



INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



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To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v10-i12/8377> DOI:10.6007/IJARBSS/v10-i12/8377

Received: 17 November 2020, **Revised:** 02 December 2020, **Accepted:** 19 December 2020

Published Online: 30 December 2020

In-Text Citation: (Wilson & Alfadhli, 2020)

To Cite this Article: Wilson, Y. N., & Alfadhli, M. I. (2020). The Influence of Knowledge Management on Application of Audit Standards: Evidence from Al-Ahlia Cement Company, Libya. *International Journal of Academic Research in Business and Social Sciences*, 10(12), 897–906.

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Vol. 10, No. 12, 2020, Pg. 897 - 906

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www.hrmars.com

ISSN: 2222-6990

The Influence of Knowledge Management on Application of Audit Standards: Evidence from Al- Ahlia Cement Company, Libya

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Abstract

This paper aims to highlight the relationship between knowledge management and its application in the audit standards in Al-Ahlia Cement Company, Libya. The paper adopted three Independent variables of knowledge management, these included; the diagnosis of knowledge, acquiring knowledge and application of knowledge. While the Dependent variable was the application of the audit standards. For the methods of analysis, the researchers used Pearson correlation, Cronbach alpha and the Multiple Regression Analysis. The paper concluded that knowledge management has a statistically significant impact on the application of audit standards in the company. Furthermore, using the knowledge contributes to the provision of high-quality service by internal auditors. In addition, the institution also evaluates the nature of the new information it needs from the environment in which it continuously works

Keywords: Knowledge Management, Audit standards, Al-Ahlia Cement Company.

Introduction

According to Peter Drucker, knowledge has become a major economic resource and a key source or drive of competitive advantage. Hence, it is important for organizations to understand the main concepts of knowledge and how to manage their knowledge assets effectively (Edosio, 2014). Knowledge management is a modern trend for contemporary organizations, especially in light of developments in information technology. The information revolution has provided a highly valuable knowledge value by providing the opportunity for direct access to the internal and external reality indicators of the organization depending on its ability to exploit this available information. The required knowledge is stored, distributed, and developed continuously so that the organization is distinguished by its level of performance and its role in society (Al-Suhaimi, 2009).

Knowledge management ensures that organizations generate, distribute and apply knowledge to help in making rational administrative decisions, encourage creativity, increase competitiveness, achieve the strategic objectives of these organizations, increase their value and improve their performance. Not all information represents knowledge and not all

knowledge is of value; Therefore, management should capture the useful knowledge and apply it in the activities and operations of the organization (Al-Faris, 2010).

Problem Statement

The importance of the paper lies in its handling of a topic that is extremely important to accountants, auditors and other entities and all the beneficiaries of the services of auditing. The rapid changes and challenges at various levels have made knowledge management a necessity for all organizations, which makes it imperative for them to adopt development in international standards for internal auditing in order to add value to the services they provide, reflecting on their capabilities and distinguishing their performance compared to their competitors, and then making rational decisions by Management (Mounir & Latif, 2019).

The research problem centers on the lack of awareness of the nature of the relationship between knowledge management and its application in the auditing standards in Al-Ahlia Cement Company, which would affect their effectiveness and performance. Especially since the company under study is striving to achieve maximum levels of performance.

Wijaya, et al. (2016) pointed out that, corruption was intensified after the 2011 Libyan revolution against Muammar Gaddafi's regime. Moreover, financial corruption is considered as one of the biggest problems facing the Libyan economy at present, and it is an obstacle to social and economic development. This situation affects institutions in both public and private sectors in Libya in achieving their objectives.

Therefore, this paper comes in an attempt to answer the following question: Is there an impact of a dimension of knowledge management in the application of audit standards in Al-Ahlia Cement Company? Thus, several questions emerged from this question:

- i. Does knowledge diagnosis have a significant influence on application of audit standards in Al-Ahlia Cement Company?
- ii. Does knowledge acquisition have a significant influence on application of audit standards in Al-Ahlia Cement Company?
- iii. Does knowledge application have a significant influence on application of audit standards in Al-Ahlia Cement Company?

Research Objectives

- i. To identify if there is any significant influence of knowledge diagnosis on application of audit standards in Al-Ahlia Cement Company.
- ii. To identify if there is any significant influence of knowledge acquisition on application of audit standards in Al-Ahlia Cement Company.
- iii. To identify if there is any significant influence of knowledge application on application of audit standards in Al-Ahlia Cement Company.

