Chapter One

Theoretical Framework of the Study

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1.1 Introduction

In the early history of public accounting, when the accounting associations started to emerge during the 1880s in UK (Gill & Cosserat, 1996, p.8), the quality of audit examinations often varied widely, depending on the skill, understanding and judgement of the particular auditor involved. Even at this early stage in its development, the profession quickly recognised that standards as such were clearly needed (see Chapter Two). The AICPA was established in the early fifties of last century and formed a committee on auditing procedures, that committee was interested in setting the audit standards. The AICPA committee published its report in 1954 (AICPA, 1954), this report was the basis of auditing at that time (Moh’d, 1989, p.125). So the American profession began drawing up a number of authoritative statements that have now undergone several decades of refinement and interpretation. A set of generally accepted auditing standards, to use their official designation, was issued. It is essential that every auditor have a thorough understanding of these standards. These standards are the model that should be used to judge an auditor’s performance level. Also, the auditing standards contain (Gill & Cosserat, 1996, p.48):

- the basic principles and essential procedures with which the auditor is required to comply in the planning, conduct and reporting of an audit; and
- explanatory and other material to assist the auditor in interpreting and applying the basic principles and essential procedures.

The International Auditing Standards Committee (1979) created and set auditing standards with the intent that they provide guidelines for auditors’ work. It has been stated (Al-Wabil, 1990, p.343) that these standards should satisfy four criteria as follows:

- Relevancy: that is auditing standards should be relevant to the information objectives to satisfy the beneficiaries’ needs.
- Acceptability: that is auditing standards should be accepted by the users of the standards and the beneficiaries. The standards should be understood and be easily applicable.
- Consistency: that is there is no conflict between the standards issued from time to time. The likelihood of such consistency could be enhanced by a plan for creating and setting the standards.

- Suitability: that is International Standards on Auditing (ISAs) should reflect the environmental circumstances in which the audit is to be conducted.

Auditing Standards are classified into three groups (Hermanson et al, 1993):

A- General criteria covering independence, skills and knowledge, including continuing professional education, and due professional care.

B- Standards of field work which include planning and supervision, sufficient appropriate audit evidence, and evaluation of internal controls.

C- Standards of reporting.

Auditing standards are important to the users of accounting reports and data users such as banks, creditors, shareholders, and government. This is because these standards explain the responsibility that the auditor carries, and the degree of independence of the auditor's opinion from the point of view of the professionals and the shareholders. These International Standards have been created to harmonise auditing between different countries and are to be applied where there are no local standards.

In Jordan the ISAs are mandatory according to the Amman Financial Market regulations for the corporations listed in Amman and because there are no local auditing standards. This study discusses these standards, and evaluates their current application in Jordan. Information is collected to provide a basis for evaluating acceptable interpretations of the standards in Jordan from the perceptions of stakeholders in the audit process. This study then considers whether a gap exists between what particular relevant stakeholders expect or need, and what auditors can and should be reasonably expected to accomplish. If such a gap does exist, there is a need to report on how the disparity can be resolved (Arrington et al, 1983, p.243).
1.2 The Problem of the Study

The purpose of the ISAs is to establish standards and provide guidance on the objectives and general principles governing an audit of financial statements. The objective of an audit of financial statements is to enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. The auditors opinion is intended in enhance the credibility of the financial statements. To achieve these objectives there are requirements that should be satisfied according to the ISAs. These requirements are: -

1- The auditor should be qualified.

2- ‘The auditor should comply with the “Code of Ethics for Professional Accountants”. Ethical principles governing the auditors’ professional responsibilities are Independence, Professional Competence and Due Care, Objectivity, Integrity, and Professional behaviour’ (International Federation of Accountants (IFAC), 1997, p.55).

3- ‘The auditor should develop and document an overall audit plan and supervision, describing the expected scope and conduct of the audit’ (IFAC, 1997, p.105).

4- ‘The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion’ (IFAC, 1997, p.144).

5- ‘The auditor should obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach’ (IFAC, 1997, p.124).

6- The auditor’s report should contain a clear written expression of opinion on the financial statements taken as a whole. It should consider whether the financial statements have been prepared in accordance with an acceptable financial reporting framework being either International Accounting Standards or relevant national standards or practices. It may also be necessary to consider whether the financial statements comply with statutory requirements. (IFAC, 1997, p.221).

It has been asserted that many of these six requirements are not met in Jordan (Matar, 1993, Matar, 1994, Dahmash, 1989), and that there is a need for guidelines for applying the broad concepts of the requirements to Jordanian circumstances. The
criticisms of Jordanian audit practice by academics suggest that some parties may believe there is a gap between the auditors’ performance and the desired achievements from the viewpoint of stakeholders. This study will examine the magnitude of some possible gaps between stakeholder expectations and audit standards and audit practice. The examination of these possible gaps addresses the following questions:

1- What are the weaknesses and the strengths of the ISAs?
2- Are ISAs interpreted in Jordan in a manner, which differs from the interpretations disclosed in the literature of other countries?
3- Are Jordanian auditors complying with the general auditing standards?
4- Are Jordanian auditors complying with the field work standards?
5- Are Jordanian auditors complying with the reporting standards?
6- If there is a gap between the perceptions of stakeholders, and the perceptions of the external auditors, how could we bridge it?

1.3 The Importance of the Study
The auditing profession in Jordan is monitored by:
- the Ministry of Trade and Industry
- the Profession Council which consists of representatives of several government entities in addition to other academics and representatives of the Jordanian Auditors Associations
- the Jordanian Auditors Association

In the absence of detailed control of the audit profession the possibility exists that the profession is not maintaining adequate standards of performance. This possibility has undoubtedly contributed to the criticisms directed at the auditing profession in Jordan (Matar, 1993, Al- Samhoori, 1996, Matar, 1994, Dahmesh, 1989). Criticisms are also directed towards the ISAs (Al-Wabil, 1990, Zaid, 1997, Moh’d, 1989, Noor, 1996). One of these criticisms is that auditing standards are subjective in nature and do not represent society’s wide spread interests and values. Many factors could impact on the interpretation of auditing standards such as culture, social, economic, and legal factors and ISAs do not consider differences in interpretation between countries. This study attempts to determine whether auditors in Jordan are complying with ISAs. Further, the study examines and evaluates the criticisms that have been
directed at the ISAs in terms of their relevance and importance in the Jordanian context.

The examination of possible gap between the perception of auditors and stakeholders in Jordan may suggest possible research topics for other countries. This study is also important because it covers the listed corporations in the Amman Financial Market. These corporations represent the keystone in the Jordanian economy. According to Amman Financial Market (AFM) regulation, the minimum capital of the company to be listed in Amman Financial Market is 500 thousand Jordanian Dinars (JD). And there are 192 companies are currently listed on the AFM. The capital of companies listed in Jordan has increased from around JD 229 million in 1978 to over one billion Dinars in 1993 (AFM, 1999). The AFM is open to non-Jordanian investors, and the AFM regulations allow foreign investors to own 100% of any company’s paid-in capital. Issues associated with the perceptions of stakeholders in the capital market of Jordan may have economic significance, thus lending weight to the importance of this study. The study also provides suggestions and recommendations to improve the ISAs and the performance of auditors in Jordan when considered appropriate.

1.4 Objectives of the Study

There are no local auditing standards in Jordan. The ISAs are mandatory according to the Jordanian Auditors Association regulations (decision No. 54, 1989), and the Amman Financial Market regulations for corporations listed on the Amman Financial Market (1998) and since 2002 incorporated in the Companies Law No.40. Accordingly, this study aims to explore whether there are expectation gaps between auditors and stakeholders, auditors and ISAs, and stakeholders needs and ISAs. So the objectives of this study are to:

1- Examine the weaknesses and the strengths of the ISAs.
2- Analyse and evaluate the perceptions of stakeholders as to the current performance of external auditors.
3- Analyse and evaluate the perceptions of stakeholders as to their expectations regarding audit performance and standards.
4- Analyse and evaluate the perceptions of external auditors as to their current audit performance and standards.
5- Provide suggestions and recommendations to assist the audit profession in providing a better service to stakeholders.
6- Identify whether an audit expectation gap is existed between the perceptions of external auditors and stakeholders.

1.5 Contribution to the Literature
Several articles which focus on the evaluation of the performance of the external auditors from their own viewpoint are reviewed (Matar, 1993, Dahmash, 1989, Sa’ada & Matar, 1994). This is the first systematic attempt to collect information on the presence (or absence) of audit expectation gaps, and whether the use of international auditing standards in Jordan is appropriate and reduces such gaps.

1.6 Previous Studies

One of the previous studies of the first group points out that “...to maintain integrity, objectivity and independence, the public accounting firm should not simultaneously act as external and internal auditor for the same entity” (Zaid, 1995, p.72). Incompatibility of the concurrent performance of both external and internal audits for the same client by the same public accounting firm is based on the effect of the external/ internal auditing dual role on the criterion of independence, which is professionally and legally recognised as the prime requirement for external auditing (Zaid, 1995, p.71). Other factors, which also affect the independence standard, are management pressure and the provision of consulting services by external auditors. Dahmash (1989) points out that 74% of his study sample confirms that auditors in Jordan are affected by the management pressure when they do their work. The Titard study conducted in U.S. in 1971 found that 43% of users of financial statements-
reasonable observers consider that the provision of consulting services by external auditors affects their independence (Titard, 1971).

This study examines whether a separation of auditing from the other main functions of public accountants would reduce the perception of lack of independence of Jordanian auditors. The literature suggests a dispute about auditor independence in Jordan (Matar, 1994; Sa’ada and Matar, 1994; Dahmash, 1989). Independence seems an important issue in Jordan because of the apparent relationship between perceived auditor independence and investor’s reliance on audited reports to make financial decisions (Abdel Karim, 1990).

In relation to the general standard of Due Professional Care, the Boron et al (1977) study, conducted in U.S.A, points out that an auditor seems to be considered responsible for discovering fraud in the view of the accountants of the corporations. Matar (1993) says the auditor should be aware of public interest and the deterrence concepts, and they should be one of the factors determining the level of due professional care. In relation to the general standard of Skills and Competence; Dahmash’s (1989) study points out that 42% of his study sample did not have experience in auditing using the computer. Alford et al (1990) point out that in order to increase the minimum educational requirements for CPAs, accountants need more knowledge in areas such as economics, management, and marketing and that future accounting education should focus on creative and innovative ways of using computers.

This study examines to what extent auditors in Jordan have knowledge in such areas and how their knowledge can be improved. This step is important to develop and include the audit law of Jordan with the educational requirements. Audit law in Jordan reflects the government point of view and it is mandatory that auditors comply with it. There is no formal role for accounting associations to improve that law, and to date no study has attempted to evaluate the application of the ISA with the view to introducing improvements to the ISA and audit law in Jordan. Hibbs (1976) points out that external auditors should use different methods for training such as lectures, seminars, and case studies organised from audit offices and professional associations.
In regard to planning and supervision as a field work standard, the Cattanach & Hanberg (1973) study focused on evaluation and reviewing the audit programs by using the PERT method to minimise costs without affecting quality. Mautz & Mini (1983) point out that the auditor should use effectiveness audit program based on the internal control system, and it should be adjusted according to the weak points in the system. One of the main criticisms that have been directed at the ISA involves whether the audit report should include or point to the efficiency of the internal control system as the ISA do not determine exactly the auditors’ responsibility in this regard. In fact the disclosure of the weaknesses and the strengths of the internal control system may help shareholders avoid some otherwise expected risks of investment decisions. At the same time the shareholders can not blame the auditor for corporate failure due to weaknesses of the internal control system.

On the issue of reporting standards, Noor (1996) argued both the historic and current cost should be disclosed in the audit report, and it should be reported whether there is a full disclosure or not in the financial statement. As another issue on reporting standards, Pound (1980, p.15) points out that “it is asserted that reading ease is an inhibiting factor in the communication effectiveness of the Australian audit report. It appears that most audit reports are likely to be difficult to comprehend by the majority of financial statement users”. Alfano (1980, p.16) points out that the audit report uses technical jargon-“present fairly”, “except for”, “subject to” and other more serious qualifying language known as an “adverse opinion or disclaimer of opinion”. Degrees of qualification tend to confuse the reader who is not an auditor. As referred to above many criticisms have been directed at the audit report in Jordan and other countries. This thesis discusses these criticisms from a theoretical perspective and introduces possible suitable solutions for apparent problems associated with the suitability of the ISAs for the Jordanian environment and the apparent expectation gaps in Jordan.

After evaluation of the ISAs, this thesis examines the expectation gap that seems to exist between public expectations of auditors and the beliefs of the profession about its responsibilities. The main important issues to be discussed regarding the audit expectation gap concern the auditor’s responsibilities for detecting and reporting fraud and illegal acts, the reporting of weaknesses and strengths of the internal
control system, the going concern dimension and the auditor’s independence. That
dispute surrounds these issues are evident from previous studies.

Regarding the auditor’s responsibilities for detecting and reporting fraud and illegal
acts most of the previous studies, Monroe and Woodlif (1994), Gay et al (1997),
Humphrey et al (1993), Apostolon and Nicholas (1989), point out that the users of
the audit report blame the auditor for not preventing fraud and illegal acts, but that
auditors disagree that this is their responsibility. This thesis links the auditors and the
users of the audit report points of view and the requirements of ISAs. This linkage is
intended to help determine who is responsible for the expectation gap with the view
to improving the application of the ISAs in Jordan. Regarding the expectation gap
and auditor independence, previous studies in Jordan, Matar (1994), Dahmash
(1989), and Al-Samhoori (1996) point out that auditors’ independence is impaired,
but do not introduce factors that impair the auditors’ independence from the
shareholder’s point of view. The sample for this empirical study examines the
expectation gap between shareholders and auditors.

Regarding auditors’ responsibility for reporting on the internal control system, the
ISAs do not mention whether a statement about the effectiveness of the internal
control system should be included in the audit report. Gay et al (1997) point out that
the auditor is required to obtain an understanding of the internal control structure of
an organisation. Noor (1996) said that the audit report should include a statement
about the weaknesses and strengths of the internal control system. However, the ISA
do not state that the audit report should include such a statement. In USA it has been
stated that “an auditor is required to report to a registrant’s audit committee any
reportable conditions or material weaknesses in a registrant’s system of internal
accounting control that the auditor discovers in the course of the examination of the
registrant’s financial statements” (SAB No: 99, 1999, p.8). This study examines this
issue from different points of view to introduce possible improvement to the
application of this standard in Jordan.

The last issue examined in this study concerns the expectation audit gap associated
with auditor responsibility for reporting on the going concern dimension. Some of
opinion holds that the auditor should report whether it is likely that the company will
run successfully or not in the year after the audit (Miller, 1999, Monroe & Woodlif, 1994, Humphrey et al, 1993). This thesis examines this issue in Jordan from the auditors, stakeholders, and ISA points of view to examine the relationship between reporting on the going concern dimension and corporate failure in Jordan.

1.7 Research Methodology
The study is of a descriptive and analytical nature. It aims to analyse, discuss and evaluate the application of the International Auditing Standards for the listed corporations in Jordan. For this purpose two interrelated approaches are taken: -
1- Library research through books, papers, previous studies and other material relevant to the ISAs, their interpretations, and criticisms thereof.
2- Field research which includes survey questionnaires directed to external auditors, and stakeholders.

Data collection
The questionnaires will seek three types of information: -
1- General information, academic and experiential qualifications of respondents.
2- Information about the perceptions of external auditors and stakeholders as to the current performance levels of external auditors.
3- Information about the perceptions of external auditors and stakeholders as to the performance level that the external auditor could reasonably be expected to achieve.

1.8 Scope and Limitations of the Study
This thesis aims to identify, analyse and evaluate the criticisms that are directed at the ISAs to determine the weaknesses and the strengths of these standards. The thesis also aims to study and analyse the application of these standards in the audit of listed corporations in Jordan. This practical study examines apparent expectation gaps between auditors, stakeholders, and ISAs with a view to narrowing them. This study also aims to identify problems facing the audit profession in Jordan and to seek solutions. This study does not include evaluations of ISAs for other countries or measures of expectation gaps in any other countries.
1.9 Organisation of the Study

This study contains two sections; the first section is theoretical (five chapters) and the second is empirical (two chapters). The main structure for each chapter is as follow:

Chapter One introduces the main topics discussed in the thesis. This chapter covers the importance of the study, the problems and the objectives to be achieved. It also summarises the methodology and the scope of the study. Chapter Two covers the theoretical need for International Auditing Standards as viewed from a historical perspective. The objective of Chapter Two is to provide evidence on the perspective of auditing as an evolving discipline as it modifies its role to meet the changing needs of society. The following chapters, Three, Four, and Five discuss the extent to which International Auditing Standards achieve their objectives. Chapter Three and Four discuss the weaknesses and the strengths of the main aspects of ISA. Chapter Five examines the expectation gap that appears to exist between what the public expects of auditors and what the profession believes its responsibilities should be by covering:

- the nature of the gap
- corporate governance and the independent audit
- the responsibilities of auditors for detecting and reporting fraud and illegal acts, and
- the audit expectation gap and independence.

Chapter Six and Seven cover the empirical study. Chapter Six discusses the methodology of the study, the choice of sample and the analytical method considered appropriate for achieving the objectives of the empirical study. Chapter Seven includes analysis of the apparent perceptions of different groups regarding the application of the ISA in the audit of listed corporations in Jordan to establish the extent, if any, of the expectation gap in Jordan. Chapter Eight introduces recommendations to improve the application of the ISA and to bridge the apparent expectation gap in Jordan.
Chapter Two

The Need for International Auditing Standards as Viewed from A Historical Perspective

2.1 Introduction
2.2 The Historical Perspective
2.3 Definition of Auditing
2.4 The Importance of Auditing
2.5 Objectives of Auditing
2.6 Auditing Standards Concepts
2.7 Justification for the use of International Auditing Standards
2.8 Chapter Summary
2.1 Introduction

The objective of this chapter is to provide evidence on auditing as an evolving discipline that modifies its role to meet the changing needs of society. The developments of auditing are traced from its role of checking on custodianship of resources, to its role in facilitating the raising of debt and equity, by providing assurances as to the reasonableness of directors representations in their reports. This treatment is not to deny the continued existence of audits with the main role of ensuring accountability for funds held in trust e.g. the audit of solicitors’ trust accounts. Rather, the objective of this thesis, is to examine audit performance in public companies in Jordan from the perspective of International Auditing Standards.

It is shown that the auditing role has changed from the simple requirement verifying that all resources have been duly accounted for, and that all uses were in accordance with the directives of the noble man. In modern society the audit is reviewed as providing an opinion (assurances) on reports on performance of management in public companies whose investors may be local or international. The role is less well defined and the linkage between the client and the auditor less direct due to the separation of ownership and management. Further, in the early audits there was a clearly specified relationship and there was no ambiguity about the role. In the modern company audits there may be a diversity of views about what an audit should achieve, particularly from the perspective of the needs of users of the audit report. Further, users’ influence over the auditor is limited except in extreme cases. In this changed social and economic environment, professional bodies have evolved to fill the need for guidance as to the role and performance of audits by developing standards to guide the audit professional. National guidelines have become the basis for international standards and international standards have also influenced national standards. These international standards are being used by countries which have not developed their own standards. Therefore, it is appropriate to ask whether such standards are providing adequate guidance, whether they are being implemented as intended, and whether they are achieving the intended outcomes of high quality audits in order to meet the needs of users.
This thesis examines these questions in relation to Jordan given its different social and economic and religious experiences from those countries most influential in the development of the International Auditing Standards.

The chapter addresses the issues surrounding the following matters:

- The evolving role of audits
- The need for audit standards in selected countries, namely the United States of America and the United Kingdom
- The history of the development of International Auditing Standards with particular emphasis on the objectives they sought to achieve and the influential players in their development
- The discussion which preceded adoption of International Auditing Standards as the regulatory framework in Jordan.

2.2 The Historical Perspective

"A form of auditing existed as early as the twelfth century, when the Exchequer was established in England during the reign of Henry I (1100-1135)" (Gul et al., 1994, p.1). Special audit officers were appointed to ensure that state revenue and expenditure transactions were properly accounted for. It was also customary for an audit of the accounts of manors and estates to be performed. The person who made such examinations of accounts became known as the "auditor", a term derived from the Latin "audire", meaning to hear, because originally the accounting parties were required to present themselves before the auditor who 'heard' their accounts. In 1494 Luca Pacioli published his treatise on mathematics with a section on the principles of double entry. "In 1581 the first association of accountants was formed in Venice" (Gul et al., 1994, p.1). The practice of auditing did not become firmly established as part of the business world, however, until the advent of the industrial revolution. The industrial revolution saw the emergence of large business undertakings such as railways, banks and joint stock companies. Thus, auditing as known today can be linked to the development of joint stock corporations in the United Kingdom (UK) (Gill & Cosserat, 1996, p.9, Ricchiute, 1989, p.9) during the Industrial Revolution in the mid 1800s. The joint stock company was the vehicle supporting the aggregation of wealth needed to finance those businesses. "In 1844 the British Parliament passed
the Joint Stock Companies Registration and Regulations (Joint Stock Company Act)” (Gill & Cosserat, 1996, p.9). The aim of the United Kingdom Act of 1844 (Johnston, et al, 1983) , by which such companies were first able to become fully incorporated by simply executing and registering a deed of settlement, was to regulate and control, rather than to facilitate, new enterprise. Certain provisions had to be included in deeds of settlement: books of account had to be kept, balance sheets regularly prepared and registered, and auditors appointed, but the liability of the members remained unlimited. In the meantime, however, many companies had been limiting their liability by contract, and the Act of 1855, which made it possible for companies registered under the Act of 1844 to limit the liability of their members, was thus regarded by many people as merely a means of giving universal notice of the conditions under which these companies were contracting; others urged that the new Act was only removing an artificial rule preventing full freedom of contract (Johnston, et al, 1983, p.7).

Gower et al (1969, p.50) pointed out that the subsequent history of companies belongs to the modern law and can be sketched more briefly. Its main feature has been a movement away from the complete freedom allowed by the 1856 Act and the imposition of greater controls and increased provisions for publicity- the basic policy of Gladstone’s Act of 1844 which had suffered partial eclipse in later Acts. The first draft of the United Kingdom Joint Stock Companies Bill of 1856, in keeping with Robert Lowe’s submissions that the greatest publicity should be given to the affairs of companies, included members of an income and expenditure account and a balance sheet (Johnston, et al, 1983).

In 1857 the Act of the previous year was slightly amended, banks were brought within its scope by the Joint Stock Banking companies Act 1857, but without limited liability which was not conceded until the following year, and legislation was passed dealing with frauds by directors. Gower et al (1969) pointed out that in 1862 the various enactments were consolidated and amended in an Act which is the first to bear the brief modern title of Companies Act, and which, with numerous amendments, remained the principal Act until 1908. It was larger than the 1856 Act, consisting of no fewer than 212 sections and three schedules. Hence by 1862 two of the three functions of the modern company had been provided for. Capitalists were
encouraged to lend their money to industry without having themselves to operate the enterprise, and fluctuating bodies formed for social or philanthropic purposes could conveniently adopt the company rather than the trust as their modus operandi.

In the United Kingdom it was not until 1900 that compulsory audits became necessary, 1907 that balance sheets had to be filed with the annual summary, and 1929 that balance sheets and profit and loss accounts had to be circulated to members; and in New South Wales (Australia) it was not until 1936 that any of these requirements were introduced (Johnston et al, 1983, p.8). Before 1900, auditing was concerned principally with the detection of fraud. In the first half of the 20th century, the direction of audit work tended to move away from fraud detection toward the new goal of determining whether financial statements gave a fair picture of financial position, operating results, and changes in financial position. This shift in emphasis was a response to the needs of millions of new investors in corporate securities (Meigs et al, 1988, p.8).

From 1942 to 1969 the Council of the Institute of Chartered Accountants in England and Wales published Recommendations on Accounting Principles, and with slight modifications some of these were adopted and issued by the Institute of Chartered Accountants in Australia. The councils of the Institutes prefaced their initial recommendations with the modest yet significant statement that while it was recognized that the form in which accounts are submitted to shareholders is a matter in the discretion of the directors, it was hoped that the recommendations would be helpful to members in advising, in appropriate cases, as to what was regarded as best practice (Johnston et al, 1983).

The evolution of auditing in the United States had a decided British influence; several of today’s major US public accounting firms were once branches of British firms (e.g, Price Waterhouse & Co.). But in the twentieth century the USA played a large role in developing auditing standards in the world. These standards were applied in the world before the creation of the ISAs. Therefore, this part of the discussion covers developments in the USA. Ricchiute (1989, p.10) points out that the first authoritative auditing pronouncement in the USA was published in the April 1917 Federal Reserve Bulletin under the title “Uniform Accounting: A Tentative
Proposal submitted by the Federal Reserve Board”. The 1917 bulletin, prepared at the request of the Federal Trade Commission, was described as a “memorandum on balance-sheet audits” and was intended to promote “a uniform system of accounting”. The 1929 Federal Reserve Bulletin, “Verification of Financial Statements”, referring to financial statements rather than the balance sheet, suggested that the 1929 bulletin was intended to apply to income statements as well as balance sheets. “The 1929 pamphlet also covered reporting practices and stressed reliance on internal control” (Delfiese et al, 1990, p.10).

In the 1930’s, the intention of the US associations was to create auditing standards to be applied following the stock market crash. It is important to mention the improvements that were formalised in the auditing profession at that time. One of these improvements was that the Stock Exchange in the early part of last century established minimum reporting standards for companies whose stock were listed. “Federal securities legislation in 1933 and 1934 created the Securities and Exchange Commission (SEC), expanded reporting requirements, and required that financial statements be attested to by independent auditors” (Cook & Winkle, 1988, p.14).

The title of the 1936 Federal Reserve bulletin, “Examination of Financial Statements by Independent Public Accountants”, perhaps provides the most revealing indication of the profession’s changing view toward auditing. Whereas the 1929 bulletin was entitled “Verification of Financial Statements”. The 1936 bulletin related to examination. Verification implies (Ricchiute 1989, p.11) auditing every transaction and event underlying financial statements, but examination implies auditing selected transactions and events. So auditors examine the financial statements in order to be able to express an opinion on them, and do not verify them. The modern era of audit standard setting began in 1939, when the AICPA created the Committee on Auditing Procedure which issued the first Statement on Auditing Procedure (SAP) after the second world war.

In 1941 the Securities and Exchange Commission (SEC) issued Accounting Series Release No. 21 which in part required that an auditor state within an audit report whether the audit was conducted in accordance with generally accepted auditing standards applicable in the circumstances. At that time no written standards existed.
Therefore, in 1947, fourteen years before Philosophy of Auditing was published, the AICPA's committee on Auditing Procedure issued its Tentative Statement of Auditing Standards— their generally accepted significance and scope. In the 1948 UK Companies Act the auditor was required to report on the truth and fairness of a company's profitability for the financial year in question and its financial position at the end of that year.

Ricchiute (1989, p.15) points out that the Committee on Auditing Procedure began deliberately on a series of standards for auditing. The work was interrupted by World War II, and it was not until 1947 that the Committee finalised nine generally accepted standards in its report. The nine standards were approved by vote of the AICPA’s membership in 1948, and a tenth standard was adopted in 1949. Moh'd (1989), Vasarhelyi & Lin (1988), and Ricchiute (1989) pointed out that the committee's report published in 1954 provided a basis for the work of the world's auditing profession because it included guidelines and auditing standards that were accepted by the profession at that time. That acceptance was said to be because the report covered the main aspects of professional performance, and those aspects were related to the auditing standards.

Vasarhelyi & Lin (1988, p.100) pointed out that the statement on auditing procedure No. 33, issued in 1963 in the USA by the AICPA, consolidated of replaced the preceding pronouncements of the committee on auditing procedures, namely Internal Control 1949, and Generally Accepted Auditing Standards 1954. So the US auditing profession has applied auditing standards for many years based on statements issued by the AICPA. Many criticisms have been directed at those standards (Ricchiute, 1989, p.13) such as:

- The lack of quality of guidance, e.g. the guidelines should be more useful to practicing auditors, and more specific; and
- Orientation to public company audit, most of these standards were oriented toward public company audits, thereby ignoring non public company audits.

In 1973 the International Accounting Standards Committee came into existence as the result of agreement between the leading professional bodies of ten major countries including Australia. Under the terms of the Committee's constitution
accountancy bodies of other countries may also become members. The objects of the IASC are “to formulate and publish in the public interest, standards to be observed in the presentation of audited financial statements and to promote their world wide acceptance and observance” (Johnston et al, 1983, p.17). In 1977 the International Federation of Accountants (IFAC) came into existence as the result of an agreement signed by 63 accountancy bodies representing 49 countries. Its broad objectives are to develop and enhance a world wide accountancy profession with harmonised accounting standards. The IFAC has left the task of issuing accounting standards to the IASC and has concentrated on “International Auditing guidelines”

The ISAs were issued in 1979 by the International Auditing Practice Committee (IAPC). “The IAPC is a standing committee of the International Federation of Accountants (IFAC), which is a worldwide organisation of 111 accountancy bodies from 81 countries representing over 1,200,000 accountants in public practice, education, government service, and industry and commerce” (Anonymous, 1994, pp.11-14).

In Jordan, the auditing profession law (1985), the Jordanian Auditors Association (1987), and the Arab Society of Certified Accountants through its relation to the International Accounting Standards Board are the main authorities that attempted to improve the application of the International Auditing Standards in Jordan.

Many factors influenced the world wide spread of the international and local accounting bodies and their members. These factors include an increased complexity of business, an increased size and geographical spread of companies, and more highly developed accounting systems. Another important factor that encouraged the establishment of the international and local accounting bodies is associated with the formation of international trade relationships in the world and resultant organisations such as GATT. The international factors encouraged harmonising of auditing in the world.

The International Auditing Committee now includes representatives from U.S., U.K., Germany, France, Canada, Australia, the Netherlands, India, Philippines, Japan and Mexico. The mission of IFAC as set out in its constitution, concerns “ the development and enhancement of an accountancy profession able to provide services
of consistently high quality in the public interest” (IFAC, 1997, p.16-2). In working towards achievement of this mission, the council of IFAC has established IAPC to develop and issue, on behalf of the council, standards and statements on auditing and related services. IAPC believes that the issue of such standards and statements will improve the degree of uniformity of auditing practices and related services throughout the world (IFAC, 1997, p.16-2).

2.3 Definition of Auditing

Accounting is concerned with the collection, summarisation, and communication of information regarding economic events especially those events relating to business entities. Various groups, such as investors, stockholders, creditors, labour unions, government and investment bankers, have an interest in the economic affairs of business entities. Auditing is an integral part of the communication process with stakeholders. Auditing as an activity may be viewed as supporting the general proposition that subject matter (such as financial information) is often of more value to the various groups that use it if it has been examined and reported up on by an independent third party. “The quality of the information is enhanced by the added credibility given through the audit function. This ultimately impacts on the process of resource allocation: the added credibility given to the subject matter enhances the effectiveness of communication within the economic system” (Pound et al, 1997, p.9).

