
2.2.2	External Audit Quality (EAQ)	46
2.2.3	Islamic Work Ethics (IWEs)	49
2.2.4	Influence of ICGCs on EAQ.....	52
2.2.4(a)	Influence of Board Characteristics on EAQ	56
2.2.4(b)	Influence of Audit Committee Characteristics on EAQ	60
2.2.4(c)	Influence of Internal Auditor's Characteristics on EAQ	63
2.2.5	The Role of IWEs on The Influence of ICGCs on EAQ	66
2.3	Analysis of The Past Study	69
2.4	Literature Review.....	71
2.4.1	The Concept of Corporate Governance	72
2.4.2	Internal Corporate Governance Mechanisms.....	73
2.4.2(a)	Board of Directors	74
2.4.2(b)	Audit Committee.....	76
2.4.2(c)	Internal Audit	77

2.4.3	The Concept of External Audit Quality (EAQ)	79
2.4.4	Agency Theory	82
2.4.4(a)	The Absence of Ethics in Agency Theory.....	83
2.4.5	The Importance of Integrating Ethics into The Owner-Agent Relationship	84
2.4.5(a)	The Distinction of Islamic Work Ethics Over Conventional Ethics.....	87
2.4.5(b)	The Role of Islamic Work Ethics in Corporate Governance	90
2.4.5(c)	Self-Interest Directed Behaviour And Islamic Ethical Behaviour	93
2.4.6	Divine Command Theory.....	97
2.5	Analysis of The Literature Review	101
2.6	Conceptual Framework	102
2.7	Summary of the Chapter	108
CHAPTER 3 RESEARCH METHODOLOGY.....		110
3.1	Introduction.....	110
3.2	Research Design.....	112
3.2.1	Estimated Model of This Study	116
3.2.1(a)	Board of Director Direct model.....	117
3.2.1(b)	Audit Committee Direct Model	117
3.2.1(c)	Internal Audit Direct Model.....	117
3.2.1(d)	Board of Director Indirect model.....	118
3.2.1(e)	Audit Committee Indirect Model.....	118
3.2.1(f)	Internal Audit Indirect Model	119
3.2.2	Measurment of The Variables of the Study.....	119
3.2.2(a)	Dependent Variable.....	119
3.2.2(b)	Independent Variables.....	120
3.3	Data Collection Method	125

3.3.1	Secondary Data	125
3.3.2	Primary Data	126
3.3.3	The Data Source.....	127
3.3.4	Sampling Method.....	128
3.3.4(a)	The justification of sample selection	132
3.3.5	The Length of The Questionnaire	133
3.3.6	Question Format.....	134
3.3.7	Structure of The Questionnaire	134
3.3.8	Pilot Test.....	137
3.3.9	Administration and distribution of the questionnaire	139
3.3.9(a)	Response to The Questionnaire	140
3.4	Data Analysis Method.....	140
3.4.1	Justification For Using PLS-SEM	143
3.4.2	Stationarity And Co-Integration Tests.....	144
3.4.3	Diagnostic Tests	145
3.4.3(a)	Goodness of Fit (GOF)	145
3.5	Procedure Of Research Implementation	146
3.6	Hypotheses Development	147
3.6.1	Influence of Board of Directors' Characteristics on EAQ	148
3.6.1(a)	Influence of Board of Directors' Size on EAQ.....	148
3.6.1(b)	Influence of Board of Directors' Independence on EAQ	149
3.6.1(c)	Influence of Board of Directors' Meetings on EAQ.....	150
3.6.1(d)	Influence of Board of Directors' IWEs on EAQ.....	150
3.6.2	Influence of Audit Committee's Characteristics on EAQ.....	152
3.6.2(a)	Influence of Audit Committee's Size on EAQ.....	152
3.6.2(b)	Influence of Audit Committee's Independence on EAQ	153

3.6.2(c)	Influence of Audit Committee's Meetings on EAQ.....	154
3.6.2(d)	Influence of Audit Committee's IWEs on EAQ	154
3.6.3	Influence of Internal Audit's Characteristics on EAQ	156
3.6.3(a)	Influence of Internal Audit's Size on EAQ.....	156
3.6.3(b)	Influence of Internal Auditor's Independence on EAQ	157
3.6.3(c)	Influence of Internal audit's IWEs on EAQ.....	157
3.6.4	Moderating Role of IWEs in The Influence of ICGCs on EAQ.....	158
3.7	Summary of The Chapter	162
CHAPTER 4 DATA ANALYSIS.....		163
4.1	Introduction.....	163
4.2	Assessment of PLS-SEM Path Model Results.....	164
4.2.1	Assessment of Measurement Model	165
4.2.1(a)	Indicator Reliability	165
4.2.1(b)	Internal Consistency Reliability	170
4.2.1(c)	Convergent Validity	172
4.2.1(d)	Discriminant Validity	174
4.2.2	Assessment of Structural Model	182
4.2.2(a)	Coefficient of Determination (R^2).....	184
4.2.2(b)	Effect Sizes (f^2) Strength of Direct Effects.....	185
4.2.2(c)	Predictive Relevance (Q^2).....	188
4.3	Results of Hypothesis Testing.....	189
4.4	Discussion On How ICGCs Directly influence EAQ	198
4.4.1	The Influence of Board of Directors' Characteristics on EAQ.....	199
4.4.2	The Influence of Audit Committee's Characteristics on EAQ.....	208
4.4.3	The Influence of Internal Audit's Characteristics on EAQ	218
4.5	Moderating Role of IWEs in the Relationship Between ICGCs and EAQ	227

4.6	Effect Size (f^2) Strength of Moderating Effects	235
4.7	Discussion On How IWEs Moderate The Influence of ICGCs on EAQ	237
4.7.1	Moderating Role of IWEs In The Influence Of Board Of Director's Characteristics On EAQ.....	238
4.7.2	Moderating Role of IWEs In The Influence Of Audit Committee's Characteristics On EAQ	248
4.7.3	Moderating Role of IWES in the Influence of Internal Audit's Characteristics on EAQ.....	257
4.8	Summary of The Chapter	264
CHAPTER 5 CONCLUSION		265
5.1	Introduction.....	265
5.2	Main Findings of The Research	265
5.3	Research Implications of The Study	273
5.3.1	Theoretical Implications of The Study.....	273
5.3.2	Practical Implications of The Study.....	278
5.3.3	Policy Implications of The Study.....	279
5.4	Suggestions For Future Research.....	281
5.5	Summary of The Chapter	283
BIBLIOGRAPHY		284
APPENDICES		