Methodology

Due to the importance of the research, the researchers relied on the statistical analysis program (SPSS). In this research, both the arithmetic mean and the standard deviation were used by means of a questionnaire to collect data and distributed to employees in Al-Ahlia Cement Company in Libya. The sample was selected based on (Krejcie & Morgan, 1970; Darwish et al., 2020), where the total number is 102 respondents. Moreover, all the

questionnaires (102) were distributed, and (94) were retrieved. After the tests, there were (8) that were not valid for the analysis.

Reliability and Stability of the Questionnaire

The researchers formulated the questionnaire according to previous studies that discussed the same topic, and it was presented to the experienced in this field and those interested in the field of scientific research and the work of the necessary observations until it reached its final form. According to George & Mallery (2003), a test to know the consistency and compatibility between all the items was conducted.

Structure Validity

Constructive validity is one of the measures of validity of the tool, which measures the extent to which the goals that the tool wants are achieved, and it shows the relevance of each field of study to the total score of the items of the questionnaire.

A table 1 shows that all correlation coefficients in all areas of the questionnaire are statistically significant at the level of significance $\alpha \leq 0.05$ and thus all the variables of the questionnaire are considered true to what they are designed to measure.

Table 1: Pearson correlation between the degree of each of the resolution variables and the total degree of the resolution

Variables	Pearson Correlation	(Sig.)
Knowledge Diagnosis	.845	*0.000
Knowledge Acquisition	.822	*0.000
Knowledge Application	.914	*0.000

* Correlation is statistically significant at a significant level $\alpha \leq 0.05$

Reliability

The stability of the questionnaire is intended to give the questionnaire the same results if it is repeated several times in a row. It also refers to the degree to which the scale gives close readings every time it is used, or what is the degree of its consistency, consistency and continuity when repeated at different times (Gergawi, 2010). The researchers relied on (Cronbach's Alpha) for its ability to know the strength and coherence between all the items of the questionnaire. Isaac & Michael (1995) reported that the number of sample is useful if it is between 10-30. The results are as shown in the table 2.

Table 2: Cronbach's Alpha coefficient to measure the stability of the questionnaire

Variables	No	Cronbach's Alpha
Knowledge Diagnosis	10	0.945
Knowledge Acquisition	10	0.852
Knowledge Application	10	0.877
Total	30	0.891

It is clear from the results shown in Table 2 that the value of the Cronbach alpha is high for each domain, where it ranges between (0.852-0.945), while it reached for all items of the questionnaire (0.891). These results contribute to reaching the objectives of the research.

Information for the Search Sample

The research sample was selected from Al-Ahlia Cement Company in Libya. The sample of the study was 94, consisting of employees, managers and officials in the company. The distribution of the sample was as shown in the following tables:

Table 3: Distribution of the sample by gender

	Number	Percentage
Male	73	67%
Female	21	33%
Total	94	100%

Table 4: Shows the age of the sample

	Number	Percentage
From 20 to less than 30	21	39%
From 30 to less than 40	27	31%
From 40 to less than 50	34	18%
From 50 and more	12	12%
Total	94	100%

Table 5: Distribution of the Study Sample by Function

	Number	Percentage
Employee	76	76%
Head of the Department	7	14%
Manager	11	10%
Total	94	100%

Table 6: Distribution of the Research Sample by Scientific Grade

	Number	Percentage
Bachelor degree	42	42%
Master	21	30%
PhD	13	12%
Other	18	16%
Total	94	100%

Based on the results in the previous tables, it is clear that there is a difference between the research sample in terms of gender, age, function and degree. It is also clear that there is diversity in the sample and therefore a variety of answers and access to useful and honest answers.