Many authors (Pound et al, 1997, Gil & Cosserat, 1996, Gill et al, 1999, Gul et al, 1994, Defliese et al, 1990, Cook & Winkle, 1988, Robertson & Davis, 1988, Kell et al, 1986, Gill et al, 2001) agree with the American Accounting Associations Committee (AAAC) definition of auditing as “a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users”(Hermanson et al, 1993). Arens et al (1997, p.2) for instance define auditing as “the process by which a competent, independent person accumulates evidence about quantifiable information related to a specific economic entity for the purpose of determining and
reporting on the degree of correspondence between the quantifiable information and established criteria”.

A comparison of the definitions shows that both include several key elements as follows:

A systematic process: - The AAAC definition starts with “A systematic process” which connotes a logical and organising series of procedures. Arens et al use the phase “the process by which...”. Both definitions by the use of the word “process” indicate that the auditing function is a system. This system of inputs, processing and outputs needs to be a logical, structured and organised series of procedures to ensure all critical elements are addressed.

Professional objectivity: The phases “objectively obtaining and evaluating evidence” in the AAAC definition, and “competent independent person” in the Arens et al definition include the same key meaning. The auditor must be qualified to understand the criteria used and competent to know the types and amounts of evidence to accumulate for examination to reach proper conclusions. The auditor also needs to possess an independent attitude to objectively obtain and evaluate results without bias, or prejudice.

Established criteria: established criteria are standards against which the assertions or representations are judged. Gill & Cosserat (1996, p.4) pointed out that “Criteria be specific rules prescribed by a legislative body, budgets and other measures of performance set by management or an identified financial reporting framework established by the standard setting and regulatory organisations”. Accounting standards provide another example of criteria in the audit of financial statements by public accounting firms. Thus, the criteria for evaluation of quantitative information are various.

Communication and reporting: Communication of results of the audit is achieved through a written report that indicates the degree of correspondence between the assertions and established criteria. The communications of results either enhances or weakens the credibility of the representations made by another party. It is important that the auditor communicate all results independently. Reporting, the final stage in
the audit process, is to inform readers of the degree of correspondence between quantifiable information and established criteria. The AAAC definition of auditing contains “communicating the results to interested users”. Arens et al (1997, p.4) point out that “the final stage in the audit process is the audit report- the communication of the findings to users”. In a business environment, persons who use the auditors’ report include shareholders, management, creditors, government agencies and the public.

Quantifiable information: Both definitions include the meaning of “quantifiable information” or “economic actions and events to ascertain the degree of correspondence between those assertions and established criteria”. The expression of correspondence may be quantified, such as the amount of a shortage in a petty cash fund, or it may be qualitative, such as the fairness of a financial report. Quantifiable information can and does take many forms. It is possible to audit such things as a company’s financial statements, internal operating reports, the amount of time it takes an employee to complete an assigned task, the total cost of a government construction contract and compliance of an individual’s tax return.

The definitions indicate that auditing includes three stages, gathering, evaluation, and reporting to the users of the audit report. These three stages need guidelines to determine auditor responsibility to management, investors, government and creditors. These guidelines are the auditing standards, the General, Fieldwork and Reporting standards and are intended to improve auditor performance. This thesis evaluates these standards and their application in the audit of listed corporations in Jordan.

2.4 The Importance of Auditing

Auditing, an integral part of accounting is concerned with obtaining and verifying financial and economic facts in order to give an audit opinion about an entity’s progress and financial condition. In many jurisdictions public companies are required to undergo on annual independent audits as “the audit function is intended to prevent doubt arising about the quality of the financial accounting information that the law requires the company to present to its shareholders” (Lee & Kenley, 1985, p.10).
Also audited financial statements provide a means of confirming or correcting information received earlier by the market. In effect, audited statements help to assure the efficiency of the market by limiting the life of inaccurate information or by deterring its dissemination. Accordingly, auditing is important to the users of audited financial information and the members of the public (in Jordan). That is because users seek assurance from independent auditors that the financial information is both (1) free from management bias and (2) neutral with respect to the various groups. Also published financial reports represent an important source of information which can be used in making significant investments, lending and other decisions (Gill et al, 1999, p.4).

Auditing is important in respect of listed corporations in Jordan because they represent the keystone of the Jordanian economy as mentioned in chapter one. International investors are more likely to invest if they have confidence in the accounting and auditing standards applied in Jordan. One reason why foreign investors invest in companies, such as the Arab Bank and the Jordanian Cements Factories, both of which are listed on the Jordanian stock market is that these companies apply International Accounting and Auditing Standards.

Likewise, when business firms are under consideration for merger or sale, audits are desirable to add credence to the business’s financial condition. Termination of a partnership, or death of a partner, usually necessitates an audit to allocate assets in accordance with the partnership agreement. Also, some suppliers require audited financial statements before they will grant a large amount of credit for sales of their products. These aspects of audits are common to most countries, including Jordan. Audits can also have a preventive effect. If employees or management know the firm will be audited, this fact may help to prevent and detect errors or irregularities (Hubbard et al, 1988, p.8). Also, audit reports include representations of management about its effectiveness in administering resources to interested third parties. Thus, an audit has value because management’s representations of its performance and stewardship are examined and reported on by an expert outside management’s control.
There are four conditions in the business environment which create a demand for an independent audit. They are:

1- Conflict of interest: Users are concerned with the possibility of bias in the information provided them when there is an actual or potential conflict of interest between the user and the provider of the information.

2- Consequence: When information is used as input for decisions of significant consequence, users are concerned with the possibility of biased, misleading, irrelevant, or incomplete information.

3- Complexity: As the information communicated has become more complex, users of information have found it more difficult, or even impossible, to obtain direct assurance about the quality of the information received.

4- Remoteness: Remoteness is caused by the separation of the user of the information and the information source, it prevents the user from directly assessing the quality of the information received (Hermanson et al, 1993, p.5).

Finally, auditing is important for investigation and comments on the accounting system and methods applied. The accounting system, as a part of the internal control system, is evaluated by the auditor to determine its weaknesses and strengths. The auditors may seek improvements to the accounting and internal control systems because they are dependent on it in designing the audit program, gathering evidence, narrowing or expanding the audit sample and preventing fraud.

2.5 Objectives of auditing

As stated earlier the main objective of the audit of financial statements is “to enable the auditor to express an opinion whether the financial statements are prepared in all material respect, in accordance with an identified financial reporting framework” (IFAC, 1997, p.50). In forming an audit opinion, the auditor needs to obtain sufficient appropriate audit evidence so as to be able to draw conclusions on which to base that opinion and to issue an appropriate audit report.

An auditor’s opinion enhances the credibility of financial statements by providing a high, but not absolute level of assurance. “Absolute assurance in auditing is not attainable as a result of such factors as the need for judgment, the use of testing, the
inherent limitations of any accounting and internal control systems and the fact that most of the evidence available to the auditor is persuasive, rather than conclusive, in nature" (IFAC, 1997, p.50).

To meet the main objective of audit of financial statements, many specific audit objectives for each item reported in the balance sheet and profit and loss statement should be identified. Meeting these aims provide the base for the auditor to express his opinion whether the financial statements are prepared in all material respect in accordance with the reporting framework.

These audit objectives are:

- Know the main objective of conducting an audit of financial statements. If the auditors conclude that the financial statements are not misleading the prudent user, they should give an audit opinion on the fairness of the financial statements’ presentation and they should associate their names with the statements. Also the auditor takes responsibility for notifying the users through the audit report if they believe that the financial statements are not fairly presented or is unable to reach a conclusion that they are fairly presented.

- Describe the role of management in preparing financial statements. Management is responsible for the fairness of representation in the financial statements and for determining which disclosures it considers necessary. But if the auditor finds that the disclosure is likely to mislead the users (or beneficiaries) of financial statements he can issue a qualified opinion, and disclose the reasons for that opinion.

- Describe the auditor’s role in verifying financial statements, and the auditor’s responsibility to discover errors, illegal acts and other irregularities. This objective means that the audit should be designed to provide reasonable assurance of detecting material misstatements in the financial statements. Reasonable assurance means that “the auditor is not an insurer of the correctness of the financial statements” (Arens et al, 1997, p.174). The auditor cannot audit all of the assertions in financial statements. When material misstatements are not uncovered in the audit, the auditor’s best defence may be that the audit was conducted in accordance with auditing standards.
The auditing standards provide guidance as to a minimum level of care required in performing an audit.

- Discuss the seven aspects of management assertions about financial information. Assertions are implied or expressed representations by management about the accounts in the financial statement, and are directly related to accounting standards. These assertions are part of the criteria management uses to record and disclose accounting information in financial statements. These assertions assist the auditor to express his opinion in the financial statements. Therefore, this thesis analyses as part of the empirical study, the perceptions of stakeholders about the auditor’s opinion and the audit report the main aspect of the auditor’s work available to the public. These aspects of the assertions are: existence or occurrence, completeness, rights and obligations, valuation or measurement, presentation or disclosure, description of how the auditor develops general and specific audit objectives from management’s assertions, and a description of the process by which audit objectives are met.

Audit Failure
Audit failure occurs when the auditor issues an erroneous audit opinion as the result of an underlying failure to comply with the requirements of appropriate auditing standards (Arens et al, 1997, p.116). The auditors’ firms should be asked by the professional bodies and the users of the audited financial statements to defend the quality of the audit if a wrong type of audit opinion is issued or if the auditor fails to discover material misstatements. It is incumbent on the auditor to use due care, honesty, and skill in the conduct of an audit. If the auditor fails to use due care and skill, an audit failure may occur. However, it is difficult to determine that an auditor failed to use due care. Arens et al (1997, p.117) point out that difficulty arises when there has been a business failure, but not an audit failure. For example, when a company fails or cannot pay its debts, it is common for statement users to claim that there was an audit failure, especially when the most recently issued auditor’s opinion indicates the financial statements were true and fair.

Firm, self, and government regulation are important in audit failure. Firm regulation occurs within the public accounting firm. Firm regulation means that the firm’s day-
to-day actions comply with the policies and procedures pertaining to quality control elements. Self regulation means demonstrated compliance with quality control standards with practitioners obliged to verify that in their firm established quality control requirements are being met (Gill et al, 1999, p.34). The primary objective of government regulation is to protect the investing public from substandard financial reporting and auditing practice. These forms of regulation are interrelated and aspire to the overall objective of improving the quality of audit practice. Each of these forms use different means to achieve the desired objective. Gill and Cosserat (1996, p.96) point out without evidence that regulations act as a sieve in detecting substandard practice and preventing audit failure. Pound et al (1997, p.24) point out that a survey by the Institute of Chartered Accountants in England and Wales in 1986 concluded that the general public expects external auditors to provide them with an early warning of corporate failures. Also the public appears to expect that the auditor can prevent or detect all fraud. However, the auditing profession does not regard fraud detection as a primary audit objective. The auditing profession believe they have a responsibility to attempt to educate statement users about the role of auditors, business risk, audit failure and audit risk. However, some user groups feel that auditors should take greater responsibility, and in the absence of an elaborate undetectable fraud, auditors should provide prior warning of possible failure. The existence of expectation gaps have been identified in several countries but it is not known to what extent the position is in Jordan or in other middle eastern countries. Accordingly, this study will investigate whether in Jordan auditors and other interested parties have different views on the extent of auditors' responsibility for fraud prevention and detection.

The IFAC (1997, p.88) represents the typical view of the audit profession when it says “the responsibility for the prevention and detection of fraud and error rests with management through the implementation and continued operation of adequate accounting and internal control system", and further that “the auditor is not and cannot be held responsible for the prevention of fraud and error”. They resist acceptance of responsibility to shareholders and creditors for liability for losses incurred following major fraud or business failure. However, as indicated above, significant groups of the public believe that there is prima facie responsibility on the part of the auditors if they have not:
(1) previously indicated weaknesses in internal control system;
(2) detected a major fraud which has occurred over period of time;
(3) raised doubts about the assumption of reporting on a going concern and the company fails shortly after a clear audit report. The responsibility, in their view, is not in relation to the prevention, but in the failure to warn the investing public of the concerns that the auditors should have had.

2.6 Auditing Standards

Generally, standards are a means to an end. More specifically, they are instruments of regulation used by man in the attainment of his goals and objectives. Both the original meaning of the word “standard”, and its subsequent evolution, point to the regulative nature of standards. The word “standard” originally stood for a banner whose purpose was to orient and gather scattered forces in a battle, obviously a regulative function. Later, the usage of this word was extended to denote other regulative instruments.

Auditing standards describe “the basic principles which govern the auditor’s professional responsibilities and which must be complied with whenever an audit is carried out ...” (AUS1, par.3). Auditing standards are a number of rules, accepted by professionals as guidelines, to measure transactions, events and circumstances which affect financial results and financial information supplied to beneficiary parties. These standards should be related to the relevant objectives of the audit, which should be relevant and appropriate within the social environment. Therefore these standards should satisfy the four criteria of Relevancy, Acceptability, Consistency and Suitability. The International Auditing Standards Committee set ISAs. These consist of:

(a) Basic objectives, and essential procedures. The essential procedures are to be interpreted in the context of explanatory and other material.
(b) Practice guidance statements to provide practical assistance to auditors in implementing the standards and to promote good practice.
(c) Audit guidelines which apply specifically to financial audits.
2.7 Justification for the use of the International Auditing Standards

IAPC believes that “The issue of such standards and statements will improve the degree of uniformity of auditing practices and related services throughout the world” (IFAC, 1997, p.34). It is, however, clarified that the guidelines do not override local statutory or professional regulations. Though the International Auditing Guideline apply primarily to independent financial audits, it is recognised that they may also have application, as appropriate, to other related activities of auditors. The International Auditing Guideline, by themselves, are not automatically binding on the auditors in a particular country. However, they provide an authoritative view of what is internationally recognised as generally accepted auditing practices and thus serve as the basis for the development of auditing pronouncements by professional bodies in individual countries. “While in some countries, the International Auditing Guidelines have been adopted without any changes, in many others, they have adopted with such modifications as are considered appropriate in the context of the local conditions” (Batra and Bagardia, 1992, p.22). The IAPC recognised there had been some misunderstanding and misinterpretation of the auditor’s responsibilities. The ISAs acknowledges that differences in financial reporting frameworks between countries result in comparative financial information being presented differently in each framework (Parker & Hopp, 1998, p.1).

The overall guidelines for auditing work are known as generally accepted auditing standards. These standards establish the framework within which an auditor decides the necessary action to take in preparing for the examination of financial statements, in performing the examination, and in writing the report (Cook & Winkle, 1985, p.28). Furthermore, there is a clear distinction between auditing standards and auditing procedures. The term procedures in auditing refers to the methods and techniques used by the auditor in the conduct of the examination. The audit procedures used will vary according to the particular circumstances of the individual audit examination. In contrast, auditing standards deal with measures of the ability of the auditor’s performance of the procedures and the objectives to be attained by the use of the procedures undertaken (Hermanson et al, 1993, p.18).
Moh’d (1989, p.143) states the objectives of International Auditing Standards to be:

1- Harmonising the auditing profession.
2- Development of the auditing profession to follow up development in business.
3- Bridging the gap between the auditors in the world.
4- Ensuring standards are measures of an acceptable level of quality of professional activity.
5- Being keystone in evaluation of auditor performance.
6- Providing guidance about auditor’s responsibility and due professional care.

A clear expression of the objectives of the ISAs facilitates understanding of differences in points of view of professionals and stakeholders. This thesis examines to what extent the ISAs achieve the objectives from the Jordanian perspective.

**Importance of Auditing Standards**

Auditing standards set a minimum standard of technical proficiency in auditing. These standards are applicable to each financial report audit made by an independent auditor regardless of the size of the entity, the form of business organisation, the type of industry, or whether the entity is for profit or not for profit. Shareholders and other users should be informed in the scope section of the audit report that the audit has been conducted in accordance with specified auditing standards.

The auditing standards provide guidance to a minimum level of care required in performing an audit. They may also comment on whether the professional standards are adequate. Ultimately, the courts determine whether this standard has been met during a particular engagement. Gill & Cosserta (1996, p.51) state that, “when the conduct of an auditor is in question in legal proceeding it is not the province of the auditing profession itself to determine what is the legal duty of auditors or to determine what reasonable skill and care requires to be done in a particular case, although what others do or what is usually done is relevant to the question of whether there had been a breach of duty”. The court may decide that the standards are deficient. To meet changing business conditions and expectations auditors should review and update their practices and procedures.
Clive and Frank (1982) point out that auditing standards and guidelines are only the codification of existing best practice but believe they will provide for each member a yardstick by which they may judge not only the general level of their work, but also the suitability of the action they propose to take in a particular case. This is not to suggest however that auditing standards and guidelines can ever replace the judgment of the individual member.

In general, standards are necessary to organise any profession and to measure, and improve the members' performance. Pound et al (1997) point out that codified standards may also provide the courts with an authoritative benchmark against which to measure the auditor's performance if the auditor's work is subject to litigation. Also if every certified public accountant has adequate technical training and performs audits with skill, care, and professional judgment, the prestige of the profession will rise, and the public will attribute more significance to the auditor's opinion attached to financial statements. The compliance with the standards may provide adequate defence against actions for malpractice. Defliese et al (1990) point out that standards set the minimum level of performance and quality that auditors are expected, by their clients and the public, to achieve.

Therefore, according to the auditing profession, auditing standards offer the following benefits (Clive & Frank, 1982, p.21):

1- The demonstration that self-regulation by the profession does work.

2- An improvement of the image of auditors and audit work in the eyes of the public.

3- A reduction in the differences, which currently exist between audit reports, thereby enabling users to better understand the message the auditor wishes to convey.

4- A set of principles which will help the auditor, when combined with his/her professional judgement, to choose the relevant audit tasks to perform.

5- An aid in persuading clients that the procedures which the auditor wishes to carry out are necessary.

In relation to point three, reports may not need to be completely and consistently similar as differences in wording could allow better insight into the philosophy of
different auditors. Furthermore “International Auditing and Accounting Standards could increase the comparability of financial statements and greater harmonisation of auditing and accounting standards. In addition, standards setters at the national level might also give consideration to these international standards in developing their own auditing and accounting standards” (Roussey, 1994, p.4).

Gill et al (2001, p.67) pointed out without evidence that “it is argued that the standards enhance the reputation of the profession”. The accounting bodies are seen to be responding to difficult problems, and endeavouring to meet the changing needs of society. Accordingly “Harmonised Standards”, a common body of standards that could be used in preparing and auditing financial statements the world over, would simplify comparisons of entities’ financial positions and results of operations and cash flows. Such standards could also result in greater efficiency for entities reporting for national and international purposes. Investors, analysts, organisations involved in cross-border financing, accountants, auditors, and the national professional bodies of standard setters and regulatory agencies are all affected by these initiatives toward harmonised standards. Presently at least three international bodies are working toward harmonised accounting and auditing standards: The International Federation of Accountants, The International Accounting Standards Committee, and the International Organisation of Securities Commissions (Roussey, 1994, p.58). That is because the advantages of globalisation of the accounting and auditing profession are receiving growing attention in the international community; hence there is an increasingly important need to enhance our understanding of auditors diagnostic probability judgments in different cultures. Cultural diversity inhibits the establishment and enforcement of International Auditing Standards.

Many factors inhibit that establishment, such as the differences between countries in laws and regulations, accounting standards, and economic situations. In Saudi Arabia, for example, Al-Zaka is applied instead of Taxation. Al-Zaka has many requirements in calculation, measurement and disclosure. Harmonisation of auditing faces many problems because of the cultural diversity. Hofstede (1980) proposed four dimensions of national character: rank consciousness, uncertainty avoidance, group orientation, and masculinity. Two of the dimensions, rank consciousness and group orientation, are of interest due to their potential impact on auditor decision
making. As an example Japan and the U.S. differ significantly in rank consciousness and in group orientation. Rank consciousness influences the choice of language and topics as well as determining appropriate behaviour. The Japanese are highly rank conscious with rank determined by group affiliations. Superiors are respected and obeyed solely because of their rank. In the US, rank of status is largely based on achievements. Recognition is awarded based upon an individual’s skills and accomplishments. In this environment, it is appropriate to question individuals, including superiors, in order to determine their level of skill or knowledge. In the US, auditors are accorded a special status as professionals, which enables them to move freely within a client company and to query employees of any status level (Kell et al, 1986). Jnanese auditors, in contrast, are awarded status based not upon their profession but upon the related status of the CPA firm which employs them (Nakane, 1970). Yamamura et al (1996) pointed out that in an audit setting, differences in rank consciousness are expected to affect the acceptance of senior management judgment. US auditors should be more questioning of such judgment than Japanese auditors. As a result, in areas involving senior management judgment, such as estimates, US auditors should assess inherent risk higher and require more audit procedures be performed than Japanese auditors.

2.8 Chapter summary:

This chapter introduces the main concepts in auditing as a basis for the examination of more specific issues in following chapters, and discusses the need for International Auditing Standards as viewed from a historical perspective. The history of auditing is outlined. It seems that a form of auditing existed as early as the twelfth century and the development of auditing is traced through to the setting of the International Auditing Standards in July 1979.

The definition of auditing as “a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users” is analysed. The importance of auditing, and the four conditions in the business environment that
create demand for an independent audit: conflict of interest, consequence, complexity and remoteness are discussed.

An explanation of the objectives of auditing is provided. The overall objective of auditing is “to enable the auditor to express an opinion whether the financial statements are prepared in all material respect, in accordance with an identified financial reporting framework”. To meet this objective, it is customary in the audit to identify numerous specific audit objectives for each account reported in the balance sheet (or statement of financial position) and profit and loss statement (statement of financial performance). These objectives are: know the objective of conducting an audit of financial statements, describe the role of management in preparing the financial statements, describe the auditors’ role in verifying financial statements, and the auditor’s responsibility to discover errors and illegal acts, and discuss the seven categories of management assertions about financial statements. Such objectives should be clear to the shareholders to determine the responsibility of the auditor and to help bridge the existence of any audit expectation gap between current performance of auditors and shareholders expectations of that role. Some would argue the relationship should run the other way. That is, the objectives should reflect community expectations and thus audit procedures would be based on the needs of users.

Auditing standards are identified as a number of rules accepted by professionals as guidelines, to measure transactions, events, and circumstances which affect financial results and communicating financial information to beneficiary parties. This chapter explains the use of International Auditing Standards. These justifications involve making the auditing profession an international profession, the continuing development of the profession, minimising differences in auditing profession performance, reaching objectivity, measuring the acceptable level of quality of professional activity and determining auditor responsibility and due profession care.
Chapter Three

Evaluation of the International General Auditing Standards

3.1 Introduction
3.2 The General Auditing Standards
   3.2.1 Skills and Competence
   3.2.2 Independence
   3.2.3 Due Professional Care
3.3 Review and Evaluation of the General Auditing Standards
3.4 Suggestions for improvement of the General Auditing Standards
3.5 Chapter Summary
3.1 Introduction:

The ISAs are classified under the broad headings of General, Fieldwork and Reporting Standards. This chapter discusses, analyses and evaluates the General Auditing Standards\(^1\). These Standards are categorised into three standards, Independence, Skills and Competence, and Due Professional Care which are of fundamental importance to an individual auditor’s performance. For example, if the auditor is not independent, the other auditing standards cannot ensure a high quality audit opinion. It follows that the value of an audit opinion depends upon public acceptance of the independence of the auditor (Gul et al, 1991, p.87).

This chapter discusses and then critically reviews the literature on general auditing standards and their interpretation and application for their empirical evaluation and application in the audit of listed corporations in Jordan. Many criticisms, e.g. that auditors are not qualified and not independent (Matar, 1995, Dahmash, 1989, Sa’ada & Matar 1994, Matar, 1994) have been directed at the audit profession in Jordan by academics and professionals. Evaluation of these standards will facilitate the examination of possible problems that face auditors in Jordan, and responsibility for the problems and their possible solutions. This chapter provides recommendations and suggestions for possible improvements to these standards.

The Audit Engagement Letter Standard

This IAS aims to provide guidance on agreeing the terms of the auditor engagement with the client, and the auditor’s responses to requests by a client to change the terms of an engagement to one that provides a lower level of assurance. The auditor and the client need to agree on the terms of the engagement to be recorded in an audit engagement letter or other suitable form of contract.

This international auditing standard is intended to assist the auditor in the preparation of engagement letters relating to audits of financial statements. "The guidance is also applicable to related services. When other services such as tax, accounting, or management advisory services are to be provided, separate letters may be

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\(^1\) This evaluation is based on the ISAs which applied at the date of the empirical study. In 2001 the standards are being revised and updated, see (IFAC, 2001).
appropriate" (IFAC, 1997, p.59). The form and content of auditing engagement letters may vary for each client, but they would generally include reference to:

(a) The objective of the audit of the financial statements.
(b) Management’s responsibility for the financial statements.
(c) The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres.
(d) The form of any reports or other communication of results of the engagement.
(e) The fact that due to the test nature and other inherent limitations of an audit, including the inherent limitations of any accounting and internal control system, there is an unavoidable risk that some material misstatement may remain undiscovered. These points should be covered in the engagement letter so as to determine the auditor’s and management’s responsibilities.

3.2 The General Auditing Standards

General Standards relate to the qualifications of the auditor and the characteristics that the auditor should possess. “General Standards require that the auditor (1) be trained and proficient, (2) be independent in fact and appearance, and (3) exhibit due professional care during the audit.” (Hermanson, 1993, p.19). These standards provide general principles of an audit. The auditor should also comply with the code of ethics for professional accountants issued by the International Federation of Accountants and particularly the ethical principles governing an auditor’s professional responsibilities, which are stated under the following headings (IFAC, 1997, p.55):

(a) Independence;
(b) Integrity;
(c) Objectivity;
(d) Professional competence and due care;
(e) Confidentiality;
(f) Professional behaviour; and
(g) Technical standards.

These principles are important in maintaining public confidence in the performance of the external auditor and thus important issues for the ISAs. For example, if an
auditor is not independent, a gap does exist between users’ expectations and auditors’ performance and the burden of narrowing the gap between performance and expectations falls primarily upon auditors (Arrington et al, 1983, p.243). That is because audit beneficiaries thought that auditors should act as society’s corporate watchdog but auditors did not share that opinion. For example, auditors did not share the audit beneficiaries’ view that auditors should be responsible for detecting theft of company assets, detecting and disclosing illegal acts, and reporting suspicions of fraud, to regulatory agencies (Monroe and Woodliff, 1994). This issue will be discussed further in Chapter Five.

For any profession to exist, it must fulfil some need of society. Auditing exists to assure the public that the published financial reports of business entities are reliable. This assurance can be obtained only if the auditor is honest, and straightforward. Without these qualities there is a possibility of collusion with management, who may wish to hide material facts from the public regarding the operations and financial condition of the client. An impartial attitude requires the auditor to conduct the audit examination and issue the audit report with an attitude of mental independence. Independence therefore may be defined as the ability to act with integrity and objectivity. To maintain public confidence in their independence, auditors need to avoid situations that might cause individuals to believe that their independence is impaired.

3.2.1 Skills and Competence:

Sound knowledge and competence commands a premium. Similarly there is a demand for competence in accountancy, including adequate training and experience. Training involves not only a sound education but also sufficient experience in all facets of an auditor’s work. Nowadays the profession has also placed increasing emphasis on continuing professional education programs for accountants to ensure that they keep abreast of the latest ideas and techniques in accountancy and auditing. As Gul et al (1994, p.25) state “the audit should be performed and the report prepared with due professional care by persons who have adequate training, experience and competence in auditing”. Auditors are expected by shareholders to
have adequate academic training in accounting, taxation, auditing, and other areas related to their profession. In addition, they should receive further training, both formal and informal, throughout their careers. This standard has several long-range implications for accountants who wish to grow professionally. "They should pass the CPA examination. They should stay abreast of current developments in accounting, auditing and tax matters. In fact, an increasing number of jurisdictions now require CPAs to engage in continuing education to maintain their right to practice" (Hermanson, 1993, p.19). Finally, the CPA should be willing to acquire technical knowledge in new areas.

The success of any profession may depend on three main points (Noor, 1996):

1- Advanced information
2- Continuing professional education.
3- Minimum levels of professional qualification.

For the auditing profession, the three main points are covered through auditing education, research in auditing, training of auditors, and admission to the profession after obtaining desired minimum qualifications. But how does the independent auditor achieve the adequate technical training, desired qualification, and proficiency required by the first general standard? Such achievement is usually interpreted to mean college university education in accounting and auditing, substantial public accounting experience, ability to use procedures suitable for computer-based systems, and participation in continuing education programs. A technical knowledge of the industry in which the client operates is also part of the personal qualifications of the auditor. It follows that a CPA firm should not accept an audit engagement without first determining that members of its staff who have the technical training and proficiency needed to function effectively in the particular industry. Mautz and Sharaf (1986, p.140) also point out the qualities of a prudent auditor, stating that "a prudent practitioner is assumed to have a knowledge of the philosophy and practice of auditing, to have the degree of training, experience and skill common to the average independent auditor". Also to have the ability to recognise indications of irregularities, and to keep abreast of developments in the perpetration and detection of irregularities.
The ISAs include many statements about training and experience requirements. Examples are:

1- Provide, to the extent necessary, programs to fill the firm’s needs for personnel with expertise in specialised areas and industries (IFAC, 1997, p.74).

Provide, to the extent necessary, programs to fill the firm’s needs for personnel with expertise in specialised areas and industries (IFAC, 1997, p.74).

2- Maintain a program designed to obtain qualified personnel by planning for personnel needs, establishing hiring objectives, and setting qualifications for those involved in the hiring function (IFAC, 1997, p.71).

3- Establish qualifications and guidelines for evaluating potential hirers at each professional level (IFAC, 1997, p.72).

4- Inform applicants and new personnel of the firm’s policies and procedures relevant to them (IFAC, 1997, p.72)

5- Continuing professional education is important to follow up the developments in the auditing environment and it is necessary to “establish guidelines and requirements for continuing professional education and communicate them to personnel” (IFAC, 1997, p.73)

6- Information about current developments in professional technical standards and materials containing the firm’s technical polices and procedures should be made available to personnel who should be encouraged to engage in self-development activities.

7- If specialised skills are needed, the auditor would seek the assistance of a professional possessing such skills, who may be either on the auditor’s staff or an outside professional. If the use of such a professional is planned, the auditor should obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit, in accordance with ISA “using the work of an expert”(IFAC, 1997, p.136).