LIST OF TABLES

	Page
Table 1.1 Research Objectives and Research Questions	15
Table 2.1 The Difference Between Islamic Work Ethics and Conventional Codes of Conduct.	89
Table 3.1 Previous Studies Used By Researcher in Adopting Variables’ Indicators.	121
Table 3.2 Definitions and Measurements of The Study Variables	122
Table 3.3 Islamic Banks and Location Of Their Headquarters in Libya	130
Table 3.4 Islamic Banks’ Headquarters Operating in Tripoli	131
Table 3.5 Number of Questionnaires Distributed For Each Group of Respondents	132
Table 3.6 Study Constructs and Their Measurement Items Used By Previous Studies	136
Table 3.7 List Of Experts and Academics who Judged Questionnaire Used In The Study	138
Table 3.8 Process Of Distributing and Receiving Questionnaire On Study Sample	140
Table 3.9 Summary Of The Research Methodology	161
Table 4.1 Items and Their Respective Loadings For Board Of Director’s Model	167
Table 4.2 Items and Their Respective Loadings For Audit Committee’s Model	168
Table 4.3 Items and Their Respective Loadings For Internal Audit’s Model	169
Table 4.4 Cronbach’s Alpha and Composite Reliability Values For Board Of Directors’ Measurement Model	171
Table 4.5 Cronbach’s Alpha and Composite Reliability Values For Audit Committee’s Measurement Model	171
Table 4.6 Cronbach’s Alpha and Composite Reliability Values For Internal Audit’s Measurement Model	172

Table 4.7	Average Variance Extracted Of The Constructs In Board Of Director's Model.....	173
Table 4.8	Average Variance Extracted Of The Constructs In Audit Committee's Model.	173
Table 4.9	Average Variance Extracted Of The Constructs In Internal Audit's Model.	173
Table 4.10	Fornell-Larcker Discriminant Validity Analysis for The Model of Board of Director's Characteristics and EAQ.....	175
Table 4.11	Fornell-Larcker Discriminant Validity Analysis for The Model of Audit Committee's Characteristics and EAQ.....	175
Table 4.12	Fornell-Larcker Discriminant Validity Analysis for The Model of Internal Audit's Characteristics and EAQ	176
Table 4.13	Discriminant Validity Assessment Using Indicators Loading and Cross Loading for Model of Board of Directors' Characteristics and EAQ	177
Table 4.14	Discriminant Validity Assessment Using Indicators Loading and Cross Loading for Model of Audit Committee's Characteristics and EAQ	178
Table 4.15	Discriminant Validity Assessment Using Indicators Loading and Cross Loading for Model of Internal Audit's Characteristics and EAQ	179
Table 4.16	Heterotrait-Monotrait Ratio (HTMT) For Board of Directors' Characteristics and EAQ Model.....	181
Table 4.17	Heterotrait-Monotrait Ratio (HTMT) For Audit Committee's Characteristics and EAQ Model.....	181
Table 4.18	Heterotrait-Monotrait Ratio (HTMT) For Internal Audit's Characteristics and EAQ Model.....	182
Table 4.19	VIF (Collinearity Measures) for Board of Directors' Characteristics and EAQ	183
Table 4.20	VIF (Collinearity Measures) for Audit Committee's Characteristics and EAQ	183
Table 4.21	VIF (Collinearity Measures) for Internal Audit's Characteristics and EAQ	183
Table 4.22	Coefficients of Determination (R^2).....	185
Table 4.23	Effect Size of the Exogenous Variables on Endogenous Variable in Board of Director's Structural Model	187

Table 4.24	Effect Size of the Exogenous Variables on Endogenous Variable in Audit Committee's Structural Model	187
Table 4.25	Effect Size of the Exogenous Variables on Endogenous Variable in Internal Audit's Structural Model.....	188
Table 4.26	Construct Cross-Validated Redundancy (Q^2)	189
Table 4.27	Results of Hypotheses Testing (Model 1: Direct Influence of Board Of Directors' Characteristics on EAQ).	190
Table 4.28	Results of Hypotheses Testing (Model 2: Direct Influence of Audit Committee's Characteristics on EAQ).	193
Table 4.29	Results of Hypotheses Testing (Model 3: Direct Influence Of Internal Audit's Characteristics on EAQ).	196
Table 4.30	Board Of Director's Structural Model with The Moderating Role Of IWEs In The Relationship Between Board Of Director's Characteristics And EAQ	228
Table 4.31	Audit Committee's Structural Model with The Moderating Role Of IWEs In The Relationship Between Board Of Director's Characteristics And EAQ	231
Table 4.32	Internal Audit's Structural Model with The Moderating Role Of IWEs In The Relationship Between Board Of Director's Characteristics And EAQ.....	233
Table 4.33	Moderation Effect Results	237
Table 5.1	Summary Of The Findings	269

LIST OF FIGURES

		Page
Figure 1.1	Libya’s Governance Performance According to Worldwide Governance Indicators	8
Figure 2.1	EAQ Framework.....	81
Figure 2.2	Differences Between Self-Interest Directed Behaviour According To Agency Theory And Ethical Behaviour According To Shariah.	96
Figure 2.3	Structural Model of The Conceptual Framework Of The Study	105
Figure 3.1	Research Implementation Procedure	147
Figure 4.1	PLS Bootstrapping For The Internal Audit Structural Model: Direct Hypotheses.....	191
Figure 4.2	PLS Bootstrapping For The Audit Committee’s Structural Model: Direct Hypotheses	194
Figure 4.3	PLS Bootstrapping For The Internal Audit Structural Model: Direct Hypotheses.....	197
Figure 4.4	PLS Bootstrapping For The Board Of Director’s Structural Model: Indirect Hypotheses.....	229
Figure 4.5	PLS Bootstrapping For Audit Committee’s Structural Model: Indirect Hypotheses	232
Figure 4.6	PLS Bootstrapping For Internal Audit’s Structural Model: Indirect Hypotheses	234

LIST OF ABBREVIATIONS

AQ	Audit Quality
CG	Corporate Governance
CGCs	Corporate Governance Characteristics
CGMs	Corporate Governance Mechanisms
EAQ	External Audit Quality
ICGCs	Internal Corporate Governance Characteristics
ICGMs	Internal Corporate Governance Mechanisms
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
IWEs	Islamic Work Ethics
LGGB	Libyan Governance Guideline for Banking
LIBs	Libyan Islamic Banks
MENA	Middle East and North Africa
PLS	Partial Least Square
SEM	Structural Equation Modelling

LIST OF APPENDICES

Appendix A	Letter from the Libyan Embassy in Malaysia Supporting Data Collection.
Appendix B	Questionnaire Directed to Board Of Directors
Appendix C	استبيان موجه لأعضاء مجلس الادارة
Appendix D	Questionnaire Directed to Audit Committee Members.
Appendix E	استبيان موجه لأعضاء لجنة المراجعة
Appendix F	Questionnaire Directed to Internal Auditors
Appendix G	استبيان موجه للمراجعين الداخليين
Appendix H	Board of Director Original PLS Model “Before Improvement
Appendix I	Audit Committee Original PLS Model “Before Improvement”
Appendix J	Internal Audit Original PLS Model “Before Improvement”
Appendix K	Simple Slope Analysis for the Interaction Effect Between Board IWEs and Board Size
Appendix L	Simple Slope Analysis for the Interaction Effect Between Board IWEs and Board Meetings
Appendix M	Simple Slope Analysis for the Interaction Effect Between Board IWEs and Board Independence
Appendix N	Simple Slope Analysis for the Interaction Effect Between Audit Committee IWEs and Audit Committee Meetings
Appendix O	Simple Slope Analysis for the Interaction Effect Between Audit Committee IWEs and Audit Committee Independence
Appendix P	Simple Slope Analysis for the Interaction Effect Between Audit Committee IWEs and Audit Committee Size
Appendix Q	Simple Slope Analysis for the Interaction Effect Between Internal Audit IWEs and Internal Audit Independence
Appendix R	Simple Slope Analysis for the Interaction Effect Between Internal Audit IWEs and Internal Audit Size
Appendix S	Collinearity Statistics for Board of Directors Model
Appendix T	Collinearity Statistics for Audit Committee Model