Research Framework

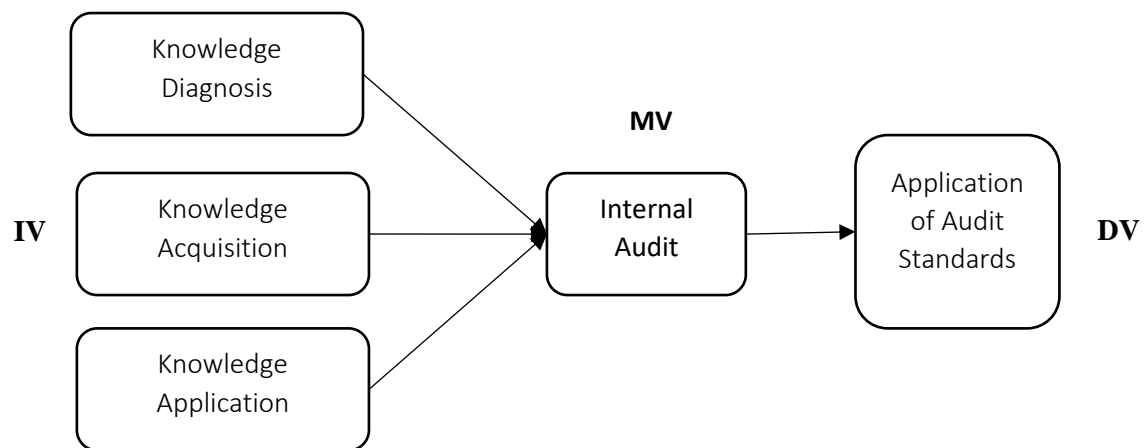


Figure Illustration of the Relationship between IV and DV :1

Analysis of the Results

Table 7: Analysis of the Items on the First Variable (Knowledge Diagnosis)

The Items of Knowledge Diagnosis	Mean	Standard deviation	Sig.	relative importance
The quality of knowledge available to the company is constantly evaluated.	4.10	0.815	0.000	2
A company identifies the knowledge it has and its shortcomings and gaps it needs.	4.16	0.811	0.000	1
The company's evaluation of the nature of the new information and knowledge it needs from its environment.	4.06	0.840	0.000	3
External suppliers, such as suppliers, and competitors.	3.90	0.885	0.000	6
The company strives to constantly update and develop its database.	3.95	0.925	0.000	5
The knowledge the company possesses is evaluated against other competitors.	3.96	0.933	0.000	4
Total	4.024	0.868	0.000	

It is evident from Table 7 that the opinions of the studied sample individuals were in agreement on this axis, with a total arithmetic mean of 4.024, meaning that Knowledge Diagnosis has an impact on application of audit standards in Al-Ahlia Cement Company, and this is what is shown by the total level of the standard deviation 0.868. As for the items of this variable, the item number 2 that states (A company identifies the knowledge it has and its shortcomings and gaps it needs) the highest values of the arithmetic mean 4.16, and standard deviation 0.811. Item number 4 which states (External suppliers, such as suppliers, and

competitors) had the least among the items of this axis with an arithmetic mean 3.90, and standard deviations 0.885.

Table 8: Analysis of the Items on the second Variable (knowledge Acquisition)

The Items of knowledge Acquisition	Mean	Standard Deviation	Sig.	Relative Importance
The company helps the auditors to acquire knowledge through the formation of specialized work teams.	3.91	0.711	0.000	5
The company auditors gain knowledge through providing information sources such as libraries and the Internet.	3.95	0.907	0.000	4
The company acquires knowledge from firms conducting the same activity.	3.98	0.875	0.000	3
The company seeks to acquire knowledge through the use of consultants in academic and research institutions.	4.14	0.751	0.000	2
The company seeks to acquire knowledge through the use of regional or international institutions.	4.16	0.817	0.000	1
The company helps the auditors to acquire knowledge through the formation of specialized work teams.	3.95	0.921	0.000	4
Total	4.019	0.830	0.000	

Based on the results presented in the arithmetic averages and the standard deviation of the answers of the study sample, regarding Knowledge Acquisition shown in table No. 8, we note that the trend of the study sample answers was positive, as all the arithmetic averages of the study items were higher than 3, as the arithmetic averages ranged between 3.91- 4.16. A standard deviation ranged between 0.711-0.921, indicating an effect between knowledge Acquisition on application of audit standards in Al-Ahlia Cement Company.

Table 9: Analysis of the Items on the third Variable (Knowledge Application)

The Items of Knowledge Application	Mean	Standard deviation	Sig.	Relative Importance
Using knowledge helps internal auditors to provide quality service.	3.96	1.079	0.000	4
The employment of knowledge by the internal auditors contributes to the development of their job skills.	4.09	0.980	0.000	3
Using knowledge helps internal auditors to be creative, develop and improve.	4.13	0.748	0.000	1
The company maintains a circulation of knowledge between various administrative levels.	4.11	0.760	0.000	2
A company has metrics to determine the extent to which the company is utilizing the knowledge it possesses.	3.70	1.194	0.000	6
The company invests the expertise and experience of internal auditors in building new knowledge.	3.88	0.820	0.000	5
Total	3.98	0.930	0.000	

Table 9 shows the analysis of the question paragraphs, the arithmetic mean and standard deviation. There is influence of Knowledge Application on application of audit standards in Al-Ahlia Cement Company.