8- If specialised skills are needed, the auditor would seek the assistance of a professional possessing such skills, who may be either on the auditor’s staff or an outside professional. If the use of such a professional is planned, the auditor should obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit, in accordance with ISA “using the work of an expert”(IFAC, 1997, p.136).
9- Establish qualifications deemed necessary for the various levels of responsibility within the firm (IFAC, 1997, p.74). High levels of responsibility require more specific and specialised qualifications than low levels when making advancement decisions.

10- Evaluate performance of personnel and advise personnel of their progress (IFAC, 1997, p.75)

11- The auditor should consider how a computer information system (CIS) environment affects the audit. The purpose of this international standard on auditing is to establish standards and provide guidance on procedures to be followed when an audit is conducted in a computer information system environment.

The overall objective and scope of an audit does not change in a CIS environment. However, the use of a computer changes the processing, storage and communication of financial information and may affect the accounting and internal control systems employed by the entity. Accordingly, a CIS environment may affect (IFAC, 1997, p.136):

1- The procedures followed by the auditor in obtaining a sufficient understanding of the accounting and internal control system

2- The consideration of inherent risk and control risk through which the auditor arrives at the risk assessment.

3- The auditor’s design and performance of test of control and substantive procedures appropriate to meet the audit objective.

4- The auditor should have a sufficient knowledge of the CIS to plan, direct, supervise and review the work performed. The auditor should consider whether specialised CIS skills are needed in an audit.

Audit work is to be assigned to persons who have the degree of technical training and proficiency required in the circumstances (IFAC, 1997, p.76). The empirical study of this thesis particularly examines whether auditors in Jordan comply with these requirements as many criticisms have been directed at the application of this standard in Jordan (Matar, 1995, Matar & Sa'ada, 1994, Dahmash, 1989). The empirical study also evaluates the general auditing standards’ requirement of skills and competence from the Jordanian Audit Law point of view. It also attempts to make a linkage between the requirements of the ISA and Jordanian Audit Law, and what is happening in the audit market. Any gap between the standard, the application of the
standard and the requirement of that standard in the Jordanian audit law is examined with the view to bridging any gaps.

3.2.2 Independence

Gill & Cosserat (1996, p.77) have emphasised that “Independence is the cornerstone of the auditing profession. Without independence the auditor’s opinion is suspect”. The concepts of proper ethical conduct, independence and due care provides the basis for the general standards. Independence, which can be generally considered a matter of ethics, is a most critical area of the auditor’s credibility. An opinion by an independent public accountant as to the fairness of the representations in a company’s financial statement is of questionable value or of no value unless the accountant is truly independent. Consequently, the auditing standard that in all matters relating to the assignment an independence in fact is to be maintained by the auditor is perhaps the most essential factor in the existence of a public audit profession.

It is difficult to give a precise definition of independence. Gul et al. (1991, p.24) define independence as “the ability to act with integrity and objectivity”. But not only is actual independence important to credibility but so is the appearance of independence. Much of the literature, existing rules and regulations, and the monitoring systems by oversight agencies focus on the auditor’s appearance of independence. The ultimate test of independence in appearance is whether investors or the public perceive the auditor as being independent of the client (Haim et al, 1995, p.21). A person may act with integrity and objectivity but lack perceived independence. Perceived independence could be impaired because of financial and family relationships. It has been stated in the International Auditing Standards (IFAC, 1999, p. 557) that financial involvement with a client affects independence and may lead a reasonable observer to conclude that independence has been impaired. Financial involvement can arise in a number of ways such as:

(a) By direct financial interest in a client.
(b) By indirect material financial interest in a client, e.g. by being a trustee of any trust, or executor or administrator of any estate if such trust or estate has a financial interest in a client company.
(c) By loans to or from the client or any officer, director or principal shareholder of a client company.

(d) By holding a financial interest in a joint venture with a client or employee(s) of a client.

(e) By having a financial interest in a non-client that has an investor or investee relationship with the client.

Personal and family relationships can affect independence also. It has been stated in the International Auditing Standards (IFAC, 1999, p.561) that "family relationships which always pose an unacceptable threat to independence are those in which a sole practitioner or a partner in a practice, or an employee engaged on the assignment relating to the clients is the spouse, dependent child or relative living in a common household, of the client". The culture in Jordan is that family relationships are spread widely in business life. Their family relationships affect their social and business life. These families are represented in government, and have their own business. The family representatives support their family's business through their relationships. This relationship affects auditor's independence if he/she is from the same family.

Mautz and Sharaf (1986, p.205) define independence as "the ability of the individual practitioner to maintain the proper attitude in the planning of his audit program, the performance of his verification work, and the preparation of his report". Also Mautz and Sharaf (1986, p.206) identify three types of "independence in fact" that the auditor must preserve:

1- Programming independence: freedom from control or undue influence in the selection of audit techniques and procedures and in the extent of their application. That means the auditor has a freedom to develop the program.

2- Investigative independence: freedom from control or undue influence in the selection of areas, activities, personal relationships, and managerial policies to be examined.

3- Reporting independence: freedom from control or undue influence in the statement of facts revealed by the examination or in the expression of recommendations or opinions as a result of the examination.
Two factors are important to independence: one concerns the auditor’s character, and
the other concerns the public perception of auditor independence, requiring that the
auditor appear to be independence. Being independent or “independent in fact” is a
state of mind. Auditors are expected to disassociate themselves from influences that
might affect their judgements (Gul et al, 1994, p.26). In relation to auditing and other
attestation services independence takes on two aspects: the fact of independence and
perceived independence. Hermanson et al (1993, p.20) point out that “auditors must
be independent in both fact and appearance. To be independent in fact, auditors must
be intellectually honest; to be recognised as independent, and they must have no
financial interest in the entity they are auditing”. To maintain independence under the
many pressures of practice, an auditor must be constantly alert to any deleterious
influences on his planning, investigative, or reporting independence. Unless the
auditor is alert and continuously concerned, it is possible that the auditor
independence will be weakened, and it may be impaired to such an extent that his
usefulness as an auditor is lost (Mautz & Sharaf, 1986, p.231). The auditor should be
aware that the appearance of independence can be influenced by the auditor’s actions
or associations. Perceptions of the auditor’s independence could affect the
acceptance of the auditor’s work. If the auditor becomes aware that a situation or
relationship is perceived to impair the auditor’s independence, the auditor should
immediately inform the audit firm about that.

The auditor should be organisationally independent of the area being audited. This
lends assurance that the audit is objective and fair. Independence is lost if the auditor
has direct control over the area being audited. The auditor’s independence can also
be impaired if the auditor has direct reporting responsibility to those individuals who
have direct control over the area being audited. The auditor should not participate in
an audit if the auditor’s independence is impaired. For example, independence may
be impaired if the auditor has some expectation of financial gain or other personal
advantage due to the auditor’s influence on the results of the audit. However, the
auditor’s independence would not necessarily be impaired as a result of performing
an audit of information systems where personal transactions occur in the normal
course of business. If auditors owned shares of stock in a company that they audited,
or if they served as members of the board of directors, they might subconsciously be
biased in the performance of auditing duties. It has been stated in the ISAs (IFAC,
1999, p.558) that “when the professional accountant in public practice holds or advises on investing in shares in an audit client on behalf of a third party, e.g., a trust, the appearance of independence is at risk. This is because responsibilities to the third party may conflict with responsibilities to the audit client”.

A CPA should therefore avoid any relationship with a client that would cause an outsider who had knowledge of all the facts to doubt the CPA’s independence. It is not enough that CPAs be independent; they must conduct themselves in such a manner that informed members of the public will have no reason to doubt their independence. Independence is more readily maintained when a CPA firm is large enough that no one client represents a significant portion of a partner’s income. A possible difficulty in the maintenance by auditors of an attitude of independence lies in the fact that they are selected and paid by the management of the company they audit. Moreover, they often serve as financial advisers and consultants to management. These circumstances naturally create in auditors a tendency to react sympathetically toward the attitudes and objectives of management and to identify themselves with the management group. But maintaining auditor independence is important because independence helps ensure audit quality, thereby making it more likely that an audit will enhance financial statement reliability. Under this view, as stated in ISB (2000, p.23) “a goal of auditor independence is to help ensure that auditors do not engage in activities or have relationships that may be perceived by users and other stakeholders as making it less likely that audits will enhance the reliability of financial statements”.

Public acceptance of auditing is essential to any substantial expansion of auditing as a means of accomplishing public policy. General acceptance is also necessary to effective performance of the recent limited role of auditing as the verifier of financial data (Mautz & Sharaf, 1986,p.209). Therefore, apparent independence depends on society’s perception of what could impair actual independence. Those factors that could impair actual independence as perceived by society may not coincide with those perceived by auditors themselves. Furthermore, different groups within the society may have different perceptions of factors affecting auditors’ independence. Stakeholders’ perceptions are important to the evaluation of the auditors’ performance and their independence, and to examine the audit expectation gap.
3.2.3 Due Professional Care:

The ISAs do not define professional care. So this chapter depends on the rule of law and the literature to give substance to the professional care standard and its requirement. Hermanson (1993) states this standard requires auditors to carry out every step of the audit engagement in an alert and diligent manner. Full compliance with this standard would rule out any negligent acts or material omissions by the auditors. Of course, auditors, as well as members of other professions, inevitably make occasional errors in judgement, but this human element does not justify indifference or inattention to professional responsibilities. Mautz and Sharaf (1986, p.140) summarise the qualities of a prudent auditor, stating that "Due Audit Care requires the auditor to acquaint himself with the company under examination... to review the method of internal control operating in the company... to obtain any knowledge readily available which is pertinent to the accounting and financial problems of the company under examination... to be responsive to unusual events and unfamiliar circumstances, to persist until he has eliminated from his own mind any reasonable doubts he may have about the existence of material irregularities, and to exercise caution in instructing his assistants and reviewing their work". Mautz and Sharaf indicate the need for due care in all aspects of the auditor’s work. The importance of the concept of due care is also reflected in recent lawsuits (taken up later under duties and legal liability of auditors), where the courts were concerned not with the correctness of the audit opinion but whether due care was exercised in conducting the audit.

Mautz and Sharaf (1986, p.140) suggest there is no conflict of interest between auditors and management in the long run. In the short run, however, there could be a conflict of interest, since management, under certain conditions, might attempt to deceive the auditor for the immediate benefit of the enterprise or management itself. Due professional care requires according to Hermanson et al (1993, p.20) several important things of auditors. First, and most obvious, they should understand what they are doing and why they are doing the audit. If they are uncertain about any phase of the assignment, it is their responsibility to seek the guidance of their superior. Due care requires that auditors prepare working papers that are both
accurate and complete. Working papers prepared in a careless and incomplete fashion bring into question the evidential matter that the auditor has gathered. The typical audit involves the use of tests and samples. Thus each item selected for testing must be carefully examined to ensure that due professional care has been followed.

As mentioned earlier in this chapter, there are some other ethical principles governing the auditor’s professional responsibilities. These principles are:

1- **Confidentiality:** This standard protects both the third party receiving the information and the auditor. When an existing auditor provides information to a new auditor, it is mandatory that the new auditor treats the information with strictest confidence. Confidentiality means that the “auditor shall respect the confidentiality of information acquired in the course of their work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose” (Gul et al, 1994, p.25). International Auditing Standards (IFAC, 1999, p.551) stated that “confidentiality is not only a matter of disclosure of information. It also requires that a professional accountant acquiring information in the course of performing professional services does neither use nor appear to use that information for personal advantage or for the advantage of a third party”.

2- **Objectivity:** Objectivity means that the auditors must be fair and must not allow prejudice or bias to override their assessments. When reporting on financial statements under their review they should maintain an impartial attitude (Gill & Cosserat, 1996, p.71). Arens et al (1997, p.97) state that objectivity means to be impartial in performing all services. Relationships should be avoided which allow prejudice, bias or influences of others to override objectivity. It has been stated in the International Auditing Standards (IFAC, 1999, p.547) that professional accountants should neither accept nor offer gifts or entertainment which might reasonably be believed to have a significant and improper influence on their professional judgment or those with whom they deal.
3- Integrity: Integrity means “Auditors should act with consistency, treating like cases in a like manner. Honesty is an integral part of this value. Integrity is supported by the fundamental ethical principle of respect for persons” (Pound et al, 1997, p.73). Arens et al (1997, p.80) point out that members must not breach public trust in the profession or the specific trust of their clients (the entity) and employers. A professional accountant should be straightforward and honest in performing professional services. Professional services are “any service requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services” (IFAC, 1999, p.541).

4- Ethical behaviour: Ethical behaviour means that accountants should conduct themselves in a manner consistent with the good reputation of the profession and refrain from any conduct which might bring discredit to the profession (Arens et al, 1997, p.81). It has been stated in the International Auditing Standards (IFAC, 1999, p.545) that the obligation to refrain from any conduct which might bring discredit to the profession is to be considered by IFAC member bodies when developing ethical requirements about the responsibilities of a professional accountant to clients, third parties, other members of the accountancy profession, staff, employers, and the general public.

5- Technical standards: Accountants should carry out their professional work in accordance with the technical and professional standards relevant to that work. Pound (1997, p.74) states that compliance with required standards of proficiency protects clients by ensuring that members of the accounting bodies have the level of technical expertise required to render various specialised services. Professional accountants have a duty to carry out their duties with care and skill, and the instructions of the client or employer insofar as they are compatible with the requirements of integrity, objectivity and, in the case of professional accountants in public practice, independence. In addition, they should conform with the technical and professional standards (IFAC, 1999, p.546) promulgated by the:
- IFAC e.g., International Standards on Auditing;
- International Accounting Standards Committee;
- Relevant professional body or other regulatory body; and
3.3 Review and evaluation of the General Auditing Standards

Three issues that relate overall to the ISAs are noted. Firstly the International Standards on Auditing are not organised in a way that make the standards clear and easy to understand for the auditors. Moh’d (1989, p.133) points out that the International Auditing Standards do not determine the requirements of skills and competence standard. Instead they are mentioned in various statements which leads to many interpretations by auditors and professionals. Due professional care and independence standards are not stated clearly and separately in the International Auditing Standards.

There are no interpretations of the auditing standards available from the International Federation Accounting Committee to assist auditors in different countries in applying the standards. David Cairns, the general secretary of IFAC stated in October 1985 that the committee had decided to issue guides to interpretations of the International Auditing Standards. The first and only guide issued was published in July 1987. The committee decided not to publish further interpretations because of differences between countries in culture, economic, legal and social values (Wallace, 1993). It should perhaps therefore be a responsibility of local professional associations to issue guides interpreting International Auditing Standards.

Secondly, the International Auditing Standards aim to set the level of quality acceptable for professional performance. Moh’d (1989, p.143) points out that “the International Auditing Standards are measures of an acceptable level of quality of professional activity”. However, it is difficult to determine a quality level because International Auditing Standards are qualitative standards. Also the acceptance level of quality in auditing is not obvious which is a criticism of auditing standards being that they are subjective in nature and do not represent society’s widespread interests and values (Zaid, 1997). The standards tend to represent the self-interest of a limited number of members of society and not society at large. Some shareholders who have an interest in the auditing standards, are not represented when these standards were set. Accordingly, they may have no say in the determination, formulation, and
interpretation of auditing standards. It seems that as far as management and auditors are concerned, the shareholders are nothing more than a necessary nuisance. They are implicitly told, give us your money, but don’t interfere (Este, 1989, p.4).

The third issue is related to the main objective of the ISAs - harmonising auditing in the world. Numerous factors impact on the interpretation and application of auditing standards, especially on general auditing standards, such as social values and economic cultural and legal factors. Al-Samhoori (1996, p.72) points out in his Jordanian study that external and internal auditors agree on the incorporation of these factors into auditing standards. But one of the criticisms that can be directed to Al-Samhoori’s study is that it did not survey the shareholders to examine their perceptions regarding the application of the ISAs. Also different and changing values and expectations could have an impact on investors’ acceptance of, and reliance on, the auditors’ report (Zaid and Whally, 1989). This leads perhaps to an argument for the creation of local auditing standards to reflect differences and changes in culture and society. For example, in Islamic countries the Islamic companies are expanding. These companies try to create accounting and auditing standards to reflect the impact of religion on their activities and accountability. The Islamic Banks try to apply Islamic concepts such as Murabahah, Mudarabah, and Musharakah and need to measure and disclose their profit. The Islamic auditor must understand the standards and form judgements on the measurement and disclosure requirements of the entity’s operations from an Islamic perspective.

The auditor is expected to have knowledge and experience in the accounting standards, concepts, and principles. This is because “the financial statements and the auditor’s report are joint products” (Antle & Nelebuff, 1991). Gibbins (1996) points out that the audit report is conditional on the recognition of certain items in the financial statements and the amount of disclosure accompanying that recognition. And “the contents of the financial statements are to some extent dependent on the power the auditor has to report on them” (Gibbins, 1996, p.9). The auditor can comment on everything in the accounts to the management, but does not report on everything to the shareholders. As an example, it has been stated in the ISAs (IFAC, 1997, p.240) that the auditor should communicate factual findings to management as practicable if:
(a) the auditor suspects fraud may exist, even if the potential effect on the financial statements would be immaterial; or
(b) fraud or significant error is actually found to exist.

The ISAs do not require the external auditor to report to the shareholders about the suspected fraud or the weaknesses of the internal control system. The auditor’s responsibility for fraud and internal control system will be discussed in depth in Chapters Four and Five.

The General Auditing Standards.

(1) Independence

The discussion of this standard is important because it is one of the hot current issues nowadays everywhere. The discussion will cover the main factors which are perceived to impair the auditor’s independence such as performing external and internal audits for the same client, performing consulting services, accepting gifts from the client, and the external auditor’s involvement in financial and family relationships. The discussion of independence covers also the debate in USA to examine the improvements that have been made by the professionals over there.

Independence is an example of a concept that symbolises society’s concern and affects auditing standards. As Gul et al (1991, p.87) state “the value of an audit opinion depends upon a public acceptance of the independence of the auditor”. The public recognition and acceptance of the auditor’s status is significant to the successful accomplishment of his purpose. This thesis examines the auditor’s independence in Jordan and introduces relevant recommendations to enhance their independence. That is because there is a dispute between the researchers about the factors that impair the external auditor’s independence in Jordan (Matar, 1995, p.23, Dahmesh, 1989, p.24, Al-Samhoori, 1996). These factors are related to the impact of consulting services, low fees, accepting gifts, and family relationships on independence. Therefore this thesis discusses, analyses, and examines the factors that impair auditor independence to examine whether auditors in Jordan comply with International Auditing Standards. These factors which impair auditor independence
are: dual role of internal/external audit, consulting services, gifts and discounts, personal and family relationship, fees and commissions, activities incompatible with the practice of public accountancy, and financial involvement with clients.

(a) Performing Internal and External Audits for the Same Client:

In relation to the dual role of internal/external audit for the same client, there is no statement in the International Auditing Standards that touches on this issue and its impact on an auditor’s independence. It has been stated in the International Auditing Standards (1997, p.221) that the role of internal auditing is determined by management, and its objectives differ from those of the external auditor who is appointed to report independently on the financial statements. Internal audit objectives vary according to management’s requirements. The external auditor’s primary concern is whether the financial statements are free of material misstatements. The performance of internal audit function by a public accounting firm, which also undertakes the external audit, could have advantages for the organisation. On the other hand it is important to consider the legal and professional qualifications of auditors in relation to the dual role.

The issue of independence becomes more complicated when external auditing, and internal auditing are concurrently performed by the same accounting firm for the same client. It has been stated in the International Auditing Standards (IFAC, 1999, p.212) that “internal auditing is part of the entity. Irrespective of the degree of autonomy and objectivity of internal auditing, it cannot achieve the same degree of independence as required of the external auditor when expressing an opinion on the financial statements. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by any use made of internal auditing”. All judgments relating to the audit of the financial statements are those of the external auditor. The internal auditing may be able to achieve a similar degree of independence as required of the external auditor if it reports to the audit committee (see Chapter Five for a detailed discussion of this point). The audit committees are not common in Jordan as verified in the field study discussed later in Chapter Seven.
Internal and external auditing are different in their objectives, scope, approach and needs. These similarities and dissimilarities necessitate the recognition of the need for, and nature of, independence as a prime criterion in the performance of each audit. Independence in both audits is crucial to avoid any actual or perceived conflict of interest. Independence is an impartial attitude which requires the auditor (internal or external) to conduct the audit and issue the relevant audit report with an attitude of fact independence. In external auditing, auditors report to the shareholders, yet when acting in the capacity of internal auditor, they report to management. Zaid (1997, p.54) points out that third parties expect the external auditor to behave differently from the internal auditor, and they further perceive a different role for each type of audit. Some of the auditor’s accountability flows directly from the auditor’s fundamental role of enhancing the credibility of information for financial statements’ users (Gibbins, 1996, p.10). But as mentioned in the ISA (IFAC, 1997, p.212), the internal audit is part of the management and irrespective of its autonomy and objectivity it cannot normally meet the prime criterion of independence.

The auditor’s responsibility to third parties (shareholders) includes the professional requirement of objectivity (independence). The expectations of third parties are the reflection of the different nature of each type of audit. But the main strategic objective of internal auditing is to cultivate and maintain the support of operating management in addition to that of senior management and the board. Many internal audit departments suffer considerable frustration because the organisation is unwilling to accept their adverse findings. Depending on the conflict of inter-role and intra-role of the internal and external auditor, it may be unrealistic to expect that an auditor will remain independent when he is serving both management and the shareholders. This view is supported by Schult, Hoenemeyer and Dover who believe that “Management Advisory Service could impede independence”(Schult et al, 1967, p.29). The external auditor needs to be independent of management and its day-to-day activities but may also be conscious of the need to keep management happy.

There is evidence to suggest that the number and size of claims against external auditors has increased over time. For example, in Australia the number and size of claims that have been mounted against auditors over the last 15 years provide some
indication of the seriousness of the current legal environment for the auditing profession. Claims lodged over this time were as high as $3.1 billion, with settlement amounts being as high as $136 million. One of the reasons for the magnitude of claims is failure to give a true and fair view of company accounts because the auditors came under management pressure (Gill et al, 1999). In the US the amount of claims lodged over 1994 against auditors was $3 billion (Dahmash, 1997). In Jordan, to the researcher’s knowledge, it is not known the amount of claims lodged against external auditors.

Another example is the case of Tricontinental Corporation, a merchant bank which collapsed in 1989 with losses of $2.7 billion. It retained the auditing firm Peat Marwick Hungerfords for both its internal and external audit services. Peat’s dual role of internal and external auditor led to tensions with Tricontinental management, particularly as the auditor’s recommendations for changes to the bank’s lending procedures were disregarded by management. Despite fundamental weaknesses in lending and other policies an unqualified audit report was delivered in 1988. On the basis of that unqualified report the bank was able to lend a further $850 million. The issue highlighted in the Tricontinental case is that an auditor cannot always serve two masters. From evidence supplied in the court case, the management of Tricontinental was able to influence the internal audit team to consider areas of the internal control which management, and not the auditors, deemed most important. Although the internal audit team was concerned about aspects of the bank’s lending procedures and policies, this was not communicated to the external audit team depending on the management demand. Therefore it could be unrealistic to assume that an accounting firm in its dual role would never succumb, or never be perceived as succumbing, to the temptations presented by such conflicts.

(b) The Impact of Gifts and Social Relationship on Independence:

In relation to the effect of gifts, discounts, and client size on perceived auditor independence, it has been stated in the International Auditing Standards (IFAC, 1999, p.562) that “goods and services should not be accepted by professional accountants in public practice, their spouses or dependent children except on business terms no more favourable than those generally available to others.
Hospitality and gifts on a scale which is not commensurate with the normal courtesies of social life should not be accepted. Pany & Reckers (1980) communicate the results of a study of stockholder perceptions of the effect of relative client size, gifts, and purchase discount arrangements on auditor independence. The findings indicate that gifts and discount arrangements of even a minimal amount significantly affected users' perceptions of auditor independence. The effect of client size was not significant. Dahmash (1989) points out that some auditors in Jordan do not reject gifts from their clients.

(c) Consulting Services

Another problem that faces auditors involves consulting or management services. The international auditing standards give permission to auditors to perform these services. It has been stated in the International Auditing Standards (IFAC, 1999, p.559) that services provided by a professional accountant in public practice in the fields of management consultancy and taxation are advisory services. The independence of the professional accountant in public practice is not impaired by offering advisory service, provided there is no involvement in or responsibility assumed for management decisions. The Ethics Committee of the American Institute of Certified Public Accountants state that if the auditor is not a decision-maker, just an adviser, there is not a conflict between his auditing work and these services. Deskins (1965) mentions that the auditor participates in decision making if he determines the probabilities of a decision, and gives information about the expected outcome. Matar (1994) concludes that there is a conflict in Jordan between auditor services and consulting services because external auditors become under management pressure and this impairs their independence. This interaction affects the auditor independence. According Devore (1967, pp.36-39), professionals do not accept that there is a conflict between auditing work and consulting services. The professionals may suggest forming a committee responsible for controlling and accepting consulting services. Also the auditor should prepare periodical reports about these services.

According to the field studies that relate to this problem, the Titard study (1971), was done in the USA, and found that 67% of the study sample of financial analysts and
shareholders (reasonable observers) think there is no conflict between independence and performing consulting services. The majority of reasonable observers also believe that performing consulting services has no effect on the audit reporting, because the auditor acts as a consultant to management and not as a decision-maker. However, 33% of the sample were concerned about the dual role of management services and auditing, because of benefits that may be expected. Hartly and Ross (1972) criticise the size of the sample of financial analysis and shareholders in the studies of Titard, Devore and Deskins. Hartly and Ross take a larger sample and include professionals, auditors, and employees from the financial sectors. Their study (Hartly & Ross, 1972) shows that 51.3% of the sample believe that professional integrity is strong enough to protect loss of independence when auditors perform management services. Goldman and Barlev (1974) use a sociology of professions method in studying auditor independence. They point out that owners and management need unqualified reports to support the share price in the stock market. Both the auditor and client management are accountable to an array of third parties who may rely on the financial statements (Gibbins & Newton, 1994; Koonce et al, 1995; Kennedy, 1993). Some of the auditor's accountability flows directly from the auditor's fundamental role of enhancing the credibility of information for financial statement users (Gibbins, 1996, p.10). Falk et al (1995, p.21) point out that it is commonly agreed that auditor independence is a key ingredient in the value of the audit function and the integrity of financial statements. They also show there is conflict between auditor material benefit and professional integrity because the auditor may be afraid of losing his fees. Finally, Knapp (1985) points out that the amount of MAS provided to client is a factor that financial statement users consider in evaluating auditor independence and integrity in a generic sense as well as in specific situations where the auditor is being pressured by the client. Arthur Levitt (2001) said the big five fought the SEC on the issue last year. After a bitter dispute, the SEC imposes a new independence rule that required more disclosure and empowered audit committees to investigate audit and consulting relationships.

It can be seen there are different views about conflict between consulting services and independence. The ISAs (IFAC, 1999, p.559) permit auditors to perform consulting services. The profession may suffer from a loss of identity as its members begin to compete with the various types of management service firms already in the
field, and a continued close association with management inevitably raises questions of independence. It is unlikely that an auditor can offer managerial and consulting advice to management on a fee basis and still appear completely independent to alert and intelligent outsiders (Mautz & Sharaf, 1986, p.223). Jordanian audit law gives permission to auditors to offer managerial, financial, and taxation consulting services. It has been stated in the Jordanian audit law (1985, p.15) section 20.1, that the external auditor is permitted to perform:

a- consulting services in accounting, finance, and taxation

b- consulting services in liquidation

The ISAs also give permission to auditors to offer these services (IFAC, 1997, p.67). The empirical study examines the extent to which stakeholders accept these services as not impairing independence of auditors in Jordan with the view to bringing application of the independence standard into line with stakeholder expectations.

The issue of an auditor’s ability to resist management pressure in an audit conflict situation has been a recurring theme in auditor independence literature (Knapp, 1985, Gul, 1991). This thesis also empirically examines this issue in Jordan because of dispute about the impact of management on Jordanian auditor independence (Dahmash, 1989, p.25). Numerous prior studies have investigated the effects of different contextual variables, such as the client’s financial condition, size of audit fees and performance of management advisory services on an auditor’s ability to resist management pressure in an audit conflict situation (Knapp, 1985, Gul, 1991). The effects of different ethical reasoning on auditors’ ethical decisions in the context of auditor-client conflict have, however, not been frequently studied (Tsue. 1996, p.122).

Finally Chan et al (2001) pointed out that in the last two to three decades audit firms have expanded their services beyond auditing companies’ financial statements, and the non-audit services business has grown to the point where fees generated from non-audit services are substantial. Chan et al (2001) also found that the largest New Zealand companies indicates that audit firms now generate as much from non-audit services as they do from their audit work. The analysis suggests that audit firms have increased their provision of non-audit services to companies over the 1996 to 2000
period. It also shows, on average, that nearly half the total fees received by audit firms are for non-audit services, but the results of the study are mixed and it is not clear whether the provision of non-audit services affects an auditor’s independence in fact.

(d) Some other factors that affect auditor’s independence:

Other factors that may impact on auditor independence involve financial relationships, family relationships, size of audit fees, and concurrent engagement in any business, occupation or activities associated with the client. The impact of financial and family relationships is discussed at the beginning of this chapter. The impact of fees on independence may be greater when receipt of recurring fees from a client or group of connected clients represents a large proportion of the total gross fees of a professional accountant in public practice or of the practice as a whole. Dependence on that client or group of clients inevitably comes under scrutiny possibly raising doubts as to independence. The International Auditing Standards (IFAC, 1999, p.561) state that “it is desirable that member bodies should prescribe rules or issue guidance to their members on this subject. It is clear that these rules or guidance will need to be related to the economic conditions of each country and to the state of development of the accountancy profession”.

This is the first Jordanian study which aims to discuss and analyse the impact of the size of audit fees on auditor independence with the view to encouraging professional firms and/or legislative to issue guidance on this subject. Such guidance needs to take into account that professional fees should, of course, be a fair reflection of (IFAC, 1999, p.566):

(a) the skill and knowledge required for the type of professional services involved,
(b) the level of training and experience of the persons necessarily engaged in performing the professional services,
(c) the time necessarily occupied by each person engaged in performing the professional services,
(d) the degree of responsibility that performing those services entails.
The Issue of Independence in US

Regarding the issue of independence in the US today, the Securities and Exchange Commission has sanctioned KPMG for breaching auditor independence rules, another sign of deteriorating relations between the USA corporate regulator and the big five accounting firms. The commission sanctioned but did not fine the firm for compromising its independence in the 1996 audit of Porta Systems, a telecom - equipment maker which was then being run by KPMG BayMarks, a firm affiliate specialising in turn around management. While the SEC sanction is mainly a formality, the infringement highlighted SEC concerns that accountants performing both audit and consulting work for the same clients were compromising the integrity of financial information. The big five fought the SEC on the issue. After a bitter dispute, the SEC imposed a new independence rule that required more disclosure and empowered audit committees to investigate audit and consulting relationships. However, the KPMG sanction may be the first of several enforcement actions by the SEC against independence violations by the big five firms. There is a debate about the independence issue because the 130 page report of the USA Securities and Exchange Commission on Price Waterhouse Coopers (PWC) puts it centre stage. PWC are now considering a restructuring of the firm and a sale of the consultancy arms (Mitchell, 2000, p.69). Furthermore, UK law now requires the fees for non-audit services to be disclosed alongside the audit fee. Davison (2000, p.1), a former managing partner of Arthur Anderson &Co., said: “at Arther Anderson, audit fee reductions were achieved by improvements in productivity, and most of our consultancy work- about 90%- was carried out for non-audit clients”.