Appendix U	Collinearity Statistics for Internal Audit Model
Appendix V	List of publications

**PENGARUH CIRI-CIRI TADBIR URUS KORPORAT DALAMAN
TERHADAP KUALITI AUDIT LUARAN DALAM BANK ISLAM LIBYA:
PERANAN MODERASI ETIKA KERJA ISLAM**

ABSTRAK

Disebabkan oleh skandal korporat dan kegagalan audit yang berlaku di seluruh dunia sejak beberapa dekad kebelakangan ini, para penyelidik telah menunjukkan minat terhadap hubungan antara ciri-ciri Tadbir Urus Korporat Dalaman (Internal Corporate Governance Characteristics, ICGCs) dan Kualiti Audit Luaran (External Audit Quality, EAQ). Kajian-kajian terdahulu tidak dapat memberikan penyelesaian konklusif dalam menangani pelbagai aspek ICGCs serta hubungannya dengan EAQ, kerana telah mengabaikan peranan etika berasaskan agama yang melarang konflik berkepentingan. Tidak terkecuali bagi Libya yang merupakan sebuah negara majoriti Muslim, namun penipuan dan pelanggaran kewangan tetap berlaku dalam sektor perbankan Islam sejak sedekad lalu. Perkembangan ini menandakan kegagalan dalam tadbir urus korporat (Corporate Governance, CG) dan audit luaran. Keadaan ini menimbulkan persoalan mengenai peranan Mekanisme Tadbir Urus Korporat Dalaman (Internal Corporate Governance Mechanisms, ICGMs) serta peranan Etika Kerja Islam (Islamic Work Ethics, IWEs) terhadap EAQ. Lantaran itu, kajian ini bermatlamat untuk menyelidik secara empirikal hubungan antara ICGCs dan EAQ dalam bank-bank Islam di Libya. Kajian ini turut menganalisis bagaimana ICGCs mempengaruhi EAQ serta peranan pengantara IWEs dalam konteks tersebut. Garis Panduan Tadbir Urus Perbankan Libya (Libyan Governance Guideline for Banking, LGGB) menekankan kepentingan tiga ICGMs terhadap EAQ, iaitu: Lembaga Pengarah, Jawatankuasa Audit, dan Audit Dalaman. Kajian ini menggunakan

pendekatan kuantitatif berbentuk deduktif rentas silang dengan reka bentuk penyelidikan penjelasan. Data kuantitatif dikumpul melalui soal selidik. Kajian ini menggunakan pensampelan bukan kebarangkalian secara pemilihan berasaskan tujuan (purposive sampling), di mana 149 responden yang terlibat dalam ICGMs telah dipilih untuk kajian ini. Sebanyak tiga model PLS–SEM digunakan untuk menganalisis data kuantitatif berkaitan ICGCs yang berpaksikan kepada tiga ICGMs. Dapatan menunjukkan bahawa saiz Lembaga Pengarah dan Jawatankuasa Audit tidak memberi kesan signifikan terhadap EAQ. Walau bagaimanapun, saiz Jabatan Audit Dalaman didapati memberi kesan positif dan signifikan terhadap EAQ. Selain itu, tahap kebebasan Lembaga Pengarah dan Jawatankuasa Audit juga memberikan pengaruh positif yang signifikan terhadap EAQ. Kekerapan mesyuarat Lembaga dan mesyuarat Jawatankuasa Audit turut didapati mempunyai kesan positif yang signifikan terhadap EAQ. Seterusnya, IWEs didapati berfungsi sebagai moderator positif terhadap pengaruh kebebasan lembaga, kekerapan mesyuarat, kebebasan jawatankuasa audit, saiz audit dalaman serta kebebasan audit dalaman terhadap EAQ. Implikasi kajian ini menekankan kepentingan mengintegrasikan IWEs ke dalam LGGB bagi memastikan penyelarasan antara tingkah laku etika berasaskan Syariah dengan ICGCs, yang akhirnya membawa kepada peningkatan EAQ dalam bank-bank Islam di Libya. Pengharmonian dan penyatuan antara ICGC dan IWEs akan meningkatkan lagi EAQ melalui komitmen dan kepatuhan individu Muslim dengan berpandukan perintah Ilahi yang beroperasi dalam ICGMs. Kajian ini memberi sumbangan dari sudut teori dan praktikal, khususnya dalam menentukan kepentingan IWEs dalam konteks Tadbir Urus Korporat CG dan EAQ.

**THE INFLUENCE OF INTERNAL CORPORATE GOVERNANCE
CHARACTERISTICS ON EXTERNAL AUDIT QUALITY IN LIBYAN
ISLAMIC BANKS: THE MODERATION ROLE OF ISLAMIC WORK
ETHICS**

ABSTRACT

In recent years, the auditing profession has faced widespread criticism due to a loss of public confidence, credibility, and perceived responsibility, following numerous financial scandals and corporate collapses globally. These events have raised serious concerns about the effectiveness of external audits and the reliability of financial statements. In response, many countries have turned to internal corporate governance mechanisms (ICGMs) as tools to enhance external audit quality (EAQ) and rebuild trust. In Libya, particularly within the Islamic banking sector, these concerns are especially urgent. Despite the issuance of the Libyan Governance Guideline for Banks (LGGB) by the Central Bank of Libya, financial violations and ethical misconduct persist, with Islamic banks contributing significantly to the nation's economic instability. Although ICGMs are designed to support EAQ, their actual effectiveness in this context remains unclear. Moreover, while Islamic Work Ethics (IWEs) emphasize honesty, accountability, and transparency, principles essential to both governance and auditing, their role is not formally integrated into existing governance frameworks like the LGGB. Prior research can be regarded as inconclusive in addressing the different aspects of Internal Corporate Governance characteristics (ICGCs) and their relationship with EAQ, as it has overlooked the role of ethics based on religions that forbid conflicts of interest. This omission has led to governance frameworks that may appear structurally effective but remain ethically vulnerable,