According to the previous table, there was a convergence of the overall percentage of responses to the sample. The mean of all the items was more than 3. The highest percentage of the mean (4.13) to item 3 (Using knowledge helps internal auditors to be creative, develop and improve). While the standard deviation (1.194), to item 5 (A company has metrics to determine the extent to which the company is utilizing the knowledge it possesses). In general, all the responses were close and the average response to the approval and non-approval was equal and this indicates the correlation between the paragraphs and the results are good.

Multiple Regression Analysis

Table 10: Multiple Regression Analysis

Dependent variables	Coefficients	Prob.	Multicollinearity
Knowledge Diagnosis	0.287*	0.000	2.621
Knowledge Acquisition	0.358*	0.000	2.127
Knowledge Application	0.599*	0.000	2.637
C	9.624*	0.000	
R ²	0.544		
Adjusted R ²	0.547		
F-statistics	61.09*		
Prob.	0.000		

The hypotheses indicate the coefficient of regression of the dependent and independent variables. The coefficient of regression for Knowledge Diagnosis is $\beta = 0.287$. It indicates that as the efficiency of Knowledge Diagnosis increases, application of audit standards in Al-Ahlia Cement Company increases. The coefficient of regression for Knowledge Acquisition is $\beta = 0.358$. It shows that if the Knowledge Acquisition increases, the amount of application of audit standards in Al-Ahlia Cement Company also increases. The coefficient of regression for Knowledge Application is $\beta = 0.599$. It indicates that as Knowledge Application increases, the amount of application of audit standards in Al-Ahlia Cement Company increases as well. It indicates that the knowledge management variables (Knowledge Diagnosis), affect the work of the internal auditors.

Conclusion

This study aimed to know the effect of knowledge management on application of audit standards in Al-Ahlia Cement Company, from the findings it can be said that the quality of knowledge in the organization is constantly evaluated. The institution also evaluates the nature of the new information it needs from the environment in which it continuously works. In addition to that, it does not distinguish between external suppliers and competitors. Also, the corporation constantly updates and develops its database, and competitors evaluate the knowledge that the company possesses. Moreover, enterprise auditors gain knowledge by providing information sources such as libraries and the Internet. The organization also gains knowledge from companies that engage in the same activity. The foundation also uses consultants in academic institutions and forms specialized teams to work in order to gain knowledge. Also, some of the sample members mentioned that the company seeks to acquire knowledge through the use of regional or international institutions, and this percentage is big. In addition, the organization assists internal auditors in gaining knowledge through the formation of specialized work teams.

Using the knowledge contributes to the provision of high-quality service by internal auditors, and also contributes to the use of knowledge to develop the job skills of internal auditors. On the other hand, using knowledge helps internal auditors to innovate, develop and improve. The institution also maintains the circulation of knowledge between the various administrative levels. Moreover, there is a small percentage around the answer to the items on measures of knowledge that the organization possesses and the items on the expertise and experience of internal auditors in building new knowledge.

From the previous results and according to the answers of the study sample, it was found that there is a statistically significant influence of the knowledge management variables represented in Knowledge Diagnosis, Knowledge Acquisition, and Knowledge Application on application of audit standards in Al-Ahlia Cement Company in the state of Libya.

Contribution

Previous studies differed in terms of goals. Some studies have analyzed the impact of internal auditing on the performance of the institution and some of them aim at evaluating and improving the administrative and financial performance, while other studies aimed to study the impact of internal audit on the quality of data and financial statements, what are the problems that internal auditors may face and how to strengthen internal control. Moreover, other studies include the role that internal audit plays in controlling the quality of institutions and on profit management, and the role of internal auditing on reducing fraud.

While this paper examined the impact of knowledge management on application of audit standards in Al-Ahlia Cement Company. The paper dealt with three main independent variables that included both: Knowledge Diagnosis, knowledge Acquisition, and Knowledge Application. As for the study sample, it consisted of managers and auditors in the internal audit department and the financial department in the company. While this paper focused on a specific company in order to obtain data that can be easily analyzed. However, not all previous studies have addressed knowledge management and its influence on application of audit standards in Al-Ahlia Cement Company. In addition, this paper was conducted in an environment that was going through the crisis of the economic collapse that has passed over the past few years (Alfadhli et al., 2018).

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