In February 2000, the Independence Standards Board (ISB) ² started to build the conceptual framework for auditor independence in USA. The first step in analyzing the independence of auditors, involves identifying potential threats to auditor independence that arise in specific circumstances. Identifying potential threats is important because threats represent sources of independence risk. Two basic principles of auditor independence related to the identification and analysis of threats are described below (ISB, 2000, P.40).

² This board is appointed from AICPA and SEC, New York, to establish a conceptual framework for auditor independence.
Threat Identification

Most of the researchers examined the impact of many factors on auditor's independence, and they considered many environmental and situational variables—such as the nature of the relationship between auditors and auditees, the types and extent of non-audit services provided to auditees, the size of fees for both audit and non-audit services. These factors have been discussed in this chapter. The ISB consider the process by which auditors' judgements are formed and decisions are made and the variables related to auditor independence that may influence those judgments and decisions. The ISB found that an auditor's ability to maintain independence in specific circumstances is based on the interactions among different types of variables, including (ISB, 2000, p.40):

- the auditor's personal attributes and beliefs, such as their integrity and their level of ethical development;
- cultural characteristics of the auditing firm in which auditors work, which stem, in part, from firm leadership; and
- contextual variables that depend on the specific circumstances faced by an auditor that may affect the relative "bargaining power" of an auditor and an auditee— for example, economic factors such as the financial health of the auditee, the size of audit fee, and the existence and size of fees for non-audit services.

Significance of Threats

The significance of a threat depends on factors such as its force, the stature of the persons involved, the nature of the matter causing the threat, and the strength of the auditor's integrity. A threat can be considered significant if, considering all of its quantitative and qualitative aspects, it increases the level of independence risk to an unacceptably high level (ISB, 2000, p.44).

The process of analyzing the independence of auditors includes identifying and assessing the effectiveness of safeguards that are in place that may mitigate or eliminate the threat or threats posed in specific circumstances. Safeguards work either singly or in combination to mitigate or eliminate one or more threats to auditor independence, thereby reducing the level of independence risk. When analyzing
safeguards, it is not sufficient to consider the types of safeguards that are, or could be, put in place. Independence will not be reduced unless safeguards operate effectively to mitigate or eliminate threats created in specific circumstances. The extent to which they do so depends on their design, how they are applied, the consistency with which they are applied, by whom they are applied, and to whom they are applied. A safeguard is considered effective by itself or in combination with other safeguards if it reduces the level of independence risk to an acceptably low level. In the discussion memorandum (2000, p.47). The ISB recommended that the level of independence risk should be assessed by considering the significance of the threats to auditor independence created by specific circumstances and the effectiveness of the safeguards that mitigate or eliminate those threats when it develops standards for auditor independence. The only acceptably low level to the users of the financial statements is at the “no risk of impaired independence” endpoint of the independence risk continuum. Under this view, the goal of ensuring financial statement reliability is too important for the ISB to allow any independence risk—that is, any threats to auditor independence that are not fully eliminated by safeguards (ISB, 2000, p.48).

Understanding independence risk provides a basis for discussing factors affecting independence risk and the market responses undertaken to mitigate that risk. It is important to determine environmental antecedents of independence risk. Johnstone et al (2001, p.5) pointed out that incentives that bear adversely on independence risk can be characterized as direct or indirect. Direct incentives include investments in the client’s securities or mutual funds, contingent fees, potential employment with the client, and financial dependence on the client. Indirect incentives occur when the auditor possesses a personal, family, or professional relationship with the client. Interpersonal relationship might cause the auditor to favor personal over professional objectives and also might affect the auditor’s ability to exercise an appropriate level of professional skepticism.

Another environmental condition necessary for independence risk to affect actual or perceived audit quality is a judgment-based decision that emerges from a client-auditor resolution process. Examples of judgement-based decisions that affect independence risk are: difficult accounting issues, audit-conduct decisions, and
materiality decisions (Johnstone et al 2001, p.5). Four factors play significant role to mitigate independence-related environmental conditions. These factors are: corporate governance and regulatory oversight, auditing firm policies, auditing firm culture, and individual auditor characteristics. Corporate governance and regulatory oversight are institutional mechanisms applied at the company and market levels to provide assurance to third party users that independence risk is being controlled. Improving the effectiveness of audit committees and the public disclosure of information about audit committees’ activities is important to strengthen auditor’s independence. The audit committee has become a powerful instrument for involving the board in effectively setting policy and seeing that it is carried out by management. Protecting society’s interests is a major part of its job. However, it cannot be ignored that through the insight gained by the audit committee, the independent members of the board become properly prepared to defend themselves if they become entangled in the rash of litigation holding board members liable for the corporation’s actions. A major part of its function today is to open up a dialogue between itself (audit committee) and the independent auditors. An effective committee wants to be kept informed through all phases of the audit, and often provides the independent auditor with information he may normally be unable to attain. In addition, because the auditor deals with people independent from management, the public places more credibility in his independence and therefore in his work.

The auditing profession, auditing firms, and individual auditors have incentives to mitigate independence risk by prescribing policies. Examples of auditing firm policies are concurring partner reviews, peer reviews, within firm consultations, auditor competence programs, and compensation plans. Auditors might be expected to make decisions that reduce independence risk. Regarding auditing firm culture and individual auditor characteristics, Johnstone et al (2001, p.9) pointed out that “the most powerful mitigating factors may be those that are the least well defined-auditing firm culture and individual auditor characteristics, including auditor ethical orientation and professionalism”. Firm culture usually emphasizes the auditor’s duty to capital providers, including investors and creditors. The auditor’s duty is important to give confidence to capital providers that the information they receive is reliable and not misleading. Therefore, “the essential ethical obligation of the auditor is to step into a conflict of interest between capital seekers and capital providers and
assume a role that protects the interests of capital providers by helping to mitigate the information asymmetry between capital seekers and providers” (Johnstone et al, 2001, p.10).

In the long run, and to the extent that auditors lacking independence are associated with misrepresentations by auditees, shareholders, and creditors are expected to impose a cost-of-capital premium for information risk arising from their inability to rely on the audit process. When independence risk increases, the audit becomes less valuable to shareholders and creditors in assessing the credibility of auditees’ financial representations. Finally, incorporating stakeholders’ perceptions should be considered. Three views of the role that stakeholders’ perceptions could play in the ISB’s standard-setting process. Each of those views could lead to a basic principle of auditor independence that addresses how the ISB should consider stakeholders’ perceptions in setting independence standards. Such a principle could be expressed as one of the following (ISB, 2000, p.55):

- The ISB should solicit the views of all stakeholders and develop independence standards that reflect stakeholders’ perceptions.

- The ISB should solicit the views of all stakeholders but develop independence standards that reflect the likely perceptions of a hypothetical group of stakeholders, namely, “reasonable, fully informed users of financial statements”.

- The ISB should solicit the views of all stakeholders and be informed by stakeholders’ perceptions, but develop independence standards based on the ISB’s judgement about how best to meet the goal or goals of auditor independence.

But still there is a problem, because of the complexity of the issues and differences in knowledge and beliefs about auditors and their independence, however, there are likely to be significant differences in perceptions between and within stakeholder groups. It is not easy to incorporate those differing perceptions into its standard-setting process, in effect deciding whether the perceptions of some stakeholders or stakeholder groups should be weighed more heavily than the perceptions of other individuals or groups, and the auditor should report to the shareholders, and the board of directors.
(2) Skills and Competence

The second general auditing standard after independence is "Skills and Competence" which is now discussed. This standard refers to the general aspects of skills and competence. In Jordan, section 4.4 of audit law (1985) gives permission to persons to practice auditing as a principal who have a bachelor degree from any department of a faculty of business or a faculty of law, with five years experience in accounting, one at least of which is in auditing. Also section 4.7 of Jordanian audit law permits persons who have any certification such as a CPA from western countries to practice auditing in Jordan. Graduates from departments such as economics, marketing and management in a faculty of business and graduates from a faculty of law are not qualified in accounting like graduates from accounting departments. Non-accounting department graduates do not have a wide knowledge in accounting because they have not taken sufficient courses in accounting.

The Alford study (1990, p.70) carried out in US, points out that concern with increasing the minimum educational requirements for CPA membership may be a direct result of the recent expansion enjoyed by the accounting profession. Expansion of accounting services and products requires accountants to expand their technical education. In addition, this expansion will require more breadth in future accounting education. To meet competition from within and outside the profession, accountants may need more knowledge in such subjects as economics, management and marketing. Also future accounting education may need to focus on creative and innovative way of using computers. However, accounting associations in Jordan do not play a great role in the professional development of auditing in Jordan. They do not have the power to play that role, in contrast to western accounting associations.

The members of the auditing profession board are 12, three of them professionals and the rest from government as stated in the Jordanian audit law (1985, p.11). This leads to a government sponsorship for the profession. Business and other organisations are engaging in more complex arrangements and transactions. Information technology is advancing at a rapid pace. Trade and commerce have become more international, and Jordan is a member in the International Trade Organization. Privatization has become an increasingly important goal in many countries, and Jordan is one of them. Many societies have become more litigious.
Concern for the environment has grown. These trends challenge auditors to make greater contributions to society than ever before, and they also present a challenge to professional competence.

The viability of auditing as a profession depends on the ability and willingness of its individual members to accept responsibilities for meeting these challenges. That is because the auditor is an independent authority who is liable to the shareholders for any negligent performance of statutory duties (Gill et al, 1999, p.132). Therefore, it is the responsibility of the professional bodies to equip their members with the necessary skills, especially by establishing benchmarks for the education and experience of qualified accountants. As the ISAs are general guidelines and in the absence of a professional development role for accounting bodies in Jordan, professional auditors in Jordan may need to play a major role in applying the elements of accounting education and experience. These elements, as stated in the ISAs (IFAC, 1999) are knowledge, skills and professional values. For example, ethics perhaps should be treated as an important topic in its own right within the education framework. It has been stated in the ISAs (IFAC, 1999, p.625) that “because of its importance to the future professional accountant, ideally the presentation of the topic of professional ethics should be treated initially as a separate subject”. But in fact the professional accounting bodies in Jordan are not organised to play a great role in establishing a “code of ethics” appropriate to the Jordanian environment. The government believes in the application of the International Code of Ethics, because it is mandatory to apply the ISAs regarding the Amman Financial Market Regulations. But many codes of ethics do not change actual behaviour or cover all situations which might arise. Furthermore, it is very hard to measure the mental independence, which is more important than appearance independence. It has been stated that “IFAC appreciates that systems for the education and training of professional accountants vary in different countries and between different member bodies. And “it is incumbent on member bodies to ensure that their numbers have an adequate understanding of the principles of professional ethics and the underlying rationale of the constraints that professional ethics place on professional accountants” (IFAC, 1999, p.624).
(3) Due Professional Care

Determining an auditor’s responsibility for preventing and detecting fraud and irregularities is the keystone of the evaluation of auditor performance and the requirements of the “due professional care” standard. Therefore, the International Auditing Standards should perhaps provide an appropriate basis for the courts, governments and other interested authorities to determine acceptable auditing performance. The International Auditing Standards do not determine an “acceptable level” of professional performance and do not define the concept of due professional care. Also they do not specify what is meant by compliance with the concept of due professional care in common situations. For example, the International Auditing Standards state that “the responsibility for prevention and detection of fraud and error rests with management through the implementation and continued operation of adequate accounting and internal control systems. Such systems reduce but do not eliminate the possibility of fraud and error” (IFAC, 1997, p.88). Paragraph six under the responsibility of the auditor states that the auditor is not and can not be held responsible for the prevention of fraud and error. The fact that an annual audit is carried out may, however, act as a deterrent (IFAC, 1997, p.88). But in fact, historically, auditors were held liable to foreseen or foreseeable parties for fraud and gross negligence, but not for negligence alone (Dopuch & King, 1992, p.99). In Jordan, to the researcher’s knowledge, there are no legal cases related to this issue.

International Auditing Standards do not determine the parties to which auditors are held responsible. Are they responsible to external parties (shareholders and lenders), to the stock exchange or to the authority that appointed them (management), or to all of them? The International Auditing Standards (IFAC, 1997, p.222) states the report is ordinarily addressed either to the shareholders or the board of directors of the entity whose financial statements are being audited. Society needs to determine the authority that the auditor should be responsible to so that the work may be evaluated and controlled. Auditor judgment may affect the public interest and involve social responsibilities. The program of auditor education and experience should perhaps provide potential professional accountants with a framework of professional values for exercising good judgment and for acting ethically in the best interests of society and the profession. In Jordan, the professional associations are responsible for the
program of auditor education, and they required the auditor to do some courses in the Jordanian tax law, corporate law, auditing, managerial accounting, and financial accounting.

Communication skills enable professional accountants to receive and transmit information, form reasoned judgements, and make decisions effectively (IFAC, 1999, p.612). They may also assist the auditor in protecting society from risks, as expected of the audit function because “society has high expectations of the profession” (IFAC, 1999, p. 624). Investors, creditors, employers, and other sectors of the business community, as well as government and the public at large rely on professional accountants for sound financial accounting and reporting, effective financial management and competent advice on a variety of business and taxation matters. The attitude and behaviour of professional accountants in providing such services have an impact on the economic well-being of their community and country (IFAC, 1999, p. 544). Professional accountants should comply with national codes of ethics and consider user expectations in relation to ethical standards. By doing so, any existing “expectation gap” between the standards expected and those prescribed can be addressed or explained (IFAC, 1999, p.544).

In relation to the responsibility for compliance with laws and regulations it is stated in the International Auditing Standards (IFAC, 1997, p.97) that “it is management’s responsibility to insure that the entity’s operations are conducted in accordance with laws and regulations. The responsibility for the prevention and detection of non-compliance rests with management”. And “the auditor is not, and cannot be held responsible for preventing non compliance. The fact that an annual audit is carried out may, however, act as a deterrent” (IFAC, 1997, p.97). However “the auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework” (IFAC, 1997, p.98). After obtaining a general understanding, the auditor should perform procedures to help identify instances of non-compliance with laws and regulations where non-compliance should be considered when preparing financial statements. Also “the auditor should obtain written representations that management has disclosed to the auditor all known actual or possible non-
compliance with laws and regulations whose effects should be considered when preparing financial statements" (IFAC, 1997, p.99).

In the developing countries like Jordan, the government tends to own a high percentage of shares in some listed corporations. For example, the government in Jordan owns 51% of the shares in the Housing Bank, Al-Bootas Company, and Al-Foosfat Company. The capital of these companies is large and the companies' managements represent government. This leads to doubt about management independence from government pressure. Also it may be appropriate to expand auditor responsibility for preventing fraud and for the auditor to report to shareholders about any discovery of fraud. This issue will be discussed further in chapter Four and Five. This thesis examines the application of the due professional care standard in Jordan in relation to the needs of stakeholders.

The legal liability, or responsibility of auditors to exercise a duty of care.

The engagement letter is relied on by management to determine auditor's responsibility. It is not a simple matter to determine an auditor's legal responsibility to third parties, because of the charging nature common law on this issue. Anderson (1977) points out that a US Judgement divides third parties into two groups. The first is the group for which the auditor knows he is preparing audited financial statements. In a case of simple auditor negligence the auditor is responsible to this group. The second is the group for which audited financial statements are not prepared, but which make use of the reports. In a case of gross negligence to this group, the auditor is also responsible. It is the courts' responsibility to distinguish between the two types of negligence. Anderson (1977) suggested that if there is an efficient market with many sources of information, and the auditor does not discover fraud, little advantage flows to shareholders from the audit function. As share prices efficiently reflect risk in the market, it is argued that auditor responsibility to shareholders may be reduced. Noor (1996) points out that an auditor cannot depend on compliance with accounting standards to convince shareholders he is not responsible for preventing fraud. Sometimes standards do not cover information shareholders need, but that information nevertheless should be disclosed to investors.
The auditor’s responsibility for detecting fraud will be discussed further in Chapter Five. The auditor may not be able to express an unqualified opinion when either of the following circumstances exist and, in the auditor’s judgment, the effect of the matter is or may be material to the financial statements (IFAC, 1997, p.227):
(a) there is a limitation on the scope of the auditor’s work; or
(b) there is a disagreement with management regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of financial statement disclosure.

From the profession’s point of view as stated in the International Auditing Standards (IFAC, 1997, p.229), if such disagreements are material to the financial statements, the auditor should express a qualified or an adverse opinion. When there is a limitation on the scope of the auditor’s work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor’s report should describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed.

In accounting, materiality is very important to determine the impact of any element on the profit or the enterprise’s financial position. From the court’s point of view, the materiality concept is important to determine the probable impact of any element on decisions of others. Causey (1976) discusses the concept of the materiality from the point of view of the court and accounting. His study points out that the auditor should be responsible for detecting fraud and errors that affect the financial statements, and his knowledge about material errors should be disclosed to prudent investors. From the profession’s point of view, as stated in the International Auditing Standards, “the auditor is not and cannot be held responsible for the presentation of fraud and error” (IFAC, 1997, p.88). And “based on risk assessment, the auditor should design audit procedures to obtain reasonable assurance that misstatements arising from fraud and error that are material to the financial statements taken as a whole are detected” (IFAC, 1997, p.89). Also the auditor should plan and perform the audit with an attitude of professional skepticism, recognizing that conditions or events may be found that indicate that fraud or error may exist. If the auditor is unable to determine whether fraud or error has occurred because of limitation imposed by the circumstances rather than by the entity, the auditor should consider the effect on the auditor’s report (IFAC, 1997, p.91).
The results of the Gay et al (1997) study indicate that users of financial reports in Australia expect a greater degree of auditor responsibility for preventing and detecting fraud and illegal acts than is indicated in AUS 210. Users appear to have high expectations of auditor responsibility, particularly in relation to the prevention of fraud and detecting illegal acts. This thesis is the first Jordanian study, which attempts to examine auditor responsibility for preventing and detecting fraud and illegal acts from auditor and stakeholder points of view.

Noor (1996, p.78) points out that in US court decisions the auditor is held responsible for negligence in the intentional and predetermined case. But it can be difficult to prove a state of mind and each case needs to be assessed according to its individual circumstances with no generalisation acceptable. There is a difference between errors and irregularities. Errors mean unintentional errors, but irregularities are intentional acts to distort the financial results. The auditor in planning to discover errors and irregularities, if he/she is to perform responsibly, must give consideration to any procedures which tend to increase the reliability of the reported data, or which tend to decrease the probable incidence of irregularities (Mautz & Sharaf, 1986, p.146). If the auditor discovers material errors and irregularities, there are three choices:-

(a) to issue a qualified report
(b) to issue a disclaimer
(c) to withdraw from the engagement.

Dispute about auditor responsibility indicates an expectation gap. Carmichael (1977) recommends that it is not reasonable to judge an auditor’s performance based on the assumption that he is responsible for discovering all errors and irregularities. However, an auditor’s view of his responsibilities should coincide with shareholders’ expectations about an auditor’s role. This may involve expansion of auditing to include a study and evaluation of the internal control system throughout perhaps includes the audit report or perhaps education of stakeholders about auditor responsibility. This issue and the going concern dimension will be discussed further in Chapter Four.
It is clear that legal responsibility represents the minimum level of professional care with the profession stating profession a responsibility and setting ethical standards. A code of ethics, to the extent it is observed, increases the confidence of the public in the auditing profession. The International Auditing Standards (IFAC, 1999, p.645) state that ethics should be treated as an important topic in its own right within the education framework. Proper ethical behaviour is of equal importance to technical competence. Accordingly, the period of practical experience and training should be structured to provide the future member with an opportunity to observe the application of ethics in the work situation.

3.5 Chapter summary

This chapter has discussed, analysed and evaluated the General Auditing Standards. It also introduced interpretations and suggestions in respect of these standards in line with the first objective of this thesis of evaluating the International Auditing Standards. The General Standards on Auditing and their definitions and requirements were identified. These standards are Skills and Competence, Independence, and Due Professional Care. Independence, which can generally be considered to be a matter of ethics, and which is a most critical area of auditor credibility was particularly examined.

This chapter also identified, analysed, and evaluated some of the criticisms that have been directed at general auditing standards. These standards are subjective in nature and do not necessarily represent society's widespread interests and values. These standards for instance do not necessarily take into account national or international factors, which may impact, on the interpretation of the standards. This chapter discussed many aspects of the general auditing standards. It is important to define the respective responsibilities of auditor and management for detection of fraud, and to whom the auditor is responsible, the factors that impair independence, and the relationship between the consulting services and the dual role of internal/external auditing and their effect on independence. The legal and the professional responsibilities of auditing were also examined.
Chapter Four

Evaluation of the Field Work and Reporting
International Auditing Standards

4.1 Introduction

4.2 Definition of the Field Work Standards
   4.2.1 Audit Planning
   4.2.2 Sufficient Evidence
   4.2.3 Sufficient Understanding of the Internal Control Structure

4.3 Definition of the Reporting Standards

4.4 Evaluation of the Field Work Standards

4.5 Evaluation of the Reporting Standards

4.6 Chapter summary
4.1 Introduction

This chapter discusses, and analyses the main aspects of the fieldwork and reporting standards. The discussion also provides an important link between these aspects in relation to the audit expectation gap, and the application of the fieldwork and reporting standards in Jordan. This linkage is important to determine whether a gap exists, who is responsible for that gap, and how such a gap could be bridged. It also contributes to the first objective of this thesis, which is to discuss and evaluate the main aspects of the ISAs. The first part of this chapter examines the fieldwork standards and the second part focuses on the reporting standards.

The standards of fieldwork are related to the actual procedures performed during various stages of the audit examination. Three major stages of the audit addressed by the standards of fieldwork are audit planning, the study and evaluation of the internal control structure and gathering evidence. The first standard, planning and supervision the audit is the most important fieldwork standard. That is because audit planning basically consists of all activities performed prior to the actual audit and evaluation of the internal control structure. Early appointment of the auditor is has advantage to both the auditor and the client by enabling the audit to be planned more extensively. In performing an audit of financial statements the auditor should have or obtain sufficient knowledge of the business to enable the auditor to identify and understand the events, transactions and practices that, in the auditor's judgment, may have a significant effect on the financial statements (IFAC, 1997, p.109). This part (planning the audit) discusses the materiality concept and introduces interpretations for this concept because the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material aspects, to give a true and fair view (or similar statutory requirement).

The second standard of the fieldwork auditing standards acknowledges the role of evidence in the audit examination. This standard means that “the auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion” (IFAC, 1997, p.145). Audit evidence is obtained from both tests, i.e. tests of control and tests of substantive procedures.
The third standard of the fieldwork auditing standards is related to the auditor’s responsibility for the evaluating internal control systems. This standard means, the auditor should obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. The auditor should use professional judgment to assess audit risk and to design audit procedures to ensure audit risk is reduced to an acceptable level (IFAC, 1997, p.120). This part also discusses some of the limitations of the internal control system.

The second part of this chapter discusses and introduces interpretations to the main aspects of the reporting standards. The reporting standards establish specific directives for preparation of the auditors’ report. This part also discusses and analyses some of the criticisms directed at the audit report such as its language, its contents, and whether the audit report should include the results of the fieldwork standards.

4.2 Definition of the Fieldwork Auditing Standards

4.2.1 Audit Planning

The purpose of this International Standard on Auditing is to establish standards and provide guidance on planning an audit of financial statements. In a first audit the auditor may need to extend the planning process beyond the matters discussed herein. In this international auditing standard “planning” means “developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. The auditor plans to perform the audit in an efficient and timely manner” (IFAC, 1997, p.105). Adequate planning of the audit work helps to ensure that appropriate attention is devoted to important areas of the audit, that potential problems are identified and that the work is completed expeditiously. Matters to be considered by the auditor in developing the overall audit plan include: knowledge of the business, understanding the accounting and internal control system, risk and materiality of misstatement, nature, timing and extent of audit procedures, and coordination, direction, supervision and review (IFAC, 1997, p.221).
The audit plans for fieldwork are usually subject to modification as the examination progresses, the work of auditors often leads to changes in the initial plans. Auditors may find in some instances that not all of their instructions will be sufficiently detailed; often it will be necessary for them to plan the details of their own work within the framework of the general engagement. For example, an instruction may require that the auditor observe and test the taking of physical inventory at a plant. It may be the auditor’s responsibility to make decisions on such matters as the extent of observation to be made in each department, how much observation should be made of the various segments of the inventory, and how the performance of the inventory crews should be checked (Hermanson et al, 1993, p.21).

One of the matters that should be considered by the auditor in developing the overall audit plan is “knowledge of the business”, this knowledge includes (IFAC, 1997, p. 106):
1- General economic factors and industry conditions affecting the entity’s business
2- Important characteristics of the entity, its business, its financial performance and its reporting requirements including changes since the date of the prior audit.
3- The general level of competence of management.

It is important to the auditor to discuss the audit procedures with the entity’s audit committee, management and audit staff. That discussion is important to improve the effectiveness and efficiency of the audit and to coordinate audit procedures with work of the entity’s personnel.

The accounting and internal control system is very important in planning the audit. That is because “auditors have certain responsibilities for detecting errors and irregularities (including management and employee fraud) and particular illegal acts. Thus, any entity objectives and controls related to these matters are also relevant to the auditor” (Gill et al, 1999, p.275). Understanding the accounting and internal control systems include (IFAC, 1997, p.106):
- the accounting polices adapted by the entity and changes in those polices
- the effect of new accounting or auditing pronouncements
the auditor’s cumulative knowledge of the accounting and internal control systems and the relative emphasis expected to be placed on tests of control and substantive procedures.

4.2.2 Sufficient Evidence

Audit evidence will comprise source documents and accounting records underlying the financial statements and corroborating information from other sources (IFAC, 1997, p. 145). The auditor requires evidence in order that he may rationally judge the financial statement propositions submitted to him. To the extent that he makes judgments and forms his opinion on the basis of adequate evidence by following a systematic or methodical procedure he acts rationally. To the extent that he fails to gather sufficient competent evidential matter and fails to evaluate it effectively, he acts irrationally and his judgments can have little standing. The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion (IFAC, 1997, p. 144). Sufficiency and appropriateness are interrelated and apply to audit evidence obtained from both tests of control and substantive procedures. Sufficiency is the measure of the quantity of audit evidence; appropriateness is the measure of the quality of audit evidence and its relevance to a particular assertion and its reliability. The audit evidence includes all influences on the mind of an auditor which affect his judgment about the truthfulness of the financial statement propositions.

The term “sufficient” relates to the quantity of evidence the auditors should obtain. The amount of evidential matter that is considered sufficient to support the auditors’ opinion is a matter of professional judgment. The auditor’s judgment as to what is sufficient appropriate audit evidence is influenced by factors such as:

- Auditor’s assessment of the nature and level of inherent risk at both the financial statement level and the account balance or class of transactions level.
- Nature of the accounting and internal control systems and the assessment of control risk.
- Materiality of the item being examined.
- Experience gained during previous audits.
- Results of audit procedures, including fraud or error which may have been found.
- Source and reliability of information available (IFAC, 1997, p.145).
4.2.3 Sufficient Understanding of the Internal Control System

A sufficient understanding of the internal control system to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed. The internal control system means “all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management’s objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information” (IFAC, 1997, p.120). Internal control is crucial to any business organisation. Without the ability to ensure the accuracy and reliability of accounting information, a business organisation could not survive in a competitive environment. Since independent auditors are charged with the responsibility of attesting to the reliability of public accounting information, evaluation of the system of internal control is an important part of the audit.

Internal control extends beyond the accounting and financial functions: its scope is company wide and touches all activities of the organisation. It includes the methods by which top management delegates authority and assigns responsibility for such functions as selling, purchasing, accounting and production. “Internal control also includes the program for preparing, verifying, and distributing to various levels of supervision those current reports and analyses that enable executives to maintain control over the variety of activities and functions that constitute a large corporate enterprise” (Meigs et al, 1988, p.173). Management adopts internal controls to provide reasonable assurance of three categories of objectives (Gill & Cosserta, 1996, p.258):

1- Reliability of financial information;
2- Compliance with applicable laws and regulations; and
3- Effectiveness and efficiency of operations.

At the same time, the auditor should obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit
approach. The auditor should use professional judgment to assess audit risk and to design audit procedures to insure it is reduced to an acceptably low level. Audit risk means “the risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated. Audit risk has three components: inherent risk, control risk and detection risk” (IFAC, 1997, p.120). Internal control evaluation has long been recognised as an important aspect of external auditing as evidenced by the standards of fieldwork (Srindhi & Vasarhelyi, 1986, Knechel,1985). Therefore it is important to judge the extent to which the auditor is convinced that the efficiency and the strengths of the internal control system. The Srindhi and Vasarhelyi study (1986, p.66) emphasized the following three distinct stages of measuring the strength of an internal control system:

- Identification stage: Identification of the components and structure of the system of internal controls. Evaluation of each component (including compliance testing where deemed necessary) and recording the judgments in terms of component reliabilities.
- Evaluation stage: Aggregation of component reliabilities into system reliability (using the structure function).
- Interpretation stage: Judgment on how the audit plan should be modified based on the system reliability.

Almost all practicing auditors employ some model of the internal control system in their evaluation, including questionnaires, narrative descriptions, and flow charts. Bailey et al (1985) provided another method to evaluate the internal control system. Their Internal Control Model (TICOM) is a computer-based analytic tool that aids the auditor first to model the internal control system and then to query the model in order to aid the auditor in evaluating the internal control system. The computer-assisted methods have the advantage of bringing the speed, accuracy, and great memory capacity of the computer to bear on the internal control evaluation problem. The computer assisted evaluation allows for larger and more complex models, and the evaluation can be more rigorous and intense than when using manual methods (Bailey et al, 1985, p.187).
4.3 Definition of Reporting Standards

"The report is the only aspect of an auditor's work that the public sees. A public accountant's competence is likely to be judged by this report and legal responsibility may be determined by it" (Cook & Winkle, 1988, p.158). Therefore, it is extremely important that the report be prepared in a professional manner. The audit report is not a guarantee, nor is it a statement of undisputed fact. Instead, it is an expression of opinion in the quality of certain informational propositions, which the auditor has arrived at through a careful and extensive examination and judgment of accounting data collection and measurement processes, many of which are dependent on the personal judgments and opinions of company management and staff (Lee & Kenley, 1985, pp. 38-39).