limiting their ability to prevent financial misconduct, maintain accountability, and support high EAQ, particularly in environments where ethical guidance is essential for shaping responsible behavior. The main objective of this research is to empirically investigate the relationship between ICGCs and EAQ in Libyan Islamic banks. This study also analyzes how ICGCs influence EAQ in Libyan Islamic banks. It also analyzes the moderating role of IWEs in Libyan Islamic banks. The Libyan governance guideline for banking (LGGB) emphasized the importance of the three ICGMs for the EAQ: board of directors, audit committee, and internal audit. This research adopts cross-sectional quantitative deductive approach with explanatory research design. Quantitative data were collected using survey questionnaire. This study uses non- probability propulsive sampling through which 149 respondents working in ICGMs have been selected for the survey. The study uses three PLS–SEM models to analyze quantitative data for ICGCs related to the three ICGMs. Findings show that the size of the board of directors and audit committee do not significantly affect EAQ. However, the size of the internal audit department is found to positively and significantly impact EAQ. Also, the independence of the board of directors and audit committee are found to have a significant positive influence on EAQ. The frequency of board meetings and audit committee’ meetings also are found to have a significant positive influence on EAQ. Moreover, IWEs is found to positively moderate the influence of board independence, board meetings, audit committee independence, internal audit size, and internal audit independence on EAQ. The implications of this study highlight the importance of incorporating IWEs into LGGB to ensure alignment between ethical behavior based on Shariah with ICGCs, leading to better EAQ in Libyan Islamic banks. The harmonization and convergence of ICGC with IWEs would further enhance EAQ through commitment and adherence of IWEs

by Muslim individuals (by divine commands) operating in ICGMs. This study makes theoretical and practical contributions, specifically in determining the significance of IWEs in the context of Corporate Governance (CG) and EAQ.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter provides the introductory part of the study. This research mainly casts the light on the importance of the ethical aspect of internal corporate governance mechanisms (ICGMs) in external audit quality (EAQ) in Islamic banks.

Recent financial scandals have continued to raise concerns about the credibility of audit services, with many scholars and regulators questioning whether the auditing profession has adequately fulfilled its role in detecting and preventing financial misconduct (Al-Hamadeen & Bani-Khalaf, 2021). Therefore, the profession has recently faced major challenges due to increasing doubts about the extent of its credibility and responsibility, which undermined users' trust in of financial reports, although the weak performance of corporate governance mechanisms (CGMs) in their supervisory and monitoring duties allegedly played a major role in these collapses.

The study mainly aims to explore the effects of various characteristics of ICGMs and EAQ and the potential influence of Islamic Work Ethics (IWEs) on this relationship in Libyan Islamic banks. It also seeks to analyze how these characteristics are related to EAQ aspects, which could serve the enhancement of EAQ and the effectiveness of ICGMs in Islamic banks.

The first section of the thesis discusses the broad outlines of the study, as it reviews the historical background of the research, in addition to highlighting the research problem and objectives, which facilitates understanding the process of

formulating study questions that serve the main research objectives. This chapter also reviews the operational definitions of research's terms, in addition to defining the scale and scope of the research, and the importance of the study for Islamic banks, investors, and the auditing profession. Moreover, this chapter discusses the contribution of the study by defining the theoretical gap of this topic in accounting literature and how the study fills it. The chapter also defines the study's contribution to bridging the theoretical and practical gap. Finally, it presents an overview of the study's organizational structure.

1.2 Background of the Study

Despite the Modern interest in the concept of CG, its appearance can be traced back to the beginning of the last century, since two researchers at Harvard University Means and Berle in 1932 addressed the issue of separating ownership from management. The two researchers emphasized the necessity of separating the ownership of corporate capital from supervision and control functions in large corporations, and they provided an interpretation of the fundamental problem resulting from the lack of separation of two jobs, which is, what is known as conflict of interests that can happen between managers and companies' owners in what is known as agency problem (Steger & Amann, 2008).

In year 1976, Meckling and Jensen Addressed the importance of the concept of corporate governance in mitigating problems associated with agency relationship. According to the two researchers, the inability of shareholders to manage corporations necessitated the separation between control and ownership, and therefore it was

proposed that corporations be managed by professional people to carry out this function with high efficiency.

However, this separation allows for opportunistic practices by managers that aim to maximize their interests even when they contradict with shareholders' interests, and they proposed policies aimed at bring into line the interests of managers with shareholders', such as motivating managers through rewards or possessing part of company's capital, and therefore, the increase in the percentage of management ownership in company's shares had a noticeable role in improving Management performance, while Its decrease led to motivating managers towards maximizing their own interests. In addition, the researchers proposed monitoring mechanisms to control the opportunistic behaviour by managers.

Al-Barassi and Al-Jazwi (2018) indicated that many of the financial crises witnessed by companies were not predicted due to the issuance of misleading financial statements by the managements of those companies, which prompted interest in corporate governance. Al-Hayari (2017) stated that the interest in corporate governance has come as a result of the various financial crises that happened in many countries in the last two decades, and the accompanied negative effects for shareholders and other stakeholders, and the consequent loss of investor trust. The implementation of corporate governance came as a resolution to avoid the occurrence of such crises and reduce their severity (Al-Hayari, 2017). The role that CG plays in these crises and financial scandals has prompted countries to provide controls and standards for governance. An example of these controls is "Sarbanes-Oxley" in the

country of USA (Zhang, 2007), Cadbury Report in Britain (Cadbury, 1992), and the Libyan Governance Guideline for banking (LGGB, 2010).

The importance of auditor's report stems from the degree of confidence it provides to the published financial statements, which the financial statements' users rely on when making their investment decisions (Dawara, 2014). Nour (2007) pointed out that the primary goal of the audit process is enabling external auditor to express his professional opinion about the validity and integrity of the financial statements and the extent to which they properly express the financial position and business results at the end of the financial year. This is done through the report that he prepares at the end of the audit process after following a series of procedures and steps. The auditor works in an environment characterized by uncertainty in expressing his professional opinion, and hence he bears a degree of risk represented in the expression of an incorrect opinion regarding the financial statements subject to audit due to failure to discover fundamental errors that might occur in the accounting information on which these statements are based on.

There are various reasons behind performing external audit services and companies auditing their financial statements, which makes companies resort to appointing an external auditor to enhance the quality and credibility of the financial statements (Reed et al., 2000). The demand for EAQ varies according to the type of business organization. Corporations are deemed to be the most organizations demanding EAQ due to the separation of ownership from control and the resultant conflict of interests.

EAQ plays an important role in agency relationships. Ahmed (2010) pointed out that large companies are characterized by separation of ownership from management, and the conflict of interests is large. It was found that the more agency conflicts in the company, the greater the demand for higher EAQ. Studies have indicated that EAQ mitigates problems resulting from agency conflicts, which is represented by the opportunistic behaviour among management (Watts & Zimmerman, 1983), by verifying the validity and integrity of the financial reports provided by management and reporting any errors or manipulation in these statements. EAQ also reduces the problem of information asymmetry (Cheng & Pike, 2003), by promoting full disclosure of the operations that took place in the company under audit.