The discussion of the main aspects of reporting standards is important to examine to what extent the application of these aspects cover the need of shareholders. These aspects are important to the shareholders, management, government, and public. The most important aspect of the audit report is that it should express an honest opinion, whatever the opinion might be. The credibility of both the audit and the audited financial statements is dependent on this honesty (Lee & Kenley, 1985, p.39). These aspects are included in the ISAs (1997, pp.221-231). At the same time these aspects are similar to those in the other countries reporting standards such as the US, UK, Australia, and Canada. These aspects are:

- The auditor’s report should contain a clear written expression of opinion on the financial statements taken as a whole. In this aspect the auditor’s name is associated with the financial statements all the time, and the auditor has the responsibility to inform users of the nature of this association with the statements. The auditor’s report should clearly state the auditor’s opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the financial reporting framework and, where appropriate, whether the financial statements comply with statutory requirements (IFAC, 1997, p. 223).

In an earlier period of public accounting, the wording of the audit report contained the phrase “we certify that …,” but this expression was discontinued on the ground
that it was misleading. To “certify” implies an absolute assurance of accuracy, which an audit simply does not provide. The auditor cannot guarantee the correctness of the financial statements because many of the statements themselves are largely matters of opinion rather than of absolute fact. Furthermore, the auditors do not make a complete and detailed examination of all transactions. Their examination is limited to a program of tests that leaves the possibility of some errors going undetected (Meigs et al, 1988, p.28). Many of the items in financial statements cannot be measured exactly, the auditors cannot say that the statements present exactly or correctly the financial position or operating results. “As directors are responsible for presenting financial statements, they may exercise their discretion as to that presentation. The auditors’ opinion will tell shareholders whether audit evidence supports the directors’ presentation of the accounts” (Nealt & Leach, 1991, p.73).

- “The auditor’s report should describe the scope of the audit by stating that the audit was conducted in accordance with the International Accounting Standards, or in accordance with relevant national standards or practices as appropriate” (IFAC, 1997, p. 223). The auditors must point out in their report any lack of consistency in the application of accounting principles. Consistency in the application of accounting principles means “the same accounting principles should be followed from year to year by an individual business so that the successive financial statements issued by the business entity will be comparable” (Meigs et al, 1988, p.29).

- “The audit report should describe the audit as including examining evidence to support the financial statement amounts and disclosures, and assessing the accounting principles used to support the financial statements” (IFAC, 1997, p.223).
- The audit report should include a statement that the financial statements are the responsibility of the entity’s management and a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.

- The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial statements. Adequate informative disclosure means that if the financial statements are to present fairly the financial position and operating
results of a company, there must be adequate disclosure of all essential information. A financial statement may be misleading if it does not give a complete picture (Meigs et al, 1988, p.29). The auditors should use their professional judgment to decide whether the financial statements and related disclosures contain all the important financial information users need for their decisions. Disclosure of information not specified completely by written rules in official pronouncements of accounting principles may be necessary. Auditors might need to deal with a rare and unusual fact situation nobody has encountered before. In this standard, auditors have latitude for determining what is important and what is not. Likewise, users of financial statements also have the right to claim that certain information is necessary for adequate disclosure. In fact, many lawsuits are brought on this issue: investors may claim that certain necessary information was not disclosed, and auditors must show reasons for lack of disclosure (Robertson & Davis, 1985, p.37).

4.4 Evaluation of the International Fieldwork Standards

4.4.1 The audit planning

The auditor should develop and document an audit program setting out the nature, timing and extent of planned audit procedures required to implement the overall audit plan (IFAC, 1997, p.107). The audit program serves as a set of instructions to assistants involved in the audit and as a means to control and record the proper execution of the work. That program should contain the audit objectives and a time budget for various audit areas. Sometimes changes are needed in the overall audit plan and the audit program, so it should be revised as necessary during the course of audit. That is because many changes in or unexpected results in the audit may happen. But it is necessary to record the reasons for any significant changes. Three aspects are important in the discussion of the audit planning. These aspects are: obtaining the knowledge of the business, the materiality, and the supervision.

4.4.1.1 Obtaining Knowledge of the Business

Sufficient knowledge of the business, its owners, managers, the industry, and relevant regulatory and legislative matters should be obtained to enable the auditor to
understand the events and transactions which could have a significant impact on the financial statements and the formation of the audit opinion. This knowledge should be continually updated. The insights gained should assist the auditor in: (IFAC, 1997, p.110)

(a) Assessing risks and identifying problems
(b) Planning and performing the audit effectively and efficiently
(c) Evaluation of audit evidence
(d) Providing better service to the client

It was stated (IFAC, 1997, p.110) that “the auditor makes judgments about many matters throughout the course of the audit where knowledge of the business is important”. For example, identifying the areas that require special audit consideration and skills may be necessary, and considering the appropriateness of accounting policies and financial statement disclosures. But it is likely that auditors make different judgment under the same circumstances. Laurent (1986) pointed out that different national cultures provide different frameworks of knowledge, so a person’s national culture could imply an effect on his/her judgment strategies when making decisions. Also a number of factors in addition to cultural differences was expected to affect decision-making behaviour. Auditor decisions were expected to be a function of national culture, CPA firm affiliation, level of experience, and office affiliation (Yamamura et al, 1996). CPA firms differ in their approach to audit planning and the manner in which planning is performed. They also differ in the way they perform the audit and the selection of auditing procedures. In addition, auditors’ planning judgements may differ depending on experience. Seniors, managers, and partners have different levels of experience which could influence their decisions. Also auditor’s ethical reasoning is an important factor that affects auditors ethical behaviour which influence their judgment. Tsui (1996) points out that there is a systematic and important positive correlation between individuals’ levels of ethical reasoning and ethical behaviour. This means that the higher the ethical reasoning level, the less likely that the auditor would accede to the client’s request in an audit conflict situation.

Roxas and Stoneback (1997) pointed out that there can be little doubt that culture plays a dominant role in ethical decision making. Culture is a filter that interprets
situations and guides behaviour (Trujillo, 1985). Action emerges from the meaning attributed to the situation. Ethical behaviour and actions are greatly influenced by the values embedded in culture. And the most important dimension of cultural differences in social behaviour is the relative emphasis on individualism versus collectivism (Triandis, 1989, p.42). Jeffry et al (1996) pointed out that in individualism cultures, most of the individual’s behaviours are determined by personal goals. The most important relationships are horizontal, that is, relationships between peers, spouses, and friends are seen as more important than relationships between the parent-child. Work attachment is common among individualists, and the emphasis tends to be on task rather than on people. In collectivist cultures, the individual’s behaviour is strongly influenced by in group goals, and if there is a conflict between personal and group goals, it is considered desirable to place collective goals ahead of personal goals (Triandis, 1989). The emphasis is usually on people more than on task.

It was stated in the International Auditing Standards that “the auditor makes judgment about many matters..., for example, considering the appropriateness of accounting policies and financial statement disclosures” (IFAC,1997, pp.110-111). Auditors exercise professional judgment in determining the type and extent of information to collect and in assessing the implications of this information. The exact constitution of professional judgment is unknown but is certainly influenced by lengthy formal education and prior job experience. Joyce (1980, p.101) pointed out that one of the difficulties involved in studying the validity of auditors’ judgments is the absence of a suitable criterion by which to distinguish correct from incorrect judgments. That is because precise guidelines for information collection and evaluation in auditing do not exist, individual professional judgment plays an extremely important and pervasive role in auditing. The auditing literature provides an auditor with only general guidelines and standards to apply in specific engagements. To extent that such general guidelines can be interpreted and applied differently by different competent auditors, differences among auditors can be expected (Joyce, 1980). The American Institute of Accountants (AICPA) Committee on Auditing Procedure (1973) found substantial differences in the summary audit programs formulated by eight different auditors given the same case material (a description of an actual business). Aly and Duboff (1975) reported wide variation in
the size of judgment samples recommended by the 158 CPAs responding to their mail questionnaire regarding the type and extent of accounts receivable confirmations appropriate under the circumstances.

4.4.1.2 Materiality

Materiality is defined in the following terms (IFAC, 1997, p.116):

“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful”. It was stated (IFAC, 1997, p.116) that the objective of an audit of financial statements is to enable the auditor to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. Tibbits (1998, p.12) pointed out that “the auditors should also express an opinion on whether there has been any material fraud in the company, and whether there has been any fraud or illegal practices by senior management whether material or not. They should also indicate whether there is any thing whose omission makes the accounts hard to understand or is likely to lead to misinterpretation of the companies' position”.

It is argued that the assessment of what is material is a matter of professional judgment, but when the auditor determines materiality, he should consider both the circumstances pertaining to the entity and the information needs of those who will rely on the audited financial report. For example, an amount which is material to the entity’s financial information may not be the same for another entity of a different size or nature. Also the materiality of particular types of transactions may change from one period to another for the same entity. The concepts of materiality and audit risk play an important role in planning and executing of an audit (Fisher, 1990, p.184). So the auditor should establish the acceptable materiality level to detect the quantitatively material misstatements. However, both quantity and quality of
misstatements need to be considered. Materiality should be considered by the auditor when (IFAC, 1997, p.117):

(a) Determining the nature, timing and extent of audit procedures, and
(b) Evaluating the effect of misstatements.

That is because the auditor's assessment of materiality, related to specific account balances and classes of transactions, helps the auditor decide such questions as what items to examine and whether to use sampling and analytical procedures. By that means the auditor can expect to reduce the audit risk to an acceptable level. And we have to remember the inverse relationship between materiality and audit risk, because the auditor takes that relationship into account when determining the timing, the nature and the extent of audit procedures. Also the auditor's assessment of the level of materiality and audit risk may be different from the initial planning of the engagement to the time that they finish the evaluation of the audit results.

Iceman & Hillison (1991, p.23) pointed out that, traditionally, standard-setting bodies have not provided specific guidance with respect to materiality. As a result, auditors are compelled to use judgment in determining which errors require financial statement adjustments. The link between audit firm structure and materiality judgments has been investigated specifically in two additional studies. Stone (1988, p.33) describe the use of decision rules in assessing materiality and note differences across the levels of audit –firm structure. The results imply the application of more conservative materiality criteria in highly structured audit firms.

In the second study, Loebbecke and Ward (1988) perform a follow-up analysis on 7of 12 original audit firms reported in Cushing and Loebbecke (1986) concluding, in general, that the audit firms studied earlier were moving toward greater structure. As one indication of greater structure, Loebbecke and Ward examined the extent of materiality guidance. The evidence from these studies suggests that, in the application of audit judgments, firm-specific policy differences may be categorised, in part, by audit-firm structure. However, the effect of audit-firm structure on materiality has not yet been explored (Iceman & Hillison, 1991, pp. 23-24). It is unclear in the International Auditing Standards if it is relevant to disclose the materiality levels in the audit report or not. An attempt is made by Fisher (1990) to assess the potential relevance of disclosure of the auditor’s choice of materiality level
by examining the effect of such disclosure in the context of laboratory markets. He concluded, "public disclosure appeared to be more useful than private disclosure" (Fisher, 1990, p.214). This thesis examines the acceptance of the application of this issue regarding to the disclosure of materiality in the audit report from the auditors and users of audit report point of view. This thesis examines whether auditors consider materiality and its relationship with audit risk when conducting an audit. That is because "in designing the audit plan, the auditor establishes an acceptable materiality level so as to detect quantitatively material misstatements. However, both the amount (quantity) and nature (quality) of misstatements need to be considered" (IFAC, 1997, p.116).

4.4.1.3 Supervision and Audit Planning

Supervision is another aspect that is related to the audit planning. The person who carries out supervisory responsibilities (IFAC, 1997, p.68) should monitor the progress of the audit to consider whether: (1) the assistants have the necessary skills and competence (2) the assistants understand the audit direction and (3) the work is being carried out in accordance with the audit plan and the audit program. The International Auditing Standard "Planning and Supervision" doesn't introduce methods or solutions to the audit staff assignment or to the distribution of the work between the persons who carry out supervisory responsibilities and their assistants.

Noor (1996) pointed out that studies in US introduced many methods such as the network analysis (Cattanach & Hanberg, 1973), the linear programming analysis (Summers, 1972), and Pert Method (Krogstad et al, 1977). These methods help the auditors to allocate the work between them, determine the time, the cost, and the slack time for every auditing process. Hermanson et al (1993, p.21) pointed out that some of the factors may be suggested which are related to proper supervision of subordinates include:

(a) Informing subordinates of their responsibilities and the objectives of the audit procedure that they will be performing.

(b) Informing subordinates of their responsibility to bring to the attention of their supervisor any important questions raised during their work.
(c) Reviewing the work of subordinates.

(d) Establishing a system so that subordinates may document any disagreement with the final conclusions of the examination.

In addition to enhancing the technical proficiency and independence of their personnel, quality control standards can be established to assist in the performance and supervision of audit work.

It is important to the auditors when they delegate work to assistants to directly supervise and review the work delegated. That is because these matters are important in dealing with quality control (Gul et al, 1994, p.28). In delegation of responsibilities the auditor should be sure that the persons given the work have the requisite skills, competence and independence. The extent of delegation of responsibilities, supervision and review will depend on the skills and competence of the individual accountants in the audit team.

4.4.2 Sufficient Evidence

Audit evidence means the information obtained by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence will comprise source documents and accounting records underlying the financial statements and corroborating information from other sources (IFAC, 1997, p.144). The purpose of this International Standard on Auditing is to establish standards and provide guidance on the quantity and quality of audit evidence to be obtained when auditing financial statements, and the procedures for obtaining the audit evidence (IFAC, 1997, p.144). The sufficient appropriate audit evidence is the basis on which to draw reasonable conclusions. “Obtaining sufficient appropriate evidence is essential if the public accounting firm is to minimise legal liability and maintain a good reputation in the professional community. Keeping costs reasonable helps the firm remain competitive and thereby retain its clients, assuming the firm has a reputation for doing quality work” (Arens et al, 1997, p.238).
Gill & Cosserat (1996, p.163) pointed out that “the standard specifies that sufficient (enough) ‘appropriate’ (relevant and reliable) audit evidence should be obtained to provide a ‘reasonable’ (rational) basis for an opinion”. The amounts and kinds of audit evidence required to support an informed opinion are matters for the auditor to determine in the exercise of professional judgement after a careful study of the circumstances of the specific audit engagement. The audit evidence must be reviewed critically with respect to its validity and pertinence as evidence before it is permitted to influence the mind of the auditor with respect to the assertion at issue (Mautz & Sharaf, 1986, p.110). It has been stated that (IFAC, 1997, p.146) “....the auditor should consider the sufficiency and appropriateness of the audit evidence.....”. Two related questions are of immediate importance: how much evidence should be obtained and how should it be assessed?. Therefore the auditor must have a high level of assurance about the truth that the financial statements are not materially misstated. So the judgment by the auditor would be based upon a considerable body of evidence. In fact there are many factors that may affect the auditor’s judgement as to sufficiency include:

- **Materiality and risk**: In general, more evidence is needed for accounts that are material to the financial statements than for accounts that are immaterial. For an example, more evidence is needed in support of the audit objectives for inventories than the audit objectives pertaining to prepaid expenses in the manufacturing company. Also more evidence is needed when there is a higher risk of error. For an example there may be a higher risk of error in the valuation of inventory than there is in the valuation of land used as a plant site. When relative risk is above normal, the auditors should demand more and better evidence than they would normally require as a basis for their opinion.

- **Economic factors**: Economic factors mean that the sufficient evidence must be obtained within a reasonable time and a reasonable cost. Therefore, the auditors are faced with a decision as to whether the additional time and cost will produce commensurate benefits in terms of both the quantity and quality of the evidence.
- **Size and characteristics of the population:** The size of a population refers to the number of items that comprise the total such as, the number of customer accounts in the accounts receivable ledger. In general, if the population size is large, the auditor needs a larger quantity of evidence to be obtained. In fact the sample size depends on the purpose and nature of the item.

This thesis examines in the empirical study to what extent are the Jordanian auditors are complying with main aspects of gathering sufficient evidence. Before starting the empirical study, the ISA “gathering sufficient evidence” does not determine what sufficient, competent evidential matter means. Therefore, the auditing standards include intangible and subjective terms such as adequate planning, sufficient competent evidential matter, and proper evaluation of internal control. To decide under the circumstances of each audit engagement what is adequate, proper, sufficient and competent requires the exercise of professional judgement. The audit practitioner must weigh such factors as relevance, reliability, and cost of various procedures, but must gather sufficient appropriate evidence to fulfil professional standards (Bortiz & Wensly, 1990, p.49).

The judgmental task is complicated by the volume of evidence that needs to be taken into account and the complex relationships that exist among the various items of evidence. Thus, there is considerable interest in finding ways of reducing the complexity of the task and the inconsistent or inappropriate judgments that could result. One way is to provide auditors with extensive training and expose them to as wide a variety of audit situations as possible so that they will develop appropriate cognitive models. These models should allow them to recognise, assess, and reason about more items of evidence and more complex interactions among items of evidence.

The ISAs did not introduce such models to assist the auditor to recognise and assess more items of evidence and their complex interactions. Results of empirical studies of experienced auditors appear to demonstrate that the cognitive structures that they rely on in making judgments differ significantly from those of inexperienced auditors (Ettensohn, 1982; Ettensohn, 1984; Ettensohn, Krogstad, and Shanteau, 1985). Another way of reducing the complexity of the auditor’s task involves the use of a variety of
intellectual, manual, or computer-based tools designed to allow the auditor to investigate complex interactions or perform complex tasks (Boritz & Wensly, 1991, p.51).

The adequacy of the client’s internal accounting control is a major factor in determining how much evidence auditors need to gather from other sources. The stronger the internal control, the less evidence of other types that will be required as a basis for the auditors’ opinion. When internal control is weak, the auditors must gather a correspondingly greater amount of other kinds of evidence. If we go back to the reporting standards, we notice that these standards do not include a statement or a standard that the auditor should report on the internal control system. Reporting about the strength and weaknesses of the internal control system is of benefit for the judgment of the credibility of the evidence that the auditor collect. Also the reliability of the accounting records is directly related to the effectiveness of the entity’s internal controls. Strong internal controls enhance the accuracy and reliability of the financial records, whereas weak internal controls may not prevent or detect errors and irregularities in the accounting process.

The auditor should be careful when obtaining the audit evidence from substantive procedures and tests of control. It has been stated (IFAC,1997, p.145) that “when obtaining audit evidence from substantive procedures, the auditor should consider the sufficiency and appropriateness of audit evidence from such procedures together with any evidence from tests of control to support financial statement assertions”. When obtaining evidence from tests of control, the auditor should consider the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk. The aspects of the accounting and internal control systems about which the auditor would obtain audit evidence are:

1- Design: the accounting and internal control systems are suitably designed to prevent and / or detect and correct material misstatements; and

2- Operation: the systems exist and have operated effectively throughout the relevant period (IFAC, 1997, p.145).
4.4.3 Internal Control System

It has been stated in the International Auditing Standards (IFAC, 1997, p.211) that one of the internal auditing activities includes review of the accounting and internal control systems. The establishment of adequate accounting and internal control systems is a responsibility of management, which demands proper attention on a continuous basis. Review and evaluation of the internal control system needs an independent authority to examine the strengths and weaknesses of that system. That is because the internal control system helps the auditor to determine the quantity and quality of the sufficient appropriate evidence. Knechel (1985, p.38) pointed out that an auditor reviews and evaluates a client's accounting and internal control system in order to determine the appropriate degree of reliance to place upon the system when planning the risk levels of audit tests. Evaluation of the system of internal accounting control consists of two closely related parts (Kell et al, 1986, p.148):

1- A review of the system to obtain knowledge and understanding of the client’s prescribed system.

2- Tests of compliance to determine whether prescribed control procedures are in use and are operating as planned.

The previous experience with the entity provides relevant information to the current year’s audit. The auditor should determine the weaknesses and strengths of the internal control structure as the starting point to evaluate that structure. Also the preliminary evaluation is very important to identify specific control procedures that can be relied on in performing substantive tests, assuming satisfactory compliance with the prescribed procedures. If there are no controls on which reliance is planned, the auditor goes directly to the design and execution of expanded substantive tests. In the preliminary phase of the review, the auditor seeks information about the internal control environment, and the flow of transactions through the accounting system. In this phase of the review, the auditor needs only general knowledge. The auditor’s preliminary understanding is usually obtained by inquiry but it may also be acquired by review of documentation, observation, previous experience with the client, and reference to prior-year working papers. Kell et al (1986, p.149) pointed out that at the conclusion of the preliminary phase of the review, the auditor must decide, for each of the major classes of transactions, whether to continue or terminate his review.
The completion phase of review is very important in evaluation of the internal control systems. That is because in this phase of the review, the auditor obtains specific knowledge and understanding of the client’s prescribed control procedures as they pertain to particular classes of transactions or balances. In making the review, the auditor should consider the potential effectiveness of the prescribed controls either individually or collectively in preventing or detecting specific types of errors or irregularities. The completion phase of the review involves three steps, gathering the information, verifying understanding, and making a preliminary evaluation.

Tests of compliance are needed in evaluation of the internal control system (Kell et al p.155) to obtain reasonable assurance that controls expected to be relied on are in use and operating as planned. This phase of the study of internal control does not extend to any control that will not be relied on in making substantive tests.

It has been stated in the ISAs (IFAC, 1997, p.130) that “the auditor should make management aware, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operating of the accounting and internal controls systems, which have come to the auditor’s attention”. Writing to the management about the weaknesses of the internal control system is not enough to protect the shareholders. The weaknesses may have to be reported to the legislature, shareholders, and other governing body. Reporting on the weaknesses and the strengths of the internal control system should help the investors and the users of the audit report to take their decision to invest in the company or not. If the auditor includes in the external report a paragraph about the weaknesses and the strengths of the internal control system, the users of the audit report cannot blame the auditor for corporate failure. Accounting and internal control systems cannot provide management with conclusive evidence that objectives are reached because of inherent limitations in those systems. Such limitations include:

- Management’s usual requirement is that the cost of an internal control does not exceed the expected benefits to be derived (IFAC, 1997, p.125, Robertson & Davis, 1988, p.275). Gill et al (1999, p.282) pointed out that because precise measurement of both costs and benefits is not usually possible, management must make both
quantitative and qualitative estimates and judgments in evaluating the cost-benefit relationship. Meigs et al (1988) pointed out that it is not feasible from an affordable cost standpoint to establish a control system that provides absolute protection from fraud and waste.

- Most internal controls tend to be directed at routine transactions rather than non-routine transactions. Hence, controls do not usually cover latter.
- The potential for human error due to carelessness, distraction, mistakes of judgment and the misunderstanding of instructions. The management and other personnel may exercise poor judgment in making business decisions or in performing routine duties because of inadequate information, time constraints or other pressures.
- The possibility of circumvention of internal controls through the collusion of a member of management or an employee with parties outside or inside the entity.
- The possibility that procedures may become inadequate due to changes in conditions, and compliance with procedures may deteriorate.
- Management override: management can overrule prescribed policies or procedures for illegitimate purposes such as personal gain or enhanced presentation of an entity’s financial condition or compliance status. Without active participation in management by the board of directors and an effective internal audit department, top management can easily override the internal control system.

In the developing countries, like Jordan, especially in the public sector the external audit report should include the result of an evaluation of the internal control system. That is because it is of benefit to the public and the supervisory authorities to control the management and their policies in these companies. The government in the developing countries, especially in the public sector, through significant shareholdings tend to have considerable influence on the internal control policies. The governments are changeable in these countries. Sometimes a new government comes after four or five months from the date that the old government started their work. In such cases it should be determined who is responsible for the evaluation of internal control system, and the disclosure of the weaknesses and the strengths of that system. At the same time the government is not an independent authority to evaluate their policies regarding the internal control system. The auditor is the only independent authority who can control, evaluate, and report on the internal control
system to the users of the audit report. In Jordan, to the researcher knowledge, there is not any study that discussed this issue before.

4.5 Evaluation of the Reporting Standards

The purpose of this International Standard on Auditing is to establish standards and provide guidance on the form and content of the auditor’s report. The auditor’s report is a major vehicle of communication between the auditor and those who use his work. In the report, the auditor indicates the scope of their examination and the conclusions drawn about the appropriateness of the financial statement representations. The emphasis in this communication process is upon reporting circumstances that result in departures from the auditor’s standard report. This orientation is strongly evidenced in both the auditing literature and the literature of various user groups. Smith and Smith (1971, p.553) pointed out that “the objective of the communication component is achieved if the destination assigns the meaning intended by the information source to the selected message. In addition…effective communication occurs only if the selected message possesses utility to the destination”. Effective communication requires therefore that the audit report be read and understood.

Two variables which can directly inhibit effective communication between an auditor and financial statement users are; the lack of use of the audit report, and a misunderstanding of the role of the auditor and therefore the audit report. These two aspects of financial reporting have been well documented, (Anderson, 1979, Winfield, 1978, Beck, 1973, Lee and Tweedie, 1975) with the primary emphasis being on shareholders as the recipient of company annual reports. Alfano (1980) points out that the reason people don’t read the audit report is that it is not written for the average reader to understand. It uses technical jargon- “present fairly”, “except for”, “subject to” and other more serious qualifying language know as an “adverse opinion” or “disclaimer of opinion”. These degrees of qualification tend to confuse the reader who is not an auditor. How can he understand why an auditor goes to such lengths to say that financial statements are not presented in accordance with generally accepted accounting principles and the reasons why?.
Furthermore, Alfano (1980) points out that the reader wants to know whether the auditor believes the financial statements are right or wrong. Knowing what is management’s responsibility as compared to the auditor’s may interest some people but it is somewhat secondary if everything is satisfactory; if something is wrong, it may only serve to focus on who is primarily to blame. The reader is not interested in knowing what procedures the auditor followed. Simply because he is usually not in a position to know whether the auditor should have done more or less. Examining to what extent do the users of the audit report in Jordan are satisfied with the audit report language and contents will be discussed in the empirical study (Chapter Seven).

It has been suggested (Pound, 1980, p.11) that the communication problem concerning accounting information is general, and the common audit report can be improved by educating the users of these reports. Therefore, it is important to educate report preparers and facilitating the communication to report users. Although the message intended by different audit reports has been the subject of little systematic study, the consensus in the literature is that “the basis for reporting deficiencies is presumably to inhibit behaviour in more respects. What other reason should there be for making such exceptions than to caution against some anticipated use of the audited information” (AAA, 1972, p.68).

It has been stated (IFAC, 1997, p.221) that the auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements. This review and assessment involves considering whether the financial statements have been prepared in accordance with an acceptable financial reporting framework being either the International Accounting Standards or relevant national standards or practices. Jordan has its special culture which includes different regulations in religious, legal, and economic situations. Formulation, collection and interpretation of these principles need more efforts from the professionals as a group to reach. The profession should not leave determination of relevant auditing principles to individual members. So it should be the professional associations’ responsibility to improve and develop accounting principles and standards that are appropriate to Jordanian environment. For example,
there are different views regarding the application of many Islamic operations such as Murabaha, Mudarabah, and Musharakah. These operations need more researches to formulate standards for the disclosure and measurement of the appropriate method from the Sharia Islamiyah perspective. In Islamic Banks the interest rate which is a form of "Riba" in Islam is prohibited from the Islamic Perspective. The prohibition against interest (Riba) in Islam, presents only one cultural element which makes the harmonisation of accounting standards more difficult (Abdullah, 1999). There is a view that accounting cannot be a culture free (Violet, 1983, Fechner and Kilgore, 1994, Gray, 1988). As a Muslim Society, it should be disclosed that the company does not invest in prohibited investments from the Islamic perspective. So that event should be disclosed in the financial statements, and the auditor should include in the report a paragraph that shows that there is no conflict between the company's production and investments and Islamic Regulations. This is a disclosure requirement, which can be easily accommodated.

The second main aspect of the reporting standards is that the auditor should examine the disclosure in the financial statements and report on the results of disclosure examination in the audit report. The auditor should disclose in the report if the entity followed the local regulations and rules or not, and the reasons that prohibit that entity from applying these regulations and rules. In rare circumstances, the preparers of financial statements may be of the opinion that application of a particular accounting standard may mislead readers of those statements. The auditors may issue a qualified report if they believe that in the absence of additional disclosures, the readers would be misled when making evaluations or decisions about resource allocation, and the additional disclosures contain relevant and reliable information, and the financial statements are understandable in meeting the objectives of a general purpose financial report (Arens, 1997, p.51). A separate additional section headed application of accounting standards should be included in the audit report. This section should draw attention to the additional disclosures, and state the auditor's opinion on the potentially misleading effect of the application of the accounting standard, the reasons why the additional disclosures are considered necessary, and the auditor's opinion on the relevance and reliability of the disclosures in meeting the objectives of a general purpose disclosures in meeting the objectives of a general purpose financial report.
The third aspect of the reporting standards is related to the auditor opinion. That opinion is one of the following choices:

- An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the identified financial reporting framework. An unqualified opinion also indicates implicitly that any changes in accounting principles or in the method of their application, and the effects therefore, have been properly determined and disclosed in the financial statements. (IFAC, 1997, 225).

The intended connotation of the words ‘present fairly’ is that the financial report is presented reasonably and without bias or distortion. An auditor does not use the words ‘accurately’, ‘truly’, ‘factually’, ‘correctly’, or ‘exactly’ because of the existence of estimates in the financial report. The auditor’s opinion does not apply to the accuracy or correctness of individual accounts. An unqualified opinion expresses the auditor’s that the financial report accomplishes the stated purpose by presenting fairly the entity’s financial position (balance sheet), results of operations (profit and loss) and its cash flows.

An unqualified opinion also means that any differences between management and the auditor on accounting matters have been resolved to the auditor’s satisfaction. If complying with Accounting Standards does not produce a “true and fair” view of their company’s position, directors are to provide additional disclosures that would produce a “true and fair” view. Under these circumstances the auditor may issue an unqualified opinion and add a paragraph to disclose if the auditor is of the opinion that (Gill & Cosserat, 1997, p.56):

1- in the absence of additional disclosures, users would be misled when making evaluations or decisions about the allocation of scarce resources; and

2- additional disclosures contain all, and only relevant and reliable information, and are presented in such a manner as to ensure the financial report as a whole is comparable and understandable in meeting the objectives of a general purpose financial report. Arens et al (1997, p.45) pointed out that materiality is an essential consideration in determining the appropriate type of report for a given set of circumstances. For example, if a misstatement is immaterial relative to the financial
statements of the entity for the current period and is not expected to have a material effect in future periods, it is appropriate to issue an unqualified report.

- A qualified opinion should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being ‘except for’ the effects of the matter to which the qualification relates. (IFAC, 1997, p.228).

- A disclaimer of opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements (IFAC, 1997, p.228).