However, the weakness of external audit functions, coupled with ineffective internal governance systems, has raised concerns about the quality of audit services and the effectiveness of internal corporate governance mechanisms (ICGMs) (Garrow & Awolowo, 2018). A series of global financial scandals have further intensified these concerns, as many corporate collapses were associated with auditors' failure to detect material financial irregularities (Al-Okaily & Atmeh, 2022). In this regard, audit quality (AQ) has become a focal point for regulators, investors, and academics alike (Kilgore et al., 2014).

Historical corporate failures such as Enron and WorldCom exemplify the interconnectedness of weak governance and audit failure. Enron manipulated its financial reports by concealing debts through off-balance-sheet arrangements, artificially inflating its profits (Al-Nafaabi, 2017). The company's share price peaked at \$83 in 2001 before collapsing to less than \$1 following its bankruptcy declaration

(Khalifa, 2018). Similarly, WorldCom, once a leading U.S. telecommunications firm, collapsed after fraudulently capitalizing \$7 billion of expenses, which misleadingly enhanced its profitability (Al-Kamishi et al., 2018). These scandals also triggered the downfall of Arthur Andersen, one of the world's top five auditing firms at the time, due to its audit failures and involvement in document destruction related to Enron (Howieson, 2022).

These events highlighted broader governance weaknesses. Awolowo and Garrow (2018) argued that the collapse of major firms was not only due to audit failures but also due to deficiencies in corporate governance mechanisms. Empirical studies confirm a strong association between the failure of external audits and the ineffectiveness of governance structures such as audit committees (Wu et al., 2016). Unethical behaviour and a poor ethical culture further exacerbated these issues (Cuong, 2011; Czerny, 2020), particularly among board members, CEOs, and auditors. The Enron-Arthur Andersen case is often cited as a key example of how the lack of ethical oversight and the board's failure to monitor management contributed to a significant governance crisis (Uadiale, 2023; Hsu & Wu, 2014).

While financial scandals in the developed world have received substantial scholarly and media attention, corruption in the banking sector in general and in Islamic banks in particular in developing countries often presents more persistent and systemic challenges. These challenges are typically exacerbated by weaker institutional frameworks, limited regulatory enforcement, and higher tolerance for informal practices (Asongu, 2013; Kaufmann, 2005). As a result, the consequences of corruption in these contexts may be more detrimental to financial stability and public

trust than in advanced economies. Several banks have suffered from governance and audit failures across Asia, Africa, and Latin America (Ntim, 2022). Islamic banks in the Arabic world have not been immune. For instance, Sudan's Citibank (1998) and Al-Safa Bank (2000), as well as Palestine's Islamic Transactions Branch of Cairo Amman Bank, collapsed due to inadequate internal controls (Al-Khalidi, 2006).

This gap in the literature limits our understanding of how weak institutions, political instability, and fragile regulatory environments shape corrupt practices in these contexts. As noted by Bahoo (2020), there is a critical need for more region-specific studies that address the unique institutional and socio-political factors driving corruption in developing countries. Furthermore, the complex interplay between political influence, weak governance mechanisms, and underdeveloped legal systems intensifies the risk of unchecked misconduct in the banking systems of developing nations (Bahoo, 2020). Therefore, a more focused examination of banking corruption in developing countries, particularly in politically fragile contexts such as Libya, is warranted to uncover region-specific dynamics and identify appropriate governance solutions.

In Libya, the Islamic banking sector, considered the country's most vital, has been affected by corruption and weak oversight (Al-Barassi & Al-Jazwi, 2018). The Libyan Audit Bureau (2022) reported serious violations within the banking sector, contributing significantly to the country's economic deterioration. Despite the application of LGGB, Libya has ranked the lowest when compared with its neighbours in the Middle East and North Africa region (MENA) (Zagoub, 2019). Figure 1.1

shows governance indicators of Libya in comparison with MENA countries and the best country.

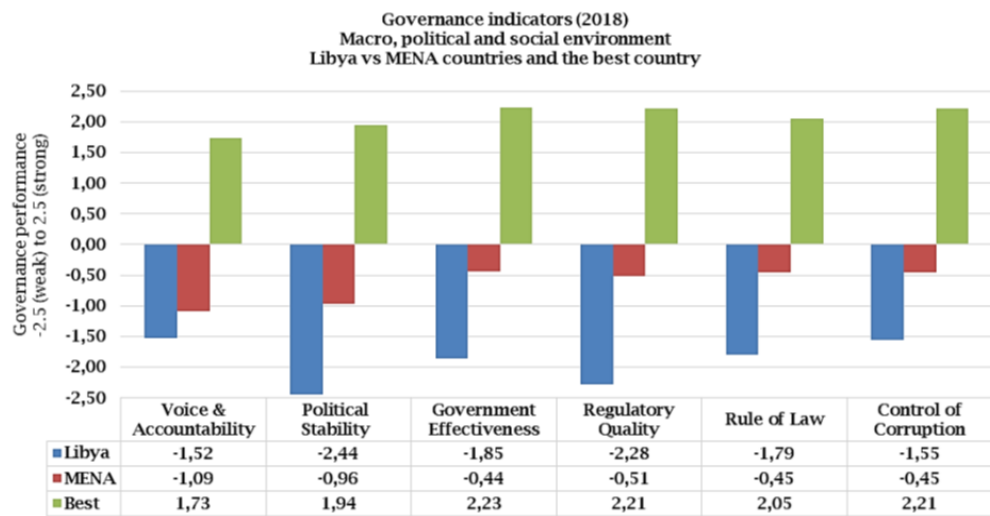


Figure 1.1 Libya's Governance Performance According to Worldwide Governance Indicators

Source: (Zagoub, 2019)

For voice and accountability indicator, Libya has recorded -1.52 which is the lowest score compared to MENA and the best country. For political stability indicator, Libya also recorded a lower score than the average score reported by MENA region at a score of -2.44. For government effectiveness indicator, Libya has the worst performance at a score of -1.85 compared to MENA and best country. As far as the regulatory quality indicator is concerned, Libya recorded -2.24 compared to -0.51 recorded by MENA countries and 2.21 scored by the best country. While MENA countries recoded an average low score of -0.45 in the rule of law indicator, Libya has reported a lower score in this indicator at -1.79. Additionally, in controlling corruption, Libya also recorded -1.55, which means a lower performance compared to the overall performance reported by MENA at -0.45 and the best country at 2.21.

In response, the Central Bank of Libya introduced legal and regulatory reforms. Banking Law No. (1) of 1373 FDP / 2005M mandated Libyan banks to align with international accounting, auditing, and corporate governance standards (Al-Falah & Al-Jahani, 2017). The issuance of Resolution No. 20 (1378 FDP / 2010M) established the Libyan Governance Guideline for Banks (LGGB), drawing on the Basel Committee's principles. This guideline clarified the roles of the board of directors, audit committee, internal audit, and external audit in enhancing accountability and EAQ (LGGB, 2010, pp. 18–30).

The LGGB emphasized the need for coordination between ICGMs and external auditors to strengthen internal controls and improve the financial reporting system. For example, the audit committee is tasked with recommending external auditor appointments, evaluating their work, ensuring the implementation of their recommendations, and maintaining ongoing communication with them (LGGB, 2010). Furthermore, agency theory underscores the rationale behind these reforms. As the separation between ownership and management can lead to conflicts of interest (Jensen & Meckling, 1976; Watts & Zimmerman, 1986), effective governance mechanisms are necessary to mitigate agency costs and reduce information asymmetry (Fama & Jensen, 1983; Alzeban, 2022).

In the wake of financial scandals and declining confidence in corporate governance, user trust in financial reporting has become a critical concern. Empirical evidence from emerging markets confirms that stronger governance structures, such as internal audit functions, audit committees, and board oversight, play a pivotal role in enhancing EAQ and rebuilding stakeholder confidence (Amanamah, 2024;

Almarayeh, 2024). Specifically, effective ICGMs significantly improve the external audit process, reducing information asymmetry and increasing the perceived reliability of financial disclosures (Amanamah, 2024).

Given this context, the demand for robust ICGMs and high EAQ is not merely regulatory but fundamental to rebuilding user trust in financial reporting (Al-Jamhoudi, 2019). Scholars have linked governance failures to corruption, poor oversight, and the erosion of investor confidence in audit services (Khalida & Sardouk, 2017; Dwekat & Suwaidan, 2014). As López-González (2023) emphasized, ICGMs play a crucial role in managing risk, verifying internal controls, and improving decision-making quality.

While the roles of ICGMs and external auditors differ, their collaboration is key to enhancing EAQ. Mat Zain et al. (2015) stressed that such cooperation improves oversight and assurance. This view is supported by international auditing standards such as ISA 610, which allows external auditors to use the work of internal audit, further strengthening the quality of the audit process. According to Al-Jamhoudi (2019), the primary ICGMs influencing EAQ are the board of directors, the audit committee, and the internal audit function.

While these structural components are essential for ensuring EAQ and effective oversight, they do not operate in a vacuum. Their effectiveness often depends on the ethical climate in which they function. The attitudes, values, and ethical orientations of individuals involved in governance, such as board members, audit committee members, and internal auditors, can significantly influence how governance mechanisms are implemented and perceived. As such, incorporating ethical

dimensions into internal corporate governance frameworks is increasingly recognized as critical for enhancing both compliance and trustworthiness in financial reporting (Rahman et al., 2020; Hassan et al., 2022). This perspective opens the door to exploring culturally rooted ethical systems, such as Islamic Work Ethics (IWEs), as complementary forces that can strengthen internal governance practices beyond procedural compliance.

IWEs, rooted in Islamic teachings, emphasize values such as honesty, trust, fairness, and accountability to Allah (Rab, 2017). These principles offer a complementary approach to Western-derived regulatory frameworks. Researchers argue that relying solely on legal rules is insufficient to deter unethical behaviour (Brown & Green, 2022). Instead, a values-based approach, grounded in Islamic principles, may better shape ethical conduct and reduce misconduct (Al-Kamishi et al., 2018; Khan & Zahid, 2019).

Despite this, the Libyan Governance Guideline does not explicitly integrate IWEs, even though Islam is the dominant religion in the country. This oversight ignores the potential role of religious ethics in reinforcing stakeholder trust and minimizing conflicts of interest, core concerns in governance and audit practices.

1.3 Problem Statements

The relationship between CG and EAQ is critical for ensuring transparency, accountability, and investor confidence. Effective CG mechanisms, such as board of directors, audit committees, and internal audit, serve as key drivers that enhance the reliability and integrity of external audits (Cohen et al., 2010). When governance

structures are strong, external auditors are more likely to receive accurate financial information and face less management interference, leading to higher audit quality (Alqatamin et al., 2020).

The auditing profession has come under intense scrutiny in recent years due to a growing loss of credibility, responsibility, and stakeholder confidence, driven by repeated corporate scandals and collapses worldwide (Khalida & Sardouk, 2017; Jones & Roberts, 2023). These failures have raised serious concerns about EAQ, as many audit firms failed to detect critical financial misstatements and fraudulent activities that led to significant corporate damage (Knechel, 2023). As a result, EAQ and the effectiveness of ICGMs, including boards of directors, audit committees, and internal auditors, have become central to the debate about how to restore trust in financial reporting (Köhler & Quick, 2018; Mallah, 2019).

In the context of Libyan Islamic banks, these concerns are particularly pressing. Although the Central Bank of Libya issued the Libyan Guide for Governance in Banks (LGGB, 2010) to enhance transparency and accountability, reports by the Libyan Audit Bureau (2022) continue to document widespread financial violations, fraud, and corruption in the banking sector. Islamic banks in particular have been identified as a major contributor to the country's deteriorating economic situation (Al-Barassi & Al-Jazwi, 2018). This suggests a significant gap between the intended effectiveness of ICGMs and their actual performance in practice. Despite partial implementation of LGGB, the persistence of financial misconduct raises questions about whether ICGMs are truly effective (Al-Barassi & Al-Jazwi, 2018), in enhancing EAQ in the Libyan Islamic banking sector.

Moreover, while regulations and codes of ethics exist, relying solely on formal systems has proven insufficient in preventing unethical behavior (Al-Kamishi et al., 2018). IWEs, which emphasize honesty, transparency, and accountability, are considered highly relevant to Islamic banking and are aligned with the goals of corporate governance (Ali & Al-Owaihan, 2008; Rabah, 2017). However, the role of IWEs remains underexplored in the context of improving EAQ and enhancing ICGM effectiveness in Libyan Islamic banks. Importantly, the LGGB does not integrate IWEs into its governance framework, despite their potential to influence ethical behavior and audit outcomes.

A review of the literature reveals two critical gaps. First, little is known about how specific ICGCs, such as board size, independence, and meeting frequency, affect EAQ in Islamic banking. Second, there is a lack of empirical research examining whether and how IWEs moderate these relationships to improve governance outcomes. These gaps are particularly concerning in the Libyan context, where improved EAQ is urgently needed to restore financial integrity.

This study addresses these gaps by investigating the influence of ICGCs on EAQ, and examining the moderating role of IWEs in these relationships. By focusing on the under-researched intersection of governance practices, ethical frameworks, and audit outcomes in Libyan Islamic banks, this research aims to contribute to more effective corporate governance and help prevent future financial scandals and misconduct in the sector.

1.4 Research Objectives

This study mainly aims to examine the relationship between ICGCs and EAQ in the Libyan Islamic banks. Specifically, the objectives of the study are summarized as follows:

- i) To identify the influence of ICGCs on EAQ in Libyan Islamic banks.
- ii) To analyse of the influence of ICGCs on EAQ in Libyan Islamic banks.
- iii) To explore the moderating role of IWEs in the influence of ICGCs on EAQ in Libyan Islamic banks.