- An adverse opinion should be expressed when the effect of a disagreement is so material and pervasive in relation to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements. (IFAC, 1997, p.228).

In relation to the auditor opinion, when the auditor knows that the financial statements may be misleading because they were not prepared in conformity with applicable accounting standards or with relevant statutory or other requirements, the auditor must issue an “except for” or an adverse opinion, depending on the materiality of the item in question. The qualification section must clearly state the nature of the deviation and the amount of the misstatement, if it is known. Adverse opinions are only expressed when the disagreement or the conflict between financial reporting frameworks has extremely material effects and the auditor concludes that the overall usefulness of the financial report taken as a whole is impaired.

The fourth important aspect of the audit report is the management responsibility statement. Management is responsible for preparing the financial report and the auditor is responsible for auditing the information and expressing an opinion on it. The auditor emphasises this division of responsibility in the scope section of the audit report. Auditors may assist in the preparation of the financial report. For example, if there is a new accounting standard, the auditor may assist management to
apply that standard, or propose adjustments to the client’s financial statements based on audit findings. These situations do not alter the basic separation of responsibilities. Ultimately, management is responsible for all decisions concerning the form and content of the financial report (Gill & Cosserat, 1996, p.57). The auditor may disagree with management about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial statements. If such disagreements are material to the financial statements, the auditor should express a qualified or an adverse opinion (IFAC, 1997, p.229). A qualified opinion is issued when any of the following circumstances occur:

- a disagreement with management regarding the financial report;
- a conflict between applicable financial reporting frameworks;
- a limitation on the scope of the audit.

An auditor may disagree with management when, in the auditor’s opinion, an inappropriate accounting policy is selected; an accounting policy is misapplied; the appropriateness of an accounting estimate is questionable; or there is failure to make adequate or appropriate disclosures required by Accounting Standards and relevant statutory and other requirements (IFAC, 1997, p.229). Also it is management’s responsibility to ensure that the entity’s operations are conducted in accordance with laws and regulations. The responsibility for the prevention and detection of non-compliance rests with management. As stated in the ISA (IFAC, 1997, p.97) “the auditor is not, and cannot be held responsible for preventing non-compliance. The fact that an annual audit is carried out may, however, act as a deterrent”. At the same time many previous studies (Gay et al, 1997, Schelluch & Green, 1996) concluded that users of the audit report expected auditors to be responsible for. To narrow the gap between the ISAs and the perception of the users of the audit report auditors should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. Also the auditor should obtain sufficient appropriate audit evidence about compliance with those laws and regulations generally recognized by the auditor to have an effect on the determination of material amounts and disclosures in financial statements. If the auditor found that the management is responsible for non-
compliance, he should report to the shareholders about that under the management responsibility statement in the audit report.

After the previous discussion of the main aspects of the reporting standards, this part of the chapter discusses some of the criticisms that have been directed at the audit report. These criticisms are related to environmental matters, the results of the fieldwork standards, and the audit report language. Environmental matters have not previously been considered in the audit of financial statements. Environmental matters are becoming increasingly important, and their impact on the financial statements of an entity must be considered as part of the audit process. The International Auditing and Accounting Standards should focus on providing practical assistance to auditors to help identify and address those environmental matters which may have a material effect on the financial statements. International Auditing Standards should concentrate on issues such as relevant environmental laws and regulations, obtaining sufficient knowledge of the business in relation to relevant environmental matters, and using the work of environmental experts. The International Auditing Standards do not give a specific guidance on environmental management systems or environmental audits. The International Auditing Standards should contain a series of possible questions the auditor may ask to obtain an understanding of the environmental considerations relevant to a client's business.

The environmental matters should be discussed to create standards to cover audit of these matters. These standards should be one of the fieldwork standards. At the same time the financial statements should disclose the impact of these matters in the company and its profit and financial position. The auditor report should include a statement to disclose the effect of these matters on the company, and to be viewed as a general requirement to satisfy legal requirements.

As mentioned before, the reporting standards do not include any statement or standard to report about the strengths or the weaknesses of the internal control system in the audit report. Noor (1996, p.95) points out that one of the main criticisms that are directed to the audit report is that the audit report does not include any statement about the weaknesses and strengths of the internal control system. This chapter has already discussed the importance of that to the users of audit report. This
thesis examines the perceptions of stakeholders in Jordan whether they are interested in reporting on that system or not.

The last criticism directed at the audit report is its use of standard technical language. The Cohen Commission (Alfano, 1980, p.15) criticised the present audit report on the basis that it is too short and uses standard language, so it is not viewed by many shareholders as conveying insightful information. The Cohen Commission believe that the content of the report should be changed to cover more than an opinion on the financial statements. They suggest that, if the report was expanded so that it was longer and addressed the entire audit function (process), users would be encouraged to read it. Interestingly, however, over the years there has been considerable discussion not over what the audit report didn’t say, but what it did say and how it was said.

4.6 Chapter summary

This chapter discussed the fieldwork and reporting standards. The standards of the fieldwork are related to the actual procedures performed during various stages of the audit examination. Three major stages of the audit addressed by the standards of fieldwork are audit planning, the study and evaluation of internal control structure and gathering evidence. This chapter discusses and evaluates the three standards to be examined later on in Chapter Seven: (a) to what extent are the Jordanian auditors complying with these standards, and (b) the audit expectation gap between the perception of the external auditors and stakeholders and their relation to the content of the standards. This chapter also discussed and analysed the main criticisms that directed at the fieldwork standards.

This chapter discussed the reporting standards and their weaknesses, because the auditor’s report is a major vehicle of communication between the auditors and those who use their work and, in the report, the auditors indicate the scope of their examination and conclusions they have drawn about the appropriateness of the financial statement presentation. Therefore, this chapter discussed the main aspects of reporting standards and to what extent the ISAs achieve these aspects and fulfil
the needs of shareholders. This thesis analyses in Chapter Seven the perceptions of the shareholders and the auditors in Jordan about the main aspects of the audit report with emphasis on a perceived audit compliance and audit gaps.
Chapter Five

The Audit Expectation Gap

5.1 Introduction
5.2 The Nature of the Gap
5.3 The Audit Expectation Gap and Audit Report:
   5.3.1 Report on the Responsibility of Management
   5.3.2 Report on the Going Concern Dimension
   5.3.3 Report on the Internal Control System
5.4 The Responsibilities of Auditors for Detecting and Reporting Fraud and Illegal Acts
5.5 The Audit Expectation Gap and Independence
5.6 Chapter Summary
5.1 Introduction

This chapter reviews previous research on the audit expectation gap with a view to identifying the major differences (if any) which contribute to the expectation gap. The knowledge reviewed in this section guided the formulation of the research instrument used to investigate the extent and causes of any audit expectation gap identified in Jordan.

This chapter discusses the main aspects that help the public, the auditor and the profession to bridge the expectation gap in auditing. Examples of the main aspects this chapter discussed are: audit committees responsibilities and the potential benefits of these committees, reporting on management’s responsibilities, reporting on internal control effectiveness, and reporting on the going concern expectation. This part also discusses the responsibility of the auditor and the profession for these issues in relation to the audit report. This thesis also examines the perceptions of stakeholders to determine whether they perceive the audit report satisfied their needs. A linkage between the perception of external auditors and stakeholders will be discussed to examine the expectation gap, and how such gaps could be bridged. This chapter discusses the responsibilities of auditors for detecting and reporting fraud and illegal acts as laid down by ISAs and to examine whether these standards are enough to meet user expectations.

Finally, this chapter discusses the audit expectation gap and the auditor independence because of the criticisms directed to the independence standard as discussed in Chapter Three, and external auditor independence in Jordan (Matar, 1994, Dahmash, 1989). This part also discusses arguments relating to auditor involvement in consulting services, the dual role internal/external audit for the same client, and the relationship between the auditor and the management.

5.2 The Nature of the Gap

The term “audit expectation gap” emerged during the 1970s (Gay et al, 1997, p.51). Two components of the expectation gap can be identified (Pound et al, 1997, p.21):
1- The reasonableness gap: between what society expects auditors to achieve and what they can reasonably be expected to accomplish.

2- The performance gap: between what society can reasonably expect auditors to accomplish and what they are perceived to achieve. This may be subdivided into:
   - deficient standards: a gap between the duties which can reasonably be expected of auditors, and auditors’ existing duties as defined by law and professional promulgations; and
   - deficient performance: a gap between the expected standard of performance of auditors' existing duties, and auditors’ performance as expected and perceived by society”

Components of the expectation gap
(Figure 1)

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3 Canadian Institute of Chartered Accountants, Toronto, Canada, June 1988, p.23.
Notes on figure 1:

- The shaded horizontal line represents the full gap possible between the highest expectations of audits (point A) to public perceptions of what audits actually seem to provide (point E).

- Point C represents auditor performance and financial information quality called for by present standards. The line segment A to C represents public expectations that go beyond existing auditing and accounting standards.

- The line segment C to E represents public perceptions that auditor performance or audited financial information falls short of what is required by existing standards.

Deffies et al (1988, pp. 17-18) point out that it is important to appraise the realism of public expectations and perceptions when the profession seeks remedies to the expectation gap. If the reasonable expectations of the public are not met by the existing professional standards or the profession’s performance falls short of its standards, the standards and/or the performance should be improved. But if the public has unreasonable expectations or their perceptions of performance are mistaken, the profession should attempt to improve the public understanding. It is the professional bodies, and legal responsibility to determine the auditors’ responsibility to achieve the reasonable public expectations. Monroe and Woodliff (1994) pointed out that one of the components of the expectation gap is the difference between the expectations of users and the reasonable standard of auditing which the auditing profession can be expected to deliver (unreasonable expectations gap).

The debate about the audit expectation gap consistently centres on a number of perennial issues. Three major ones are:

- the nature and meaning of audit report messages;
- early warning by auditors of corporate failure, and
- the auditor’s responsibility for the detection and reporting of fraud.

This chapter covers the discussion of these issues. That is because these issues are important to the public to judge the performance of auditors.
A study carried out by the Institute of Chartered Accountants of Scotland found that users expect audited financial reports to provide them with assurance (Gill & Cosserat, 1996, p.131) that:
- The financial statements are right;
- The company will not fail;
- There has been no fraud;
- The company has acted within the law;
- The company has been competently managed;
- The company has adopted a responsible attitude to environmental and societal matters.

Furthermore the study found that users expect the independent auditor to be:
- Independent of the directors of the company being audited;
- Responsible for reporting to a third party (shareholders) if they suspect that the directors are involved in fraud or other illegal acts;
- Accountable to a wide range of stakeholders; and to be financially liable if they fail in any of their duties.

The users of the audit report should understand that audits are carried out in accordance with prescribed standards and provide them with an opportunity to review those standards for themselves. It is the law makers responsibility whether that be the legislator or the courts to determine whether these standards are adequate. Arrington et al (1994, p.244) pointed out that users of financial statements can be expected to form judgments concerning the causes of audit success and failure. The difference between the level of responsibility that the public assigns to an auditor for an outcome and the level of responsibility that an auditor should carry out is examined in this chapter.

5.3 The Audit Expectation Gap and the Audit Report

Several studies have investigated differences in beliefs about the duties and responsibilities of the parties to an audit and messages communicated through audit reports. Holt and Moizer (1990) reported differences in perceptions of the meaning
of audit reports between accountants and sophisticated users. Several countries have adopted expanded audit report wording in attempt to bridge the gap. This has stimulated considerable research on the ability of expanded audit reports to reduce the audit expectation gap.

Gay and Schelluch (1993) and Monroe and Woodliff (1994) found user group perceptions/beliefs were significantly influenced by wording changes to the audit report with respect to messages conveyed by the longform audit report. The findings of these studies indicate that adoption of the longform audit report affected the perceptions/beliefs of users of messages communicated by the audit report. Wording changes enhanced users’ perceptions of the understandability and usefulness of the audit report in relation to, the purpose of the audit, the auditor’s role, the nature of the audit process, the nature and limitations of general purpose financial reports, and the relative responsibilities of auditors and management.

This section discusses three main issues that related to the differences in beliefs between the auditors and shareholders to expand the audit report and then reduce the audit expectation gap. These issues are:

5.3.1 Report on the “Responsibility of Management”

This part is important because a high percentage (54%) of auditors in Jordan feel themselves under pressure from management (Dahmesh, 1989). Matar (1995, p.23) points out that auditor’s independence in Jordan is impaired because of the management pressure on auditors. Dahmesh (1989) has directed a questionnaire to 48 external auditors and asked them whether they felt independent. That study is a descriptive one, and didn’t introduce solutions to improve auditor’s independence. Also one of the limitations of that study is that it did not include other groups in the sample such as internal auditors, management, and shareholders to compare differences between their perceptions.

It should be important to determine and disclose management responsibility for disclosure in financial reporting and the audit report. That is because auditors use the engagement letter and the letter of representation to remind management that they
are primarily responsible for financial reporting. The engagement letter and the letter of representation are not available to users who may believe that the responsibility of the auditor is to ensure that the financial report gives a fair presentation of the entity’s financial affairs. “A statement in the annual report by management about its responsibility should not only help close the gap caused by poor communication, but may also cause management to reflect more conscientiously on its responsibility for financial reporting” (Gill & Cosserat, 1996, p.136).

The MacDonald Commission (Canada, 1988) concluded that “...some part of the public expectations gap is caused by lack of public understanding of the extent of judgment requirement in presenting financial information. A further part is caused by misunderstanding of the auditor’s responsibility for the information”. To lessen these misunderstandings, the commission recommends (MacDonald Commission, 1988, p.68):

1. better disclosure in statements of accounting policies of the accounting theory that forms a basis for the policies and of the possible impact of judgment on the information presented,
2. separate statement of management’s basic responsibility for financial information presented, and
3. expansion of the standard audit report to explain more fully what the auditor does and does not do and the degree of assurance provided by an audit.

Humphrey et al (1993, p.399) asked respondents (chartered accountants, financial directors, investment analysts, bankers involved in corporate lending and financial journalists) in UK to indicate their agreement or disagreement concerning auditors’ abilities to understand business problems and their role with respect to improving, and reporting on, management efficiency. Auditors felt that they did understand business problems and should identify ways of improving management efficiency, only 46% of the auditors felt that they should report to shareholders on the efficiency of management. Users groups saw a great need for such reporting, although they were less confident about auditors’ capacities to understand business problems. Therefore, there is a gap between auditors and users groups of this issue in UK. Gill & Cosserat (1996, p.58) pointed out that companies should include a management responsibilities statement in their annual report to shareholders. It has been stated in the ISAs (1999) that the management responsibility statement should:

- acknowledge management’s responsibility for the financial report
- indicate judgments and estimates made by management,
- contain a presentation on the adequacy of internal controls,
- indicate the existence of an audit committee and report on its function.

The auditor may disagree with management about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial statements. If such disagreements are material to the financial statements, the auditor should express a qualified or an adverse opinion (IFAC, 1997, p.229). At the same time the auditor is responsible for including a management responsibility in the audit report.

It is possible that when shareholders say auditors should be responsible for the accounts what they may really be saying is that if auditors disagree with the accounts they should state unambiguous their reasons for disagreement and the possible impact on the accounts. Schelluch (1993), Monroe and Woodlit (1994), and Macdonald (1988) did not mention how the audit report should be expanded. Chapter Four suggested many improvements for the fieldwork and reporting standards. These improvements are expected to help the auditor, management and shareholders to bridge the expectation audit gap in Jordan.

5.3.2 Report on the Going Concern Dimension

Financial statements are prepared under the going concern assumption—that is, it is assumed that in the absence of evidence to the contrary the business will continue to operate for a long time, will not be selling its assets in the near future, and will live long enough to recover the costs of its assets and to honour its obligations (Horngren et al, 1999, p.10). It has been stated (IFAC, 1997, p.194) that when planning and performing audit procedures and in evaluating the results thereof, the auditor should consider the appropriateness of the going concern assumption underlying the preparation of the financial statements.

The general public expects external auditors to provide them with an early warning of corporate failures. The dilemma faced by the auditors is that they are required to
state any unresolved doubts about the entity's future, but there is a risk that such comments may be self-fulfilling by undermining the confidence of the owners and creditors. Nevertheless, if facts and circumstances raise doubts about the viability of the entity, those doubts must be dispelled or disclosed (Pound et al, 1997, p.24). The failure of an entity whose most recent audited financial report did not provide warning of impending collapse is one of the major reasons why users believe that the financial report has failed to fulfil its intended purpose. Monroe & Woodlif (1994) pointed out in their study which was conducted in Australia that in their view the auditor should report whether the company will remain solvent in the year after the audit, and the shareholders and creditors agree that the auditor should report:

- whether the company is a good investment
- whether the company is a good loan prospect
- whether the company is a reliable debtor

Including these issues in the audit report means that the audit report is expanded to help to narrow the expectation gap between what do the public expects from the audit report and what auditors can reasonably do.

Humphry et al (1993, p.401) pointed out that “Another important role expectations gap is evident regarding whether the auditors’ role with respect to the audited company should be to ensure that the company is being run efficiently”. Also auditors and management in UK rejected a reporting role which extended to give details on management efficiency to shareholders. Management is required to disclose and discuss significant risks and uncertainties (Apostolon, 1989, p.1).

It is the auditor’s responsibility to discuss with the management its plans for the future, such as plans to liquidate assets, to increase or decrease capital, reduce expenditure or restructure debt. The role of auditor here is to obtain sufficient evidence for the management plans to examine if the outcome of these plans will improve the situation in the company or not. If the auditor concludes that the going concern assumption is appropriate/or inappropriate because of the management’s plans for future, the auditor should consider whether such plans or the factors that affect the plan need to be disclosed in the financial statements. If adequate disclosure is not made, the auditor should express a qualified or adverse opinion, as appropriate (IFAC, 1997, p.196).
The auditor would consider if the information in the financial statements describe the entity’s ability to continue in operation in the future, or if there is significant uncertainty that the entity will be able to continue as a going concern. Therefore, the auditor should consider if adequate disclosure is/is not made in the financial statements to express his opinion in the audit report. The International Auditing Standard No. 570 (IFAC, 2001) states that the auditor should disclose such a case in an explanatory paragraph.

5.3.3 Report on the Internal Control System

The standard audit report (IFAC, 1999) should explain that an audit is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatements arising as a result of fraud or error. The reporting standards should describe the extent to which the auditor has reviewed and evaluated the internal accounting control system. The previous two steps will promote a better appreciation of an audit’s purpose and limitations and underscore management’s primary responsibility for financial reporting. Mautz and Sharaf (1986, p.154) pointed out that as a professional, the independent auditor must have a concern for any internal control measures which increase the reliability of the data in the financial statements or reduce the probability of irregularities, and the audit review must be broad enough to discover these.

The auditor should review and evaluate the internal control system sufficiently to form an opinion as to its effectiveness, and any weaknesses which represent a potential for significant injury to the client should be reported to the client at a level sufficiently high to assure a constructive response. Any weaknesses sufficiently material to influence the judgment of those who read and rely on the financial statements and the auditors opinion should be revealed in the auditor’s opinion. Gay et al (1997, p.53) pointed out that the auditor is required to obtain an understanding of the organisation’s internal control structure and to assess control risk. The auditor is responsible to identify the risk of fraudulent misstatement and to plan and conduct the audit to reduce the risk of not detecting the misstatement.
The management report is expected to provide assurance to the public that adequate controls are in place everywhere. And they are required to report to the shareholders about the internal control system (IFAC, 1999). In addition, preparation of a report would make management more accountable for accurate financial reporting. Internal controls are the responsibility of management, at the same time the auditor is required to evaluate them. The auditor would regard management misrepresentations concerning internal control as a material misstatement of fact in the management report. The audit report and the management report are the main aspects of the management and audit work that stakeholders and users of those reports see.

Therefore if these reports included a written statement about the management responsibility for internal control weaknesses that were identified by internal and external auditors, an expectation gap may be reduced. That is because reporting on weaknesses that are sufficiently material could influence the judgment of the stakeholders or users of the management and audit reports. In fact the audit report is more independent than the management report. Therefore, reporting on the internal control system in that report is more beneficial to the users.

Laursen (2000) points out that the auditor has to disclose the extent of internal control evaluations in light of the expectations from the primary users, namely that they always conduct such evaluations. In the US it has been stated that “An auditor is required to report to a registrant’s audit committee any reportable conditions or material weaknesses in a registrant’s system of internal accounting control that the auditor discovers in the course of the examination of the registrant’s financial statements” (SAB No: 99, 1999, p.8).

Reporting on the internal control system to public helps to bridge the expectation gap between auditors, ISAs, and the public. It is better, from social responsibility, legal, and a professional viewpoint to prepare a special report or include the results of examination of the internal control system in the audit report. Some companies lose much money due to lack of internal controls. As an example, on February 23, 1995 a 232 year old British Bank, Baring Bros. And Co., was bankrupted by a loss of $1 billion in futures trading by one employee. A statement by the Singapore International Monetary Exchange (SIMEX) attributed the loss to a failure of internal
controls. The organisation ignored several warning signs of internal control weaknesses over several years:

- In March 1992, a senior executive in Singapore wrote a letter to the head of the equity department in London stating: "My concern is that once again we are in danger of setting up a structure which will subsequently prove disastrous and with which we will succeed in losing either a lot of money or client goodwill or probably both… . In my view, it is critical that we should keep clear reporting lines and if this office is involved in SIMEX at all then (Mr. Lesson) should report to "the Singapore office operations department not the London derivatives department.

- An internal audit in the summer of 1994 cited lax internal controls and made a specific recommendation that the trading and settlement duties be separated. Mr. Lesson was monitoring himself by doing both duties. Reporting of the internal control weakness to shareholders may have created pressure to rectify the weakness before major losses occurred.

5.4 The Responsibilities of Auditors for Detecting and Reporting Fraud and Illegal Acts

The responsibility of the auditor for the prevention, detection and reporting of fraud, other illegal acts and errors is one of the most controversial aspects of auditing (Gay et al, 1997, p.51). The term fraud refers to an intentional act by one or more individuals among management, employees, or third parties, which results in a misrepresentation of financial statements. Fraud (IFAC, 1997, p.88) may involve:

- Manipulation, falsification or alteration of records or documents
- Misappropriation of assets
- Suppression or omission of the effects of transactions from records or documents
- Recording of transactions without substance, and
- Misapplication of accounting polices

The general public appears to have a high expectation that auditors will detect or prevent all fraud, whereas the auditing profession does not regard fraud detection as a primary audit objective (Pound et al, 1997, p. 24). Thus, there is an expectation gap
whereby the general public believes that the auditor should be responsible for attempting to detect all fraud, while the auditing profession believes its responsibilities are limited to planning the audit so that there is a reasonable expectation of detecting material fraud. The question is, how could we eliminate this gap? This thesis, through the theoretical discussion and the empirical study tries to introduce solutions to bridge the expectation gap in Jordan.

Monroe & Woodliff study (1994) concluded that the auditors thought that they should not be responsible for detecting fraud and illegal acts whereas the majority view in the other groups (accountants, creditors, directors, shareholders, students) was that this should be a responsibility of the auditor. As stated in the ISAs (IFAC, 1997, p.88) “the auditor is not and cannot be held responsible for the prevention of fraud and error. The fact that an annual audit is carried out may, however, act as deterrent”. Humphrey et al (1997, p.400) also pointed out that the auditors disagree that their role should be to insure that all significant fraud is detected and they disagreed with the suggestions of liability to potential shareholders and creditors, whilst financial directors and the user groups generally agreed with them. In Monroe & Woodliff study (1994, p.51) the auditors strongly disagreed that:

- The auditor should report whether the company is a reliable debtor
- The auditor should report whether the company is a good loan prospect
- The auditor should report whether the company is a good investment.

The question thus arises as to where the reasonableness or unreasonableness of the differing views should be resolved. The question of the legal position of the auditor who may precipitate the collapse of a company by expressing suspicious of fraud or serious control weaknesses would have to be addressed before expanding the reporting requirements.
5.5 The Audit Expectation Gap and Independence

Many criticisms have been directed to the auditors’ independence in Jordan. Matar (1994), Dahmash (1989), and Al-Samhoori (1996) pointed out that there is a big question over the auditors’ independence in Jordan. Matter attributed these problems to the following factors:

- The impact of management on selection and dismissal of the auditor and in determining audit fees.
- The competition in the audit market in Jordan
- The auditors’ fees are not sufficiently high to compensate for the work and responsibility involved
- The conflict between the audit services and consulting services

The previous four factors are very important to the public acceptance of auditing in Jordan. The importance of public acceptance of auditing is essential to any substantial expansion of auditing as a means of accomplishing public policy. General acceptance is also necessary for effective performance of the recent limited role of auditing as the verifier of financial data (Mautz & Sharaf, 1986, p.209). It reveals that “the value of an audit opinion depends upon a public acceptance of the independence of the auditor” (Gul et al, 1991, p.87). Society’s acceptance implies that the role of the external auditors in any society is that of an independent instrument of social control within the corporate accountability process. To maintain independence under the many pressures of practice, an auditor must be constantly alert to any deleterious influences on his planning, investigative, or reporting independence. Unless the auditor is alert and continuously concerned, it is possible that independence will be weakened, and it may be impaired to such an extent that the usefulness as an auditor is lost (Mautz & Sharaf, 1986, p.231).

As discussed in Chapter Three, the public perception of auditor independence is important because the apparent independence depends on society’s perception of what could impair actual independence. The audit firm must strive to ensure that audit quality will not be compromised and that auditor performance will continue to meet public expectations of independence.
It is important to maintain public confidence in the auditor-client relationship. So the auditor independence from the client or its management is very important to maintain that confidence. Otherwise an expectation gap will arise. A full and fair disclosure of information that may affect investors' or the public's perceptions about the appearance of auditor independence from the auditee's management may help to eliminate that gap. Also disclosing financial interests and personal relationships, and the legal prohibition of the financial interests should be made to enhance the appearance of auditor independence.

To maintain both the fact and appearance of independence, auditors needed to avoid all suggestions of mutuality of interests with the managements of companies for which they provide services. Auditors cannot sell services that leave them auditing their own work. Audit should remain the "soul" of the public accounting profession, not a loss-leader retained as a foot in the door for higher fee consulting services. The auditor should continue to earn public confidence by focusing on the appropriateness of accounting principles and the clarity of disclosures rather than just reporting on whether accounting principles are within the range of acceptable practice. Levitt (1997, p.9) pointed out, "to continue to win the war of the expectation gap, auditors need to speak up- not just when things are wrong but also when things are not quite right- to pose difficult questions about the quality of reporting and to seek full and fair disclosure".

The issue of independence becomes more complicated when external auditing, internal auditing, and management consulting services are concurrently performed by the same accounting firm for the same client. Users have suggested that an audit firm should not provide management advisory services to its audit clients. Auditors and accountants have traditionally tended to disagree strongly with this suggestions, whereas financial directors, investment analysts and bankers only weakly disagreed (Humphry et al, 1993, p.402). It is unbelievable that the auditor can offer the managerial consulting type of advice to management on a fee basis and still appear completely independent to alert and intelligent outsiders (Mautz & Sharaf, 1986, p.223). Different groups within the society may have different perceptions of factors affecting auditor independence. Chapter Three discussed the major issues and
Chapter Seven will consider evidence from Jordan on the perceptions of the various parties.

**Audit Committees and Independence**

This section discusses the importance and advantages of the audit committees to bridge the audit expectation gap. As discussed before, independence is a disputable issue in the audit expectation gap. The users of the financial statements and audit reports expect that the auditor should be independent in appearance and in fact. Many factors impact on external auditors' independence as discussed in Chapter Three. The Treadway Commission, SEC, and AICPA stated that the major objective in establishing an audit committee is fostering auditors' independence. Such independence is enhanced when the auditor has direct communication with the independent members of the board. Therefore, the existence of an audit committee is seen as enhancing the quality of the independent auditor’s work and thus reducing control of management over the reporting process.

The use of audit committees is common in the western countries. In the Middle East, Vanasco (1995, p.12) points out that audit committees are prevalent only in Israel, where they are required by law. This thesis discusses the role of audit committees in Jordan to examine whether the existence of these committees would enhance actual and perceived independence and then reducing the audit expectation gap. Knapp (1991, p.35) points out that recent criticism of the external audit function has spurred standard-setting bodies in many countries to adopt several measures to strengthen the effectiveness of the independent auditor’s role. Many of these new rules and regulations mandate greater involvement of audit committees in the audit process. There have been many failures by auditors to protect investors as documented in the academic literature, which describes the differences between their role and reality as "the expectation gap". To obtain value from auditors, they need to be controlled by a watch-dog committee which is independent of both inside directors and management (Turnbull, 1998, p.110).

The audit committee should be responsible for all matters concerning the auditor, whether it be appointment, remuneration or dismissal. If these matters were left to
management, the independence of the auditor could be impaired and it would be more difficult for auditors to be critical of management (Lynn, 1996, pp.17-18). Vanasco (1995, p.29) pointed out that “there seems to be a consensus among researchers in the field and the various national and international organisations that audit committees provide significant benefits to the corporation, public, investors and regulatory agencies. The most cited functions of the audit committee are:

1- Strengthening the internal and external audit functions
2- Co-ordinating the work of the external and internal auditors
3- Strengthening the position of non executive directors
4- Assisting the board of directors to fulfil their legal responsibilities

Audit committees can enhance the auditors’ independence by providing a buffer between the auditor and management (Apostolon & Nicholas, 1989). In companies where the auditor reports to an independent audit committee, a potentially important buffer is provided to insulate accountants from inordinate management pressures and to strengthen the auditor in his relationship with management and hence his independence. The auditor must strive to improve communication with the audit committee. A number of meetings with the audit committee before, during, and after the annual examination might be helpful to the auditor in carrying out their responsibilities. Knapp (1991) points out that the larger and more powerful role that audit committees will assume in the independent audit in the future suggests that audit committee members might have the ability to impose their views of audit quality on the audit process.

Many previous studies in Jordan (Matar, 1995; Dahmash, 1989; Al-Samhoori, 1996) pointed out that there is a big question over the auditor independence. Dahmash criticised the auditor independence from auditor’s point of view, but this thesis examines that from different point of views, external auditors, management, shareholders, internal auditors, and academics. Matar (1995) also did not expand his study to include all factors that impair auditor’s independence. Al-Samhoori (1996) also recommends that more research is needed to examine the impact of consultation services on auditor’s independence. Therefore, this thesis examines to what extent auditors, management, shareholders agree that audit committees play a great role in enhancing auditor’s independence.
Hence, it is concluded that audit committees can play a role in enhancing auditor’s independence. Some arguments against audit committees should be taken into account. These arguments are summarised by Bradbury (1990) who points out that the requirement for companies to operate an audit committee can: (1) impose costs unevenly across companies if differences exists between companies in the costs and benefits of monitoring packages (2) lead to companies transferring resources from existing, and perhaps more effective, monitoring activities on the assumption that monitoring expenditure is limited; and (3) prevent companies from signalling information by the choice of an audit committee as a monitoring mechanism.

5.6 Chapter Summary

This chapter provides discussion of the expectation gap that exists between what the public expects of auditors and what the profession believes its responsibilities should be. To achieve that objective there was a discussion of the components of the expectation gap and the main aspects that cause the gap(s). These aspects consistently centre on a number of perennial issues. These issues are: the nature and meaning of the audit report message, early warning by auditors of corporate failure, and the auditor’s responsibility for the detection and reporting of fraud.

To bridge the distance between the auditor responsibilities, the public expectations of the auditor and management performance and responsibilities, this chapter discussed the main aspects that helps the public, the auditor and the profession to bridge the expectation gap in auditing. These aspects are:

- Reporting on the management responsibility, internal control effectiveness, and reporting on going concern. This chapter concludes that the auditor should review and evaluate the internal control system sufficiently to form an opinion as to its effectiveness, and any weaknesses which present a potential for significant injury to the client should be reported to the public.

- Audit Committees responsibilities and the potential benefits of these committees. The audit committees provide a channel of communication between the independent directors and the independent auditors. These committees “review the scope of
external audit services, significant accounting policies and audit conclusions regarding significant accounting estimates" (Vanasco, 1995, p.24) and that helps the auditor to support the opinion in the audit report.

This chapter discussed the responsibilities of auditors for detecting and reporting fraud and illegal acts. Previous studies in developed countries indicate that the general public appears to have a high expectation that auditors will detect or prevent all fraud, whereas the auditing profession does not regard fraud detection as a primary audit objective. Thus, there is an expectation gap whereby the general public believes that the auditor should be responsible for detecting all fraud. While the auditing profession believes its responsibilities are limited to planning the audit so that there is a reasonable expectation of detecting material fraud. It was stated in the ISAs (1997, p.88) that “the responsibility for the prevention and detection of fraud and error rests with management through the implementation and continued operation of adequate accounting and internal control systems. Such systems reduce but do not eliminate the possibility of fraud and error. Also it has been stated (IFA, 1997, p.88) that the auditor is not and cannot be held responsible for the prevention of fraud and error.

Finally this chapter discussed the expectation audit gap and independence. Many aspects affect auditor’s independence, such as consulting services, the dual role external/internal auditing, gifts and discounts, if auditors own shares of stock in a company that they audited, and the relationship between the auditor and management. Therefore the auditor should disassociate themselves from influences that might affect or might appear to affect their judgments, to bridge the expectation gap between the public and the auditors. The presence of audit committee is important in this regard because it does not normally include management but only independent directors.
Chapter Six

Methodology of the Field Study

6.1 Introduction
6.2 The Objectives of the Field Study
6.3 Method of Development Questionnaires
6.4 The Sample of the Field Study
   6.4.1 External Auditors
   6.4.2 Financial Managers and Internal Auditors
   6.4.3 Shareholders
   6.4.4 Academics
6.5 Methods of Data Analysis
6.1 Introduction

The previous five chapters discussed the main aspects of the International Auditing Standards and introduced interpretations of these standards. The next step is an empirical study which aims to examine to what extent auditors in Jordan are complying with the International Auditing Standards from the point of view of the external auditors, financial managers, internal auditors, academics, and shareholders. The relation between the application of the ISAs and stakeholder expectations is important in examining the audit expectation gap(s) in Jordan, and how such a gap(s) may be bridged.

To achieve the above objectives, a questionnaire survey has been directed to the external auditors, financial managers, internal auditors, academics, and shareholders in selected listed corporations in Jordan. The empirical study introduces methods of data collection and methods of data analysis. The method of data collection is a questionnaire survey. Statistical measures such as the mean, standard deviation and the t-test, as these are used for testing hypotheses about the difference between the expectations of two populations. The field study compares the perceptions of the external auditors with those of academics, shareholders, internal auditors, and financial managers, to examine whether an expectation gap existed between their perceptions.

6.2 The Objectives of the Field Study

The field study examines the application of the main aspects of the International Auditing Standards to evaluate external auditor’s performance. The first objective of the survey is to examine whether external auditors in Jordan are complying with the ISAs. The achievement of this objective has been assessed by examining whether:

1- External auditors in Jordan are complying with the main aspects of ISA “Skills and Competence”.

2- External auditors in Jordan are complying with the ISA on “Independence”.

3- External auditors are complying with due professional care, and are taking responsibility for detecting and preventing fraud.
4- External auditors are gathering sufficient appropriate evidence, complying with the main aspects of planning the audit, and evaluating and reporting on the internal control system.

5- The audit report in Jordan satisfies the need of shareholders.

The second objective of the survey is to examine whether the current performance of external auditors meets the expectations of different groups regarding audit performance. The perceptions of the shareholders are also used to examine if the application of the International Auditing Standards satisfy the needs of the shareholders.

The third objective of the survey is to examine whether there are differences between the perceptions of the five groups (external auditors, academics, shareholders, internal auditors, financial management) and to consider how those gaps could be bridged. This study also aims to determine the reasons for the gaps and to suggest, where appropriate, suitable improvements to International Auditing Standards or their application in Jordan.

6.3 Method of Development Questionnaires

The first step in preparing the questionnaires was reviewing the main aspects of the ISAs, and the theoretical arguments discussed earlier. After that the researcher determined the main issues to be examined through the questionnaires. From May 2000 to September 2000, the questionnaires were discussed on weekly basis with the supervisors and academic staff in school of accounting at the University of Western Sydney. During October 2000, a pilot survey was distributed to 12 academics and 24 professionals in Jordan for clarification of terminology, confirmation of relevance, and to obtain comments on design and presentation. Following minor alterations, the survey was sent to academics, shareholders, financial managers, internal auditors, and external auditors in October. 2000.
6.4 The Field Study Sample

6.4.1 External Auditors

Cost and time considerations influence the decisions about the size and type of sample chosen. In relation to the external auditors, stratified random sample was used to identify and divide the external auditors into two major subgroups. The five largest audit firms, and the small and medium audit firms (216 audit firms). The five largest audit firms are: Saba &Co. with 33 auditors, Allied Accountants with 29 auditors, Abu Gazaleh &Co. with 17 auditors, Abasi &Co with 14 auditors, and Khleef &Co. with 6 auditors (JACPA, 1999, p.5). Allied Accountants has a linkage with Arthur Andersen (now Andersen), one of the big five firms in the world. The total number of approved external auditors in Jordan is 410 (JACPA, 1999, p.5). Those external auditors are divided into three levels as explained in the JACPA (1999). Level A includes 380 auditors who have a professional qualification and a bachelor degree from faculty of business as a minimum. Level B includes 28 auditors who have bachelor degree from faculty of law. Level C includes 2 auditors who have a diploma from community colleges. 70 questionnaires have been distributed to the external auditors. This number (70) represents 17% (exceeds 5% of the population) of the total number of 410 external auditors.

After dividing the population into the appropriate strata, a simple random sample can be taken within each stratum. There are three reasons why a stratified random sample has been chosen (Cooper & Schindler, 2001, p.185): (1) to increase a sample’s statistical efficiency, (2) to provide adequate data for analyzing the various subpopulation, and (3) to enable different research methods and procedures to be used in different strata. The five largest audit firms in Jordan were chosen as a sample because they audit 78% of the companies listed on the Jordanian Stock Exchange (Matar, 1995, p.24). The five largest audit firms have 99 external auditors. 38 questionnaires have been chosen randomly and directed to the management of these five firms to distribute them to the external auditors in the firms. Statistically, the sample size is representative because the selected sample size (38) exceeds 5 percent of the population (99×5%=4.95), and the useable responses (65.8%) exceed 50 percent of the number surveyed (Cooper & Schindler, 2001).
The second subgroup of the external auditors was the small and medium audit firms who audit the remaining 22% of listed companies. A simple random sample has been used to choose the sample of this subgroup (216 audit firms). Assigned numbers, given to each audit firm, were written on individual slips of paper, and then 32 (14.8%) slips were drawn from the box and questionnaires distributed to the selected external auditors. Each number of the population had the same probability of being selected. The selected sample size (32) is representative because it exceeds 5 percent of the population ((410-99)×5%) = 15.5).

The external auditors’ useable responses were 38 questionnaires, 25 of them from the large audit firms, and 13 from the other firms. All of the respondents have conducted an audit in the last twelve months. The educational background of the 38 respondents is that 26 auditors have completed bachelor degrees, 6 auditors in addition to have completed master degrees, and 6 auditors have completed the Jordanian CPA. 12 auditors who have completed bachelor degrees also completed the American CPA. The percentage of accounting subjects that the auditors completed in their bachelor degrees is indicated in Table 6.1 below.

<table>
<thead>
<tr>
<th>percentage</th>
<th>less than 15%</th>
<th>16%-30%</th>
<th>31%-45%</th>
<th>46%-60%</th>
<th>over 60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>frequency</td>
<td>2</td>
<td>2</td>
<td>10</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>percent</td>
<td>5.30%</td>
<td>5.30%</td>
<td>26.20%</td>
<td>31.60%</td>
<td>31.60%</td>
</tr>
</tbody>
</table>

The number of years of experience in auditing of the auditors is indicated in Table 6.2 below.

<table>
<thead>
<tr>
<th>number of years</th>
<th>1-5 years</th>
<th>6-10 years</th>
<th>11-15 years</th>
<th>16-20 years</th>
<th>21-25 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>frequency</td>
<td>18</td>
<td>12</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>percent</td>
<td>47.40%</td>
<td>31.60%</td>
<td>5.30%</td>
<td>10.50%</td>
<td>5.30%</td>
</tr>
</tbody>
</table>
6.4.2 Financial Managers and Internal Auditors

There are 192 listed companies in Jordan. These companies are divided into four sectors, Banks & Financial Companies (17 companies), Insurance Companies (23 companies), Services Companies (62 companies), and Industrial Companies (90 companies).

The sample of the financial managers and internal auditors have been selected from the top listed companies, as listed in the stock market, of each sector. 5% of the population used as criteria to choose the financial managers and internal auditors’ sample. 68 questionnaires were directed to the financial managers, and 46 usable responses were received. 55 questionnaires were directed to internal audit departments, and there were 30 usable responses.

Both of the two numbers (68, 55) surveyed were representative samples because they exceed 5% of the population. Finally, the sample of financial managers, and internal auditors has been chosen from the same companies to get different perceptions for the same companies. The usable responses indicate the respondents’ experience in management and internal auditing as shown in Table 6.3, and 6.4 below.

Table 6.3: Financial Managers’ Experience

<table>
<thead>
<tr>
<th>years of experience as financial managers</th>
<th>frequency</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 years</td>
<td>10</td>
<td>21.70%</td>
</tr>
<tr>
<td>6-10 years</td>
<td>8</td>
<td>17.40%</td>
</tr>
<tr>
<td>11-15 years</td>
<td>18</td>
<td>26.10%</td>
</tr>
<tr>
<td>16-20 years</td>
<td>4</td>
<td>21.70%</td>
</tr>
<tr>
<td>over 20 years</td>
<td>6</td>
<td>13.10%</td>
</tr>
</tbody>
</table>

Table 6.4: Internal Auditors’ Experience

<table>
<thead>
<tr>
<th>years of experience as internal auditors</th>
<th>frequency</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 years</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>6-10 years</td>
<td>8</td>
<td>26.70%</td>
</tr>
<tr>
<td>11-15 years</td>
<td>12</td>
<td>40%</td>
</tr>
<tr>
<td>16-20 years</td>
<td>6</td>
<td>20%</td>
</tr>
<tr>
<td>over 20 years</td>
<td>4</td>
<td>13.30%</td>
</tr>
</tbody>
</table>

As shown in Table 6.3, and Table 6.4, financial managers and internal auditors have significant experience. The educational background of the respondents is indicated in Table 6.5 below.
Table 6.5: Educational background of financial managers and internal auditors

<table>
<thead>
<tr>
<th>respondents</th>
<th>highest educational background</th>
<th>percent</th>
<th>percent</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>community college degree</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>financial managers</td>
<td>percent</td>
<td>8</td>
<td>17.40%</td>
<td>30</td>
</tr>
<tr>
<td>internal auditors</td>
<td>percent</td>
<td>2</td>
<td>6.70%</td>
<td>24</td>
</tr>
</tbody>
</table>

Table 6.5 shows that financial managers and internal auditors are highly educated. They also have a significant background in accounting in that they have completed a high percentage of accounting subjects as indicated in Table 6.6 below.

Table 6.6: The percentage of accounting subjects that financial managers and internal auditors completed

<table>
<thead>
<tr>
<th>respondents</th>
<th>percentage of accounting subjects completed</th>
<th>less than 15%</th>
<th>16-30%</th>
<th>31-45%</th>
<th>46-60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>financial managers</td>
<td></td>
<td>0</td>
<td>0%</td>
<td>4</td>
<td>8.70%</td>
</tr>
<tr>
<td>internal auditors</td>
<td></td>
<td>0</td>
<td>0%</td>
<td>2</td>
<td>6.70%</td>
</tr>
</tbody>
</table>

However, less than 50% of both of the financial managers and the internal auditors have professional accounting qualifications as shown in Table 6.7 below.

Table 6.7: The professional accounting qualification for financial managers and internal auditors

<table>
<thead>
<tr>
<th>respondents</th>
<th>accounting professional qualification</th>
<th>foreign CPA</th>
<th>JCPA</th>
<th>no professional qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td>financial managers</td>
<td></td>
<td>6</td>
<td>12</td>
<td>28</td>
</tr>
<tr>
<td>internal auditors</td>
<td></td>
<td>8</td>
<td>6</td>
<td>16</td>
</tr>
</tbody>
</table>

6.4.3 The shareholders

Management distributed the questionnaire to the shareholders because they would not provide the researcher with information about the shareholders. The purpose of the questionnaire to the individual and institutional shareholders was to ascertain their opinions, and to examine whether there are differences between the perceptions because of the different information needed. That is because the individual shareholders may have different information needs than the institutional shareholders, and the individual shareholders have different knowledge, experience, and professional qualifications to understand the application of the main issues of the ISAs (Baker & Haslem, 1978).
The sample of shareholders has been selected randomly from 37 of the listed companies in Jordan. This number of companies represents 19% of the listed companies (192 companies). Five hundred questionnaires were distributed to shareholders of the 37 companies. 252 questionnaire were returned with 168 from individual shareholders, 48 from institutional shareholders, and 36 from shareholders who have their own shares and also manage institutional portfolios. Table 6.8 shows the number of companies that these shareholders invest in.

Table 6.8: The number of companies that the sampled of shareholders invest in

<table>
<thead>
<tr>
<th>respondents</th>
<th>1-5 comp</th>
<th>percentage</th>
<th>6-10 comp</th>
<th>percentage</th>
<th>11-15 comp</th>
<th>percentage</th>
<th>over 16</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>individuals (A)</td>
<td>96</td>
<td>58%</td>
<td>39</td>
<td>24%</td>
<td>15</td>
<td>9%</td>
<td>15</td>
<td>9%</td>
</tr>
<tr>
<td>institutionals (B)</td>
<td>9</td>
<td>17%</td>
<td>15</td>
<td>31%</td>
<td>18</td>
<td>35%</td>
<td>9</td>
<td>17%</td>
</tr>
<tr>
<td>both (A &amp; B)</td>
<td>6</td>
<td>17%</td>
<td>8</td>
<td>25%</td>
<td>12</td>
<td>33%</td>
<td>9</td>
<td>25%</td>
</tr>
</tbody>
</table>

The responses of the shareholders indicate that 174 (69%) shareholder were satisfied with the financial statements, and 78 (31%) shareholder were not satisfied. 153 (60.7%) shareholders trust the audit report and 99 (39.3%) do not trust the audit report. Also 102 (40.5%) shareholders rely on the audit report all of the time to make decisions about investments in companies, 90 (35.7%) shareholders rely on the audit report sometimes, and 52 do not rely on that report. Many of the respondent shareholders have substantial experience in investing in shares as shown in Table 6.9 below.

Table 6.9: Years of experience that shareholders have in share investment.

<table>
<thead>
<tr>
<th>years of experience</th>
<th>1-5 years</th>
<th>percentage</th>
<th>6-10 years</th>
<th>percentage</th>
<th>11-15 years</th>
<th>percentage</th>
<th>over 16 years</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 years</td>
<td>57</td>
<td>22.60%</td>
<td>87</td>
<td>34%</td>
<td>57</td>
<td>22.60%</td>
<td>51</td>
<td>20.80%</td>
</tr>
</tbody>
</table>

6.4.4 Academics

There are 22 universities in Jordan of which 8 are government, and 14 private. Nine private and four government universities have accounting departments. All relevant academics were surveyed. 21 academics from 137 academics in accounting departments in Jordan are interested in auditing. Heads of accounting departments in Jordanian universities have identified the academics who teach or research on
auditing, and they distributed the questionnaires to such academics. 15 responses were returned. The sample of academics represent 100% of the population. The educational background of the 15 academic respondents is shown in Table 6.10 below.

<table>
<thead>
<tr>
<th></th>
<th>highest educational background</th>
<th>professional qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ph.Ds</td>
<td>Master degree</td>
</tr>
<tr>
<td>frequency</td>
<td>12</td>
<td>3.00</td>
</tr>
<tr>
<td>percent</td>
<td>80%</td>
<td>20%</td>
</tr>
</tbody>
</table>

The academics’ experience in auditing is that 10 have academic experience only, four are consultants to audit firms, and one is working as an auditor. The number of years of academic experience of the academics is indicated in Table 6.11 below.

<table>
<thead>
<tr>
<th>number of years</th>
<th>1-5 years</th>
<th>6-10 years</th>
<th>11-15 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>frequency</td>
<td>5</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>percent</td>
<td>33.30%</td>
<td>46.70%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Most of the academics have completed a high percentage of accounting subjects in their bachelor degrees as indicated in Table 6.12 below.

<table>
<thead>
<tr>
<th>percentage</th>
<th>less than 15%</th>
<th>16-30%</th>
<th>31-45%</th>
<th>46-60%</th>
<th>over 60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>frequency</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>percent</td>
<td>6.70%</td>
<td>6.70%</td>
<td>20%</td>
<td>40%</td>
<td>26.60%</td>
</tr>
</tbody>
</table>

### 6.5 Methods of Data Analysis

The mean, standard deviation, and the t-test analysis are the statistical techniques used to analyse the collected data in the field study. The mean is used because it has many advantageous properties. First, it takes all of the scores into account, and therefore makes the most of the information provided by the data. Second, it is the most stable of the measures of central tendency for most distributions encountered in practice; it is the most consistent across different samples drawn from the same population. For this and other reasons, many of the procedures of inferential statistics make use of the mean. Thus, a third advantage of the mean is that it is useable as a datum in further statistical analysis, while other measures of central tendency usually are not. For these
reasons, the mean is the most frequently suitable measures of central tendency (Welkowitz et al, 1988, pp51-52).

For the second and third part of the questionnaires, the t-test is appropriate to make a comparison between the population’s means. In testing hypothesis about the difference between two population means, the correct statistical model to use is the t test. The customary .05 criterion of significance (2-tailed test) is specified because most similar research uses this criterion of significance. By using this statistical method it can be determined if differences exist between the perceptions of the groups. The next step is the testing of the existence of differences between the internal auditors and external auditors, shareholders and external auditors, academics and external auditors, and financial managers and external auditors. When the populations consists of numerical measurements the most common test is of whether or not the two population means are equal. This step is very important to the examination of the existence of the expectation audit gap between the perceptions of the different groups.
Chapter Seven

The Perceptions of the External Auditors, Shareholders, Academics, Internal Auditors, and Financial Managers on the Application of the ISAs in the Listed Companies in Jordan

7.1 Introduction

7.2 The Perceptions of the External Auditors, Academics, Internal Auditors, Shareholders, and Financial Managers in Relation to:

7.2.1 The Skills and Competence of the Jordanian Auditors in Terms of the ISAs
7.2.2 The Auditor’s Independence in Jordan in Terms of the ISAs
7.2.3 The Professional Due Care in Jordan in Terms of the ISAs

7.3 The Perceptions of the External Auditors, Academics, Internal Auditors, Shareholders, and Financial Managers on the Application of:

7.3.1 The International Auditing Standard “Planning the Audit” in Jordan
7.3.2 The International Auditing Standards “Gathering Appropriate Sufficient Evidence”, and “Internal Control System” in Jordan

7.4 The Perceptions of the External Auditors, Academics, Internal Auditors, Shareholders, and Financial Managers on the Application of Reporting Standards in Terms of the ISAs

7.5 Chapter Summary
7.1 Introduction

This chapter focuses on the analysis of the data collected through the questionnaires directed to the External Auditors (EA), Shareholders (SH), Academics (AC), Financial Managers (FM), and Internal Auditors (IA). The third objective of this thesis is to examine whether an audit expectation gap existed in Jordan, and if so how such a gap may be bridged. To achieve this objective, a linkage is required between the main issues of the ISAs, and the perceptions of the five groups (EA, SH, AC, FM, IA) in relation to the application of those standards in Jordan. Earlier the main aspects of the ISAs were discussed. This chapter analyses the perceptions of the five groups regarding the application of the main aspects of the ISAs in Jordan. This chapter will also consider who may be primarily responsible for the presence of any audit expectation gaps in Jordan and, if applicable, how those gaps may be bridged.

The first section of this chapter analyses the perceptions of the five groups concerning the application of the main aspects of the General Auditing Standards of the ISAs (Skills and Competence, Independence, Due Care). Are Jordanian external auditors complying with the requirements of the ISA “Skills and Competence” which are designed to enhance the likelihood of competence. To achieve this objective, the questionnaires examined whether it is perceived that the auditors in Jordan:
- have done continuing professional education courses,
- have experience in statistics, mathematics, and in applying a code of ethics
- have a sufficient knowledge of computer systems
- have completed formal courses in the Jordanian corporate law and tax law if they only have foreign accounting qualifications.

The second issue examined through the general auditing standards is “independence”. The objective of this part is to examine whether external auditors in Jordan are perceived to be independent. The aspects examined are: do the five groups perceive a conflict of interest in performing concurrent internal and external audits, and/or the performance of audit and non audit services for the same client. Other aspects examined are: do the various groups perceive a conflict of interest if their audit firms have a financial interest in the company they audit, and do the groups perceive that the auditors’ independence is impaired by accepting significant gifts. This part also
examines whether the presence of audit committees in Jordan could enhance the actual and perceived independence.

Examining whether external auditors are perceived to be complying with the main aspects of “Due Care” is a hypothesis that is tested in this part. These aspects relate to the auditors’ and managements’ responsibility to detect fraud and illegal transactions, and the reporting on the internal control system in the audit report.

The second section of this chapter examines the perceptions of the groups (EA, FM, IA) regarding the extent to which external auditors in Jordan are perceived to be complying with the main aspects of the field work standards. Selected aspects of planning the audit (knowledge about the entity, updating of information on the client, materiality considerations), gathering sufficient appropriate evidence, and aspects of the internal control system are examined through the perceptions of the nominated survey groups.

The third section of this chapter examines the extent to which the audit report in Jordan achieves the needs of shareholders, and how that report could be expanded. This part also examines the perceptions of the various groups concerning whether they consider the audit report is easy to understand.

7.2 The Perceptions of the External Auditors, Academics, Internal Auditors, Shareholders, and Financial Managers in Relation to:

7.2.1 The Skills and Competence of the Jordanian Auditors in Terms of the ISAs

The objective of this part is to examine whether:
- External auditors in Jordan are perceived to be complying with ISA “Skills and Competence”
- External auditors in Jordan are perceived as competent
- A gap existed between the perceptions of EA and SH, AC, IA, and FM regarding auditors’ skills and competence
(1) The external auditors’ knowledge in tax and corporate law, and computing

Table 7.1: The perceptions of the groups to examine whether EA should complete formal courses in the Jordanian tax and corporate law, and whether they have sufficient knowledge in computing

<table>
<thead>
<tr>
<th>group</th>
<th>tax law</th>
<th>corporate law</th>
<th>sufficient computer knowledge by level of EA staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd</td>
<td>m</td>
</tr>
<tr>
<td>EA</td>
<td>1.64</td>
<td>1.5</td>
<td>1.64</td>
</tr>
<tr>
<td>AC</td>
<td>3.33</td>
<td>0.81</td>
<td>3.46</td>
</tr>
<tr>
<td>SH</td>
<td>2.22</td>
<td>1.24</td>
<td>2.5</td>
</tr>
<tr>
<td>FM</td>
<td>2.59</td>
<td>1.28</td>
<td>2.68</td>
</tr>
<tr>
<td>IA</td>
<td>3.41</td>
<td>0.65</td>
<td>3.42</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 1 = disagree, 2 = neither agree nor disagree, 3 = agree, 4 = strongly agree)

Table 7.1 shows external auditors tend to be indifferent, believe or disagree with the views whether the auditors should complete formal courses in the Jordanian tax law and corporate law if they only have foreign accounting qualifications. In contrast academics and internal auditors believe that the auditors should complete these courses. Significant negative differences using a two tail test between the perceptions of the external auditors and each of the four groups are indicated in Table 7.2 below, confirming that all of the comparison groups have a greater tendency to support training in tax and corporate law for external auditors and would primarily affect those who only have foreign accounting qualifications.

Table 7.2: Differences between groups’ beliefs about desirability of auditor completion of Jordanian tax and corporate law courses, and sufficiency of auditor knowledge of computing

<table>
<thead>
<tr>
<th>group</th>
<th>tax law</th>
<th>corporate law</th>
<th>sufficient knowledge of computing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sig.t</td>
<td>m</td>
</tr>
<tr>
<td>EA &amp; AC</td>
<td>-5.00</td>
<td>0</td>
<td>-5.47</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>-2.15</td>
<td>0.04</td>
<td>-3.25</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>-2.9</td>
<td>0.01</td>
<td>-3.19</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>-5.2</td>
<td>0</td>
<td>-6.36</td>
</tr>
</tbody>
</table>

* Sig.t means the probability that the beliefs are the same using a two tail test.

As shown in Table 7.2, a comparison between the perception of EA & SH, EA & FM, and EA & IA on the sufficiency of computing knowledge result in a sig.t less than .05 on the assumption of a two tail test, which means the external auditors and academics are less confident than the others regarding the sufficiency of the knowledge of computer systems of their junior staff. The statistics suggest there are no differences between the perceptions of academics and external auditors regarding junior auditors.
However, financial managers, and internal auditors are often closer to the work of junior auditors. It is possible their perceptions are more reliable.

(2) The level of experience that EA have in statistics, maths, and rules of ethics

Table 7.3: The perceptions of the groups as to the level of experience that EA have in statistics, maths, and the rules of ethics

<table>
<thead>
<tr>
<th>group</th>
<th>statistics m</th>
<th>statistics sd</th>
<th>maths m</th>
<th>maths sd</th>
<th>rules of ethics m</th>
<th>rules of ethics sd</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td>2.9</td>
<td>1.1</td>
<td>3.3</td>
<td>1.08</td>
<td>2.94</td>
<td>0.95</td>
</tr>
<tr>
<td>AC</td>
<td>2.8</td>
<td>0.9</td>
<td>2.7</td>
<td>0.88</td>
<td>3.4</td>
<td>0.63</td>
</tr>
<tr>
<td>SH</td>
<td>3.1</td>
<td>1.2</td>
<td>3.2</td>
<td>1.13</td>
<td>3.46</td>
<td>1.01</td>
</tr>
<tr>
<td>FM</td>
<td>3.0</td>
<td>0.8</td>
<td>3.4</td>
<td>0.65</td>
<td>3.47</td>
<td>0.58</td>
</tr>
<tr>
<td>IA</td>
<td>3.1</td>
<td>0.8</td>
<td>3.3</td>
<td>0.78</td>
<td>3.46</td>
<td>0.81</td>
</tr>
</tbody>
</table>

The scale used: (very high = 4, high = 3, medium = 2, low = 1, very low = 0)

According to the means shown in Table 7.3, it seems that the level of experience that auditors are perceived to have in statistics, maths, and rules of ethics is high. In relation to the level of experience of external auditors in applying the rules of ethics, it is apparent that all groups tend to believe that they have a high, or better, levels of experience. However, external auditors are less confident than the others (see Table 7.4). When the data on shareholders was analysed further, separating out the responses of institutional shareholders from individual shareholders it was found that a majority of institutional shareholders (72%) indicated external auditors had a high level of experience, whereas the individual shareholders (41%) are less convinced. This could indicate either: (a) differences in perception or (b) that the two groups represent different types of respondents and there is a different propensity to give higher scores or (c) a combination of both.

Table 7.4: Differences between groups in beliefs about auditor levels of experience in statistics, maths, and the rules of ethics

<table>
<thead>
<tr>
<th>group</th>
<th>statistics t</th>
<th>statistics sig.t</th>
<th>maths t</th>
<th>maths sig.t</th>
<th>rules of ethics t</th>
<th>rules of ethics sig.t</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA &amp; AC</td>
<td>0.2</td>
<td>0.8</td>
<td>1.8</td>
<td>0.88</td>
<td>-2.12</td>
<td>0.04</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>-1.0</td>
<td>0.2</td>
<td>0.3</td>
<td>0.75</td>
<td>-3.06</td>
<td>0.003</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>-7.0</td>
<td>0.5</td>
<td>-0.9</td>
<td>0.38</td>
<td>-2.98</td>
<td>0.004</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>-1.0</td>
<td>0.3</td>
<td>-0.9</td>
<td>0.98</td>
<td>-2.4</td>
<td>0.019</td>
</tr>
</tbody>
</table>
(3) Professional education courses, and minimum qualifications

Table 7.5: The perceptions of the groups concerning whether auditors keep up to date doing continuing professional education courses and set minimum qualifications for each level of responsibility.

<table>
<thead>
<tr>
<th>group</th>
<th>professional courses</th>
<th></th>
<th>minimum qualification</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd</td>
<td>m</td>
<td>sd</td>
</tr>
<tr>
<td>EA</td>
<td>3.88</td>
<td>1.11</td>
<td>2.76</td>
<td>1.01</td>
</tr>
<tr>
<td>AC</td>
<td>2.36</td>
<td>0.5</td>
<td>2.33</td>
<td>0.65</td>
</tr>
<tr>
<td>SH</td>
<td>2.28</td>
<td>0.72</td>
<td>3.23</td>
<td>0.88</td>
</tr>
<tr>
<td>FM</td>
<td>2.2</td>
<td>0.62</td>
<td>2.8</td>
<td>0.94</td>
</tr>
<tr>
<td>IA</td>
<td>2.61</td>
<td>0.85</td>
<td>3.26</td>
<td>0.78</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

Table 7.6: Differences between the perceptions of EA and the other four groups (AC, FM, IA, SH) concerning whether EA keep up to date doing continuing professional educational courses and set minimum qualifications for each level of responsibility.