1.5 Research Questions

The study questions, which serve the research objectives, are as follows:

- i) What is the influence of board of directors' characteristics on EAQ in Libyan Islamic banks?
- ii) What is the influence of audit committee's characteristics on EAQ in Libyan Islamic banks?
- iii) What is the influence of internal audit's characteristics on EAQ in Libyan Islamic banks?
- iv) How do board of directors' characteristics influence EAQ in Libyan Islamic banks?
- v) How do audit committee's characteristics influence EAQ in Libyan Islamic banks?
- vi) How do internal audit' characteristics influence EAQ in Libyan Islamic banks?

- vii) How does IWEs moderate the influence of board of directors' characteristics on EAQ in Libyan Islamic banks?
- viii) How does IWEs moderate the influence of audit committee's characteristics on EAQ in Libyan Islamic banks?
- ix) How does IWE moderate the influence of internal audit' characteristics on EAQ in Libyan Islamic banks?

Table 1.1 shows the relationship between the objectives and questions of the research. To achieve the first objective of the study, three questions were developed. Similarly, three questions were developed to achieve the second study objective, and one question was set to achieve the third objective.

Table 1.1 Research Objectives and Research Questions

Research Objectives	Research Questions
To identify the influence of ICGCs on EAQ in Libyan Islamic banks.	i) What is the influence of board of directors' characteristics on EAQ in Libyan Islamic banks? ii) What is the influence of audit committee's characteristics on EAQ in Libyan Islamic banks? iii) What is the influence of internal audit's characteristics on EAQ in Libyan Islamic banks?
To analyse the influence of ICGCs on EAQ in Libyan Islamic banks.	i) How do board of directors' characteristics influence EAQ in Libyan Islamic banks? ii) How do audit committee's characteristics influence EAQ in Libyan Islamic banks? iii) How do internal audit' characteristics influence EAQ in Libyan Islamic banks?
To explore the moderating role of IWEs in the influence of ICGCs on EAQ in Libyan Islamic banks.	i) How does IWEs moderate the influence of board of directors' characteristics on EAQ in Libyan Islamic banks? ii) How does IWEs moderate the influence of audit committee's characteristics on EAQ in Libyan Islamic banks? iii) How does IWE moderate the influence of internal audit' characteristics on EAQ in Libyan Islamic banks?

1.6 Operational Definition

In order to ensure clarity, consistency, and accuracy of measurement in this research, it is crucial to define key constructs operationally. Operational definitions provide specific explanations of how abstract concepts are measured and observed within the context of the research (Creswell & Creswell, 2018). The keywords identified in this study such as ICGMs, board of directors, audit committee, internal audit, IWEs, and EAQ represent the critical variables in studying the influence of ICGCs on EAQ. By establishing precise definitions for these terms, the study enhances the reliability and validity of the research findings.

1.6.1 Internal Corporate Governance Mechanisms

CG refers to the system of rules, practices, and processes by which a company is directed and controlled. It encompasses the relationships among a company's management, board of directors, shareholders, and other stakeholders, and provides the framework for attaining a company's objectives while ensuring accountability and transparency (OECD, 2015). Within the broader framework of CG, scholars often distinguish between external and internal corporate governance mechanisms. External governance mechanisms include market control, legal and regulatory systems, and external audits, which operate outside the organization. Whereas, ICGMs refer to the internal structures, processes, and practices established within an organization to monitor managerial behavior, ensure accountability, and safeguard stakeholders' interests, especially shareholders, through oversight and control systems (Tricker, 2022). These mechanisms are embedded within the organization and are distinct from external mechanisms such as market discipline or regulatory intervention.

The primary ICGMs typically include the board of directors, audit committee, and internal audit function (Ismail et al., 2020). Each plays a crucial role in ensuring that financial reporting is accurate, managerial decisions align with the firm's goals, and internal controls are operating effectively (Al-Farsi, 2021). The board of directors is tasked with strategic oversight and supervising management, while its independence and diversity are widely recognized as enhancing governance quality (García-Sánchez et al., 2022). The audit committee is responsible for overseeing financial reporting and the audit process, and its effectiveness is often linked to its independence, financial expertise, and frequency of meetings (DeFond & Zhang, 2014). The internal audit function, on the other hand, acts as an objective assurance mechanism that evaluates the effectiveness of internal controls, risk management, and governance processes (Christopher et al., 2023). In this thesis, ICGMs refer to the internal structures and oversight functions, particularly the board of directors, audit committee, and internal audit unit, established within Islamic banks in Libya to ensure managerial accountability, support financial integrity, and improve EAQ. Each mechanism is measured by its size, independence, frequency of meetings, and the adherence of IWEs, to evaluate their influence on EAQ.

1.6.2 Board Characteristics

Board characteristics refer to the structural and compositional features of the board of directors that influence its ability to perform oversight functions and ensure sound corporate governance. These characteristics include, but are not limited to, board size, board independence, board meeting frequency, board diversity, and CEO duality, each of which may affect the board's effectiveness in monitoring management,

reducing agency costs, and enhancing financial reporting and audit quality (García-Sánchez et al., 2022; Alkilani et al., 2023).

The size of the board is often associated with its capacity for oversight and decision-making. Larger boards may offer a broader range of expertise and perspectives but can also suffer from coordination difficulties and reduced efficiency (Jensen, 1993; Nguyen & Pham, 2022). In contrast, smaller boards are generally more agile and cohesive but may lack the breadth of oversight capacity. Board independence, typically measured by the proportion of non-executive or independent directors, is a key determinant of objectivity and effectiveness in monitoring managerial actions (Fama & Jensen, 1983; Bédard et al., 2004). Independent directors are believed to provide more impartial oversight, thus enhancing transparency and audit quality.

Board meeting frequency is widely recognized as an indicator of board diligence and commitment. More frequent meetings provide greater opportunities for timely oversight, strategic discussions, and effective responses to risk and audit-related issues (Krishnan & Visvanathan, 2009; Alam & Hamdan, 2024). However, the effectiveness of such meetings also depends on their substance and the preparedness of directors.

In this study, board characteristics specifically refer to three attributes: board size, board independence, and board meeting frequency, as internal corporate governance mechanisms within Islamic banks. These characteristics are examined for their influence on EAQ, particularly in the context of Libyan Islamic banking

institutions, where corporate governance structures are still evolving and may be influenced by local institutional, ethical, and religious norms.

1.6.3 Audit Committee Characteristics

Audit committee characteristics refer to specific attributes of the audit committee that determine its effectiveness in overseeing financial reporting, internal controls, and the external audit process. Key attributes frequently examined in literature include audit committee size, independence, and meeting frequency, all of which play a critical role in improving audit quality and ensuring corporate accountability (DeFond & Zhang, 2014; Al-Ajmi, 2023).

Audit committee size influences the committee's ability to perform its oversight role. Larger committees may bring more diverse expertise and viewpoints, enabling better scrutiny of financial statements and audit procedures (Alzeban, 2022). However, excessive size may lead to coordination problems, reducing efficiency. Audit committee independence is considered a cornerstone of audit committee effectiveness. Committees with a majority of independent, non-executive members are more likely to challenge management decisions and ensure the credibility of financial reports (Bédard et al., 2004; Al-Matari et al., 2021). Independence mitigates conflicts of interest and enhances objectivity in evaluating external auditor performance and financial disclosures.

Meeting frequency is a proxy for diligence and oversight intensity. More frequent meetings allow the committee to discuss critical financial and audit issues, address emerging risks, and maintain regular communication with internal and

external auditors (Abbott et al., 2004; Rahman & Saeed, 2023). Nevertheless, mere frequency without depth of discussion and member competence may not yield meaningful improvements.

In this study, audit committee characteristics refer to size, independence, and meeting frequency, evaluated for their influence on EAQ in the context of Islamic banks. These attributes are operationalized as internal governance indicators that influence the committee's monitoring role and its effectiveness in safeguarding stakeholders' interests, especially in environments with evolving regulatory frameworks such as Libya.

1.6.4 Internal Audit Characteristics

Internal audit characteristics refer to the specific features of an organization's internal audit function that influence its ability to provide objective assurance and enhance internal control, governance, and risk management processes. Key attributes often studied in the literature include internal audit size and independence, both of which contribute significantly to EAQ and the overall governance framework (Alzeban, 2022; Sarens et al., 2023).

Size of the internal audit function typically refers to the number of auditors or the budget allocated to internal auditing. A larger internal audit team may have more capacity to conduct comprehensive reviews, monitor internal controls, and provide timely risk assessments, thereby supporting audit quality (Christopher et al., 2023). However, size alone does not guarantee effectiveness unless accompanied by competence and strategic alignment.

Independence of the internal audit function is one of the most critical attributes. Internal auditors must be organizationally and operationally independent to carry out their duties objectively. Reporting directly to the audit committee, rather than to executive management, enhances their ability to act without bias and improves the external auditor's reliance on their work (Al-Ajmi, 2023; Bame-Aldred et al., 2022). Regulatory bodies such as the IIA emphasize that independence is essential for safeguarding the credibility of internal audit reports.

In this study, internal audit characteristics are operationalized as size and independence of internal audit function, focusing on their role in influencing EAQ within Islamic banks. These attributes represent the capacity and objectivity of internal audit functions in ensuring financial transparency and compliance with governance frameworks.

1.6.5 Internal Audit Characteristics

Internal audit characteristics refer to the specific features of an organization's internal audit function that influence its ability to provide objective assurance and enhance internal control, governance, and risk management processes. Key attributes often studied in the literature include internal audit size and independence, both of which contribute significantly to EAQ and the overall governance framework (Alzeban, 2022; Sarens et al., 2023).

Size of the internal audit function typically refers to the number of auditors or the budget allocated to internal auditing. A larger internal audit team may have more capacity to conduct comprehensive reviews, monitor internal controls, and provide

timely risk assessments, thereby supporting audit quality (Christopher et al., 2023). However, size alone does not guarantee effectiveness unless accompanied by competence and strategic alignment.

Independence of the internal audit function is one of the most critical attributes. Internal auditors must be organizationally and operationally independent to carry out their duties objectively. Reporting directly to the audit committee, rather than to executive management, enhances their ability to act without bias and improves the external auditor's reliance on their work (Al-Ajmi, 2023; Bame-Aldred et al., 2022). Regulatory bodies such as the IIA emphasize that independence is essential for safeguarding the credibility of internal audit reports.

In this study, internal audit characteristics are operationalized as size and independence of internal audit function, focusing on their role in influencing EAQ within Islamic banks. These attributes represent the capacity and objectivity of internal audit functions in ensuring financial transparency and compliance with governance frameworks.

1.6.6 External audit Quality

EAQ is a fundamental pillar of financial transparency, accountability, and investor confidence in both conventional and Islamic financial systems. Historically, the concept of audit assurance has evolved significantly since its early uses in the 19th century, shifting from basic fraud detection to a broader assurance role that includes the evaluation of financial reporting reliability, internal controls, and compliance with relevant laws and regulations (Francis, 2011). In today's increasingly complex

corporate environment, EAQ is regarded as a mechanism that reinforces the integrity of financial information and mitigates the risk of misstatements or fraudulent disclosures.

EAQ is generally defined as the likelihood that an auditor both detects and reports material misstatements in financial reports (DeAngelo, 1981). The first component, detection, relates to the auditor's technical competence and professional skepticism, while the second, reporting, relates to the auditor's independence and ethical responsibility. High audit quality enhances users' confidence in financial statements, while low audit quality may result in significant financial losses, reduced stakeholder trust, and in severe cases, corporate failure (Knechel et al., 2013).

Researchers and practitioners have proposed various proxies and indicators to assess EAQ, such as auditor size (Big 4 vs. non-Big 4), audit tenure, industry specialization, audit fees, issuance of modified opinions, and compliance with auditing standards (Francis, 2004; Habib, 2013). However, these proxies remain imperfect and context-dependent, particularly in emerging markets.

Recent studies continue to explore the dimensions and drivers of EAQ across different sectors and jurisdictions. For instance, Knechel et al. (2013) emphasized the importance of audit firm systems, audit partner accountability, and regulatory oversight in enhancing audit quality. Meanwhile, Alzoubi (2019) found that in Jordanian banks, board independence and internal governance mechanisms significantly affected audit quality, reinforcing the interconnection between internal control and external assurance.

In this study, EAQ refers to the extent to which an independent auditor conducts a professional, objective, and competent evaluation of a bank's financial statements in compliance with applicable auditing standards. The concept is operationalized using a multi-item scale adopted from validated audit quality measurement frameworks (e.g., DeFond & Zhang, 2014; Knechel et al., 2013), capturing elements such as auditor independence, audit diligence, and reporting reliability.

1.6.7 Islamic work ethics

The concept of IWEs is deeply rooted in Islamic teachings and traditions that view work not only as a means of earning a livelihood but also as a form of worship and a way to serve society. Historically, Islamic civilizations have placed strong emphasis on economic justice, fair treatment of workers, and moral responsibility in business practices, drawing upon the teachings of the Qur'an and the Sunnah (Beekun & Badawi, 2005). From the early Islamic era, work has been seen as an essential part of a Muslim's life, with Prophet Muhammad (peace be upon him) advocating for honesty, diligence, and social responsibility in all economic activities (Ali & Al-Owaidan, 2008). This legacy has been reinforced through Islamic jurisprudence, which mandates ethical conduct and discourages practices such as deception, exploitation, or dishonesty in the workplace (Ali, 1988).

IWEs contrasts sharply with secular work ethics, which are typically grounded in utilitarian or humanist values. While secular ethics focus on individual or collective societal norms, IWE is embedded in Shariah principles that emphasize accountability before God (Allah), the value of intention (niyyah), and the importance of lawful