<table>
<thead>
<tr>
<th>group</th>
<th>professional courses</th>
<th></th>
<th>minimum qualification</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
<td>t</td>
<td>sig.t</td>
</tr>
<tr>
<td>EA &amp; AC</td>
<td>6.34</td>
<td>0</td>
<td>1.68</td>
<td>0.103</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>8.32</td>
<td>0</td>
<td>-2.62</td>
<td>0.012</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>7.75</td>
<td>0</td>
<td>-0.237</td>
<td>0.813</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>5.09</td>
<td>0</td>
<td>-2.22</td>
<td>0.03</td>
</tr>
</tbody>
</table>

External auditors with an average score of 3.88 strongly believe they are involved in doing continuing professional development whereas the other respondents are less convinced, including the academics who are most likely providers of such continuing education. The differences in responses between the external auditors and each of the other respondents are significantly different. The gap could be reduced if there was a mandatory continuing education programs with failure to comply resulting in the withdrawal of the right to conduct audits.

Also there are significant differences between the perceptions of EA & SH, and EA & IA on whether the audit firms use and comply with the ISAs and establish the minimum qualifications for the various levels of responsibility. The external auditors who have a JCPA believe more strongly than those who do not have that qualification that the audit firms in Jordan should establish minimum academic qualifications for the various level of responsibility. 62.3% of EA who have a JCPA strongly agree, 18.4% agree, 10.6% disagree, and the rest didn’t answer that question. On the other hand 30.5% of EA who are not a JCPA strongly agree, 23.6% agree, 36.3% strongly disagree, and 9.6% didn’t answer. IFAC believes it is very important to establish
qualifications for the various levels of responsibility within the audit firm (IFAC, 1997, p.74).

(4) The International Code of Ethics

The external auditors have been asked if they are complying with the International Code of Ethics, and if they perceive other external auditors in Jordan are complying with the code of ethics.

Table 7.7: The perceptions of EA concerning whether they (EA) are complying with the international code of ethics.

<table>
<thead>
<tr>
<th>group</th>
<th>perception of external auditors themselves</th>
<th>perception of external auditors in general</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd</td>
</tr>
<tr>
<td>EA</td>
<td>3.33</td>
<td>0.82</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

The statistics indicate that the external auditors believe that they are complying with the international code of ethics with a mean of 3.33. However, the mean is lower (2.36) for their perceptions that other auditors are complying with the international code of ethics. Table 7.8 shows the result of the groups’ perceptions whether EA should comply with the International Code of Ethics.

Table 7.8: The perceptions of the other groups concerning whether the EA in Jordan should comply with the international code of ethics

<table>
<thead>
<tr>
<th>group</th>
<th>external auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
</tr>
<tr>
<td>AC</td>
<td>3.53</td>
</tr>
<tr>
<td>SH</td>
<td>3.2</td>
</tr>
<tr>
<td>FM</td>
<td>3.43</td>
</tr>
<tr>
<td>IA</td>
<td>3.64</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

The means indicate that the four groups (AC, SH, FM, IA) believe that the external auditors should comply with the international code of ethics. The shareholders were asked to justify their responses if they disagree that the external auditors should comply with the international code of ethics. 26.2% of the shareholders strongly agree, 31% agree, 11.9% neither agree nor disagree, and 31% did not answer (see appendix b, shareholders’ questionnaire, part two, question 7). 21% of shareholders that neither agree nor disagree that the EA should comply with the international code of ethics believe that Jordan should have a local code of ethics from an Islamic
perspective and that such a code should be part of the course that external auditors do in Jordan. 19 individual investors, and 11 institutional investors provided justifications.

<table>
<thead>
<tr>
<th>group</th>
<th>frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>yes</td>
</tr>
<tr>
<td>FM</td>
<td>20</td>
</tr>
<tr>
<td>IA</td>
<td>22</td>
</tr>
<tr>
<td>SH</td>
<td>108</td>
</tr>
</tbody>
</table>

The scale used: (yes, no)

It seems from Table 7.9 that 73.3% of IA with different educational background (community college degree, Bachelor degree, Masters) believe that they have information about the international code of ethics. All of the internal auditors who have a master degree, 75.8% of the IA who have bachelor degree, and 45.3% of the IA who have a community college degree believe that they (IA) have information about the international code of ethics. Also the institutional shareholders have more information than the individuals about the international code of ethics. 83.3% of the institutional investors (40/48), 69.4% (25/36) of the shareholders who have both their own shares and manage an institutional portfolio, and 26% of the individual shareholders (43/168) have information about the international code of ethics.

7.2.2 The Auditor's Independence in Jordan in Terms of the ISAs

The objectives of this part are to examine whether external auditors in Jordan are complying with the independence standard, and to examine the factors seen to impair external auditors’ independence from SH, AC, IA, and FM perspectives. In addition to examining whether external auditors are perceived to be independent, whether an expectation gap exists between the perceptions of different groups is also assessed.

Before starting to examine if significant differences existed between the perceptions of the groups about conflict of interest in performing concurrent internal and external audits, audit and non audit services, and in having financial interests in the companies
audited we have to know to what extent audit firms in Jordan perform these services (Table: 7.10).

Table 7.10: Does your audit firm: (a) perform internal and external audits for the same clients (b) perform audit and non-audit services for clients (c) have a financial interest in companies they audit

<table>
<thead>
<tr>
<th>group</th>
<th>internal/external audits</th>
<th>audit and non-audit services</th>
<th>financial interest</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
<td>m</td>
</tr>
<tr>
<td>EA</td>
<td>2.66</td>
<td>0.93</td>
<td>2.63</td>
</tr>
<tr>
<td>AC</td>
<td>not applicable</td>
<td>not applicable</td>
<td>not applicable</td>
</tr>
</tbody>
</table>

The scale used: (all clients = 1, a majority of clients = 2, a minority of clients = 3, none of them = 4)

Table 7.11: The perceptions of the groups regarding perceived conflict of interest in the performance of internal and external audits, audit and non-audit services, and of having financial interest in a client

<table>
<thead>
<tr>
<th>group</th>
<th>internal/external audits</th>
<th>audit and non-audit services</th>
<th>size of non-audit services</th>
<th>financial interest</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
<td>m</td>
<td>sd.</td>
</tr>
<tr>
<td>EA</td>
<td>3</td>
<td>1.2</td>
<td>1.21</td>
<td>1.25</td>
</tr>
<tr>
<td>AC</td>
<td>3.38</td>
<td>0.86</td>
<td>2.4</td>
<td>1.4</td>
</tr>
<tr>
<td>SH</td>
<td>2.88</td>
<td>1.16</td>
<td>3.06</td>
<td>0.84</td>
</tr>
<tr>
<td>FM</td>
<td>1.47</td>
<td>0.98</td>
<td>1.77</td>
<td>1.13</td>
</tr>
<tr>
<td>IA</td>
<td>1.4</td>
<td>1.27</td>
<td>2.06</td>
<td>1.25</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 1 = disagree, 2 = neither agree nor disagree, 3 = agree, 4 = strongly agree)

Table 7.12: Differences between EA and the other four groups (AC, FM, IA, SH) in beliefs about perceived conflict of interest and impact on independence in performing concurrent services, internal and external audits, and of having financial interest in a client

<table>
<thead>
<tr>
<th>group</th>
<th>internal/external audits</th>
<th>audit and non-audit services</th>
<th>size of non-audit services</th>
<th>financial interest</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
<td>t</td>
<td>sig.t</td>
</tr>
<tr>
<td>EA &amp; AC</td>
<td>-1.21</td>
<td>0.23</td>
<td>-2.86</td>
<td>0.009</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>0.52</td>
<td>0.6</td>
<td>-8.72</td>
<td>0</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>6.17</td>
<td>0</td>
<td>-1.99</td>
<td>0.05</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>5.13</td>
<td>0</td>
<td>-2.79</td>
<td>0.007</td>
</tr>
</tbody>
</table>

The perceptions of the groups regarding perceived conflict of interest in the performance of internal and external audits, audit and non-audit services, and having financial interest in a client have been discussed as follow:

(1) Performing concurrent internal and external audits

It seems that the majority of external auditors believe that they are performing concurrent internal and external audits (see Table 7.10). As indicated from Table 7.11, a high percentage of EA believe that there is a perceived conflict of interest in performing internal and external audits for the same client. This could indicate either (a) EA feel under management pressure accept the dual role (internal/external audits) or (b) that their perceived independence could be impaired or (c) a combination of
both or on the one hand EA have significantly a stronger views than FM, that there is a conflict of interest in performing internal and external audits for the same client (see Table 7.12). A comparison of the perceptions of EA & AC, and EA & SH results in a sig. t of .23, and .6, greater than .05, which means there are no significant differences between their perceptions that there is a conflict of interest in performing internal/external audits for the same client. Since audit reports are normally addressed to SH it therefore suggests that both roles should not be performed by external auditors as it would impair the usefulness of audit reports.

As mentioned in Chapter Three, it is still true that there is not any statement in the ISAs that refers to the dual role of internal/external audit for the same client. It was argued that it is unrealistic to expect that the auditor will remain independent when serving both management and shareholders. This rests on a basic assumption that as external auditors report to SH, they identify with the interest of shareholders; on the other hand, as they are employed by the directors they may be equally likely to identify with them. The internal auditing can achieve the same degree of independence as required of the external auditor if it reports to the audit committee. That is because if the audit committee has direct control over the internal control function, and the internal audit function is being relied upon more heavily each year by the CPA, there is an indirect but strong link between the CPA and the audit committee through the influence of internal auditors. The internal audit staff can be of great assistance in identifying problem areas and possible solutions that may assist the independent auditor in performing a more thorough audit (Crawford, 1980, p.46). The audit committee's guidance in this matter is viewed as an indirect approach to improving independent audit efficiency.

(2) Having a financial interest in a client

As indicated from Table 7.10, the majority of external auditors consider their audit firms do not have a financial interest in the companies they audit. External auditors and academics strongly believe that there is a conflict of interest if the audit firm has a financial interest in the company audit client whereas the other respondents are less convinced. The differences in responses between the external auditors and each of the other respondents (FM, IA, SH) are significantly (see Table 7.12). As discussed in
Chapter Three, it has been stated (IFAC, 1999, p.557) that financial involvement with a client affects independence.

(3) Performing concurrent audit and non-audit services

It seems likely that a majority of external auditors are performing concurrent audit and non-audit services. A mean of 1.21 indicates EA on average disagree that there is a conflict of interest in performing any concurrent audit and non-audit services for the same client. 57.9% of EA, and 56.5% of FM disagree that there is a conflict of interest in performing audit and non audit services for the same client. When a correlation was taken between the number of years of experience and their attitude to the view that there was a conflict of interest in performing audit and non-audit services, external auditors and financial managers showed a significant relationships at the .05 (2-tailed) level (the Pearson Correlation coefficients were .947, and .758 respectively). This correlation means external auditors and financial managers with more experience had stronger view that there was a conflict of interest.

Also, 76.4% of SH, 66.6% of IA, and 53.4% of AC agree that there is a conflict of interest. The institutional investors had a stronger belief than the individual investors that there is a conflict of interest in performing audit and non-audit services for the same client. This could be because of the differences in perceptions or the institutional investors have more experience and knowledge than the individual investors. 62.7% of the shareholders who have over 16 years experience of investing are institutional, 25.6% of them are individuals, and 11.7% of them have their own shares and manage a portfolio. Also, 7% of the shareholders who have 1-5 years experience of investing are institutional investors, 87.7% of them are individuals, and 5.3% of them have their own shares and manage a portfolio.

As discussed in Chapter Three, the SEC imposed a new independence rule that required more disclosure and empowered audit committees to investigate audit and consulting relationships. In late 1995, one of the Bay Mark subsidiaries, KPMG Bay Mark Strategies LLC, was hired by Porta to provide it with turnaround management. The executive managing director of Strategies, who was also one of the owners of BayMark, assumed the positions of president and chief operating officer of Porta and
directed its turnaround effort in exchange for a management fee of $US 250,000 and a “success fee” of certain percentages of the registrant’s earning, inventory, and restructured debt. While Strategies was running the registrant, KPMG audited the registrant’s 1995 year-end financial statements (Levitt, 1997). The president of Potra Systems also had a $US 100,000 loan outstanding from KPMG, and the firm stood to receive a fee based on the profit of the company whose books it was auditing. Both arrangements were barred by auditor independence rules, the SEC said. The rules banned debtor/creditor relationships with officers of an audit client and prohibited contingent fees. Levitt (1997) pointed out that the SEC determined that KPMG acted negligently with respect to maintaining its independence. The SEC stressed that when, as in this case, accounting firms enter into complex relationships with other entities that in turn have relationships with audit clients, persons in charge of making independence determinations must exercise particular vigilance. In this case, the SEC found instead a lack of care at senior levels. Given the lack of care at senior levels that pervaded KPMG’s determination as to its independence, the commission concluded that it was appropriate to issue a cease-and-desist order against KPMG.

A mean of 1.23 indicates that EA on average nearly disagree that there is a conflict between the proportionate share of fees being non-audit fees. This result could indicate that EA believe that performing non-audit services does not affect their independence even if the size of non-audit services is bigger than the size of audit services. The ISAs (IFAC, 1999, p.559) and the audit law in Jordan (Government of Jordan, 1985, p.15) permit external auditors to perform consulting services without restrictions as discussed in Chapter Three.

Furthermore, PWC are now considering a restructuring of the firm and a sale of the consultancy arms (Mitchell, 2000). Shockley (1981) concluded that audit firms providing management services were perceived as having a higher risk of impairment of independence. The statistical analysis indicated that significant differences existed in the weights ascribed to the variables by different groups (Big Eight partners, partners from local and regional CPA firms, commercial loan officers, and financial analysts). More recent research linking non-audit services to audit qualifications did not indicate a greater propensity to qualify as non-audit services increased (Mitchell, 2000, Levitt, 2001)).
(4) Accepting significant gifts and independence

Table 7.13: The perceptions of EA to examine whether EA accept significant gifts from their clients, and whether they (EA) believe that other auditors accept significant gifts from the audit clients.

<table>
<thead>
<tr>
<th>group</th>
<th>auditors themselves</th>
<th></th>
<th></th>
<th>auditors in general</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td>3.73</td>
<td>0.44</td>
<td></td>
<td>3.17</td>
<td>0.62</td>
<td></td>
</tr>
</tbody>
</table>

The scale used (none of them = 4, a minority of them = 3, a majority of them = 2, all of the clients = 1)

With means of 3.73 and 3.17 it seems that the auditors themselves believe they do not accept significant gifts from their clients and that it is perceived that other auditors accept gifts from a minority of clients.

Table 7.14: What percentage of auditors do you consider accept significant gifts from their clients.

<table>
<thead>
<tr>
<th>group</th>
<th></th>
<th></th>
<th></th>
<th>auditors in general</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>3</td>
<td></td>
<td></td>
<td>1.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SH</td>
<td>3.5</td>
<td></td>
<td></td>
<td>1.46</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FM</td>
<td>3.25</td>
<td></td>
<td></td>
<td>1.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IA</td>
<td>2.8</td>
<td></td>
<td></td>
<td>1.13</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The scale used: (0% = 4, 1-10% = 3, 11-20% = 2, 21-30% = 1, over 30% = 0)

It seems from Table 7.14 that AC, FM, SH, and IA believe that some external auditors in Jordan receive significant gifts from some clients.

Table 7.15: The perception of the groups for the following questions:
(1) acceptance of significant gifts from audit clients affect the independence of auditors
(2) auditors in Jordan are concurrently engaged in other business occupations, or activities which impair their independence
(3) the presence of an audit committee enhances the auditor’s independence

<table>
<thead>
<tr>
<th>group</th>
<th>significant gifts</th>
<th></th>
<th></th>
<th>other business</th>
<th></th>
<th></th>
<th></th>
<th>audit committees</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td>3.06</td>
<td>0.84</td>
<td></td>
<td>2.29</td>
<td>1.14</td>
<td></td>
<td>2.73</td>
<td>1.08</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AC</td>
<td>3.46</td>
<td>0.84</td>
<td></td>
<td>3</td>
<td>0.89</td>
<td></td>
<td>3.26</td>
<td>1.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SH</td>
<td>3.5</td>
<td>0.84</td>
<td></td>
<td>3.23</td>
<td>1.23</td>
<td></td>
<td>2.97</td>
<td>0.87</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FM</td>
<td>3.04</td>
<td>0.93</td>
<td></td>
<td>2.93</td>
<td>1.01</td>
<td></td>
<td>3.18</td>
<td>0.58</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IA</td>
<td>3.14</td>
<td>0.75</td>
<td></td>
<td>2.8</td>
<td>1.43</td>
<td></td>
<td>3.5</td>
<td>0.52</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)
Table 7.16: Differences between the perception of EA and the other four groups (AC, IA, FM, SH) about the impact on auditor independence of accepting significant gifts, engaging in other business, and the presence of audit committees.

<table>
<thead>
<tr>
<th>group</th>
<th>significant gifts</th>
<th>other business</th>
<th>audit committees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
<td>t</td>
</tr>
<tr>
<td>EA &amp; AC</td>
<td>-2.15</td>
<td>0.04</td>
<td>-1.7</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>-2.8</td>
<td>0.006</td>
<td>-4.28</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>0.077</td>
<td>0.93</td>
<td>-2.37</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>-0.39</td>
<td>0.69</td>
<td>-1.34</td>
</tr>
</tbody>
</table>

It seems from the Table 7.15 that the five groups agree that accepting significant gifts impairs external auditors’ independence. The internal parties (FM, IA) have similar positions to the external auditors. However, the views of the external parties (AC & SH) are significantly stronger than the external auditors. It has been stated in the ISA (IFAC, 1999, p.562) that professional accountants in public practice should not accept goods and services. Dahmash (1989) points out that Jordanian auditors do not reject gifts from their clients. It seems from Table 7.15 that all of the groups (AC, SH, FM, IA) nearly agree that the external are concurrently engaged in other business occupation, or activities which impair their independence.

(5) Audit committees and independence

Regarding the impact of audit committees on auditors’ independence, 26.3% of external auditors strongly agree, and 36.8% agree that the presence of audit committees enhance auditor’s independence. 60% of internal auditors did not answer this question. 20% of them strongly agree, and 20% agree that the presence of audit committees enhance external auditor’s independence. On the other hand 60.8% of financial managers agree, 26.1% strongly agree, and 13.1% of FM neither agree nor disagree that the presence of audit committees enhance external auditor’s independence. Financial managers have significantly stronger support than external auditors for the position that audit committees enhance external auditor independence.

The major effects that the audit committee has had on the external auditor are those of providing a direct channel of communication between the board of directors (and particularly the independent directors) and the independent auditor, and perhaps, an increase in auditor independence and objectivity while performing the audit. Audit committees have the potential to affect both the quality of the audit and the audit staff.
With the audit committee now actively appraising the quality of audit service, the independent auditors will be compelled to continually evaluate their own quality control standards and training practices only if the audit committee is (a) well versed in audit matters and (b) devotes sufficient time, effort to the task. The corporate law, and the stock market regulations do not require the companies to establish audit committees. The Jordanian government needs to support the establishment of audit committees.

(6) Audit fees and quality of audits

Regarding the perceptions of academics and external auditors concerning audit fees in Jordan and the impact of that on the quality of audits, the questionnaire indicates that EAs believe that the audit fees in Jordan are very low and 42.1% of external auditors feel under pressure because the audit fee is low relative to the amount of work to be done. At the same time 52.6% of EA strongly disagree, and 21.1% disagree that the pressure felt affects the audit firm’s independence. If the member bodies leave their members to determine fees, high competition between the members could impair their independence and impact on the reputation of the profession. Both government and professionals should decide such matters and should have a power to enforce it.

66.7% of academics consider the overall quality of audits in Jordan is medium and 26.7% consider it low. 20% of academics strongly agree, 46.7% agree, and 33.3% didn’t answer that the low audit fees affect the quality of audit. As stated in the ISA (IFAC, 1999, p.566), professional fees should be a fair reflection of the skill and knowledge required for the type of professional services involved, the level of training and experience, the time necessarily occupied by each person engaged in performing the professional services, and the degree of responsibility that performing those services entails. The professionals should use those criteria to make sure fees are adequate.
7.2.3 The Professional Due Care in Jordan in Terms of the ISAs

This part aims to examine whether external auditors in Jordan are complying with the main aspects of the ISA “Due Professional Care” from the perceptions of EA, SH, IA, FM, and AC and whether a gap exists between their perceptions. The main aspects of this standard relates to auditors’ responsibility for preventing and detecting fraud and illegal transactions, evaluating and reporting on the weaknesses and strengths of internal control system, and compliance of the financial statements with accounting standards. The results on these aspects are reflected in Tables 7.17-7.26.

(1) Preventing and detecting fraud

Table 7.17: The perception of the groups on the level of detected fraud that the auditor/management should be responsible for

<table>
<thead>
<tr>
<th>group</th>
<th>EA. m</th>
<th>sd.</th>
<th>MA. m</th>
<th>sd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td>1.64</td>
<td>0.91</td>
<td>3.63</td>
<td>0.48</td>
</tr>
<tr>
<td>AC</td>
<td>2</td>
<td>1</td>
<td>3.86</td>
<td>0.35</td>
</tr>
<tr>
<td>SH</td>
<td>2.62</td>
<td>0.91</td>
<td>3.5</td>
<td>0.72</td>
</tr>
<tr>
<td>FM</td>
<td>3.2</td>
<td>0.84</td>
<td>3.73</td>
<td>0.68</td>
</tr>
<tr>
<td>IA</td>
<td>3.73</td>
<td>0.44</td>
<td>3.6</td>
<td>0.49</td>
</tr>
</tbody>
</table>

The scale used: (4 = all fraud, 3 = major fraud, 2 = minor fraud, 1 = should not do that)

Table 7.18: Differences between the perceptions of EA and the other four groups (AC, SH, FM, IA) whether they believe that external auditors/management should be responsible for detecting fraud

<table>
<thead>
<tr>
<th>group</th>
<th>EA. t</th>
<th>sig.t</th>
<th>MA. t</th>
<th>sig.t</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA &amp; AC</td>
<td>-1.2</td>
<td>0.25</td>
<td>-1.94</td>
<td>0.059</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>-7</td>
<td>0</td>
<td>1.43</td>
<td>0.156</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>-7.8</td>
<td>0</td>
<td>-0.84</td>
<td>0.4</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>-12</td>
<td>0</td>
<td>0.26</td>
<td>0.79</td>
</tr>
</tbody>
</table>

The information in Table 7.17 indicates that the EA believe that they are responsible for detection of minor fraud and that management should be responsible for detecting all fraud. Academics believe that external auditors should be responsible for detecting minor fraud, and management should be responsible for detecting all fraud. Internal auditors believe that the EA and management should be responsible for detecting all fraud. FM and SH believe that auditors should be responsible for detecting the major fraud and that management should be responsible for detecting all fraud. Gay et al (1997) concluded that users of the financial reports have greater expectations of auditor’s responsibility for preventing and detecting fraud than is expected in AUS 210. It has been stated in the ISA (IFAC, 1997, p.88) that “the responsibility for the
prevention and detection of fraud and error rests with management through the implementation and continued operation of adequate accounting and internal control systems”.

As indicated in Table 7.18, there is a significant expectation gap between the perceptions of EA and each of IA, and FM regarding the auditor’s responsibility for detecting fraud. The auditing standards may be responsible for that gap in that they place the responsibility for prevention and detection of fraud and error on management. And it is not clear in the auditing standards what level of fraud prevention and detection the management or auditors should be responsible for. Alternatively the interpretation could be that management should detect all fraud, and external auditors must do so to the extent that management have failed to do so. The survey does not indicate any significant differences in the primary responsibility of management to detect fraud. Apostolou & Nicholas (1989, p.2) concluded that management can play a great role to prevent and detect fraud through implementation and improvement of the internal control system. Monroe and Woodliff (1994), Humphrey et al (1993), Gay et al (1997) concluded that the auditors thought management should not be responsible for detecting fraud, whereas the majority view in the other groups (chartered accountants, financial directors, investment analysts, bankers involved in corporate lending, and financial journalists) was that this should be a responsibility of the auditor.

(2) The disclosure of detected fraud in the audit report

Table 7.19: What level of detected fraud does/should the auditor discloses in the audit report

<table>
<thead>
<tr>
<th>group</th>
<th>disclosed</th>
<th>should be disclosed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
</tr>
<tr>
<td>EA</td>
<td>2.88</td>
<td>0.91</td>
</tr>
<tr>
<td>AC</td>
<td>2.3</td>
<td>0.75</td>
</tr>
<tr>
<td>SH</td>
<td>2.62</td>
<td>1</td>
</tr>
<tr>
<td>FM</td>
<td>3.5</td>
<td>0.5</td>
</tr>
<tr>
<td>IA</td>
<td>3.4</td>
<td>0.49</td>
</tr>
</tbody>
</table>

The scale used: (4 = all fraud, 3 = major fraud, 2 = minor fraud, 1 = no detected fraud)
Table 7.20: Differences between the perception of EA and the other four groups about the level of detected fraud that the auditor does/should disclose in the audit report

<table>
<thead>
<tr>
<th>group</th>
<th>disclosed</th>
<th>should be disclosed</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA &amp; AC</td>
<td>2.2</td>
<td>0.03</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>-1.49</td>
<td>-0.04</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>-3.68</td>
<td>0.001</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>-2.85</td>
<td>0.006</td>
</tr>
</tbody>
</table>

The scale used: (4 = all fraud, 3 = major fraud, 2 = minor fraud, 1 = no detected fraud)

The responses tend to suggest that shareholders believe that external auditors should report to them at least major fraud, and perhaps all fraud. However the responses as to what is disclosed indicate they are less confident that this is occurring and hence an expectation gap seems to exist. However in defence of auditors, they may believe that their responsibility is to ensure that the accounts incorporate losses arising from fraud, not to highlight the fraud itself. Whether the presence of fraud is itself vital information is an interesting question which has not been specifically addressed by this research. Finally, the responsibility for fraud is a subject which has lain at the heart of much of the expectation gap debate over the last hundred years (Humphrey and Moizer, 1990).

Gay et al (1997) concluded that the auditor should assess the risk that fraud may cause the financial statements to contain material misstatements and auditors should discuss with management any fraud, which has been discovered. The auditor should collect sufficient appropriate evidence if fraud is material to the financial statements. If the fraud has a material effect on the financial statements and has not been corrected, the auditor should express a qualified or an adverse opinion, and should disclose the reasons in the audit report.

(3) The appropriateness and the disclosure of compliance with the IAS

Table 7.21: The perception of the groups for the following questions:
(1) Do you consider the International Accounting Standards are appropriate to Jordan
(2) The auditors should disclose in the audit report if the management doesn’t comply with the IAS.

<table>
<thead>
<tr>
<th>group</th>
<th>appropriateness of the IAS*</th>
<th>the disclosure of the IAS**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
</tr>
<tr>
<td>AC</td>
<td>2.78</td>
<td>1.31</td>
</tr>
<tr>
<td>SH</td>
<td>2.88</td>
<td>0.78</td>
</tr>
<tr>
<td>FM</td>
<td>3.22</td>
<td>0.52</td>
</tr>
<tr>
<td>IA</td>
<td>3.2</td>
<td>0.55</td>
</tr>
</tbody>
</table>

* The scale used: (4 = all of them, 3 = a majority of them, 2 = a minority of them, 1 = none of them)

** The scale used: (0 = strongly disagree, 4 = strongly agree)
The means of the perceptions of the groups (AC, SH, FM, IA) concerning appropriateness of the IAS are around 3 suggesting all of the groups believe that the majority of the IAS are appropriate to Jordan. This result could indicate that some IAS are not considered fully appropriate. Table 7.21 suggests that all of the groups agree that external auditors should disclose the degree of management compliance with the IAS in the audit report.

Table 7.22 shows the results concerning the level of compliance of IAS that the EA have taken into consideration in their audit report. Since the EA are required under the Jordanian laws (corporate law, stock market regulations, tax law) to comply with the IAS (Government of Jordan, 1985), the score should be 4.

Table 7.22: The level of compliance of IAS that EA assumed in their audit report.

<table>
<thead>
<tr>
<th>group</th>
<th>complying with the IAS</th>
<th>m</th>
<th>sd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td></td>
<td>3.38</td>
<td>0.59</td>
</tr>
</tbody>
</table>

The scale used: (4 = all of them, 3 = a majority of them, 2 = a minority of them, 1 = none of them)

42.1% of external auditors believe they (EA) are complying with all of the IASs, and 47.4% of them (EA) believe they are complying with the majority of them. This again could indicate that some external auditors believe some international accounting standards are not appropriate in the Jordanian environment. It could also indicate inappropriate audit performance in some cases.

Table 7.23: Whether the groups perceive that:
(1) the auditor issues a qualified report or disclaimer if he/she discovers material errors or irregularities.
(2) the auditor should be responsible for detecting illegal transactions.
(3) the management should be responsible for complying with corporate law.
(4) the auditor obtains a general understanding of the legal and regulatory framework applicable to the entity.

<table>
<thead>
<tr>
<th>group</th>
<th>materiality and auditor’s opinion</th>
<th>illegal transactions</th>
<th>corp. law</th>
<th>legal/regulatory framework</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
<td>m</td>
<td>sd.</td>
</tr>
<tr>
<td>EA</td>
<td>3.29</td>
<td>0.67</td>
<td>2.15</td>
<td>1.36</td>
</tr>
<tr>
<td>AC</td>
<td>2.71</td>
<td>1.32</td>
<td>2.92</td>
<td>1.14</td>
</tr>
<tr>
<td>SH</td>
<td>3.31</td>
<td>0.87</td>
<td>3.01</td>
<td>0.9</td>
</tr>
<tr>
<td>FM</td>
<td>3.27</td>
<td>0.69</td>
<td>3.31</td>
<td>0.82</td>
</tr>
<tr>
<td>IA</td>
<td>3.07</td>
<td>1.23</td>
<td>3.33</td>
<td>1.02</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)
Table 7.24: Differences between the perception of EA and the other four groups whether:
(1) the auditor issues a qualified report or disclaimer if he/she discovers material errors or irregularities.
(2) the auditor should be responsible for detecting illegal transactions.
(3) the management should be responsible for complying with corporate law.
(4) the auditor obtains a general understanding of the legal and regulatory framework applicable to the entity.

<table>
<thead>
<tr>
<th>group</th>
<th>materiality/auditor’s opinion</th>
<th>Illegal transactions</th>
<th>corp.law</th>
<th>legal framework</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
<td>t</td>
<td>sig.t</td>
</tr>
<tr>
<td>EA &amp; AC</td>
<td>1.55</td>
<td>0.14</td>
<td>-2.04</td>
<td>0.05</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>0.16</td>
<td>0.87</td>
<td>-3.72</td>
<td>0.001</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>0.137</td>
<td>0.89</td>
<td>-4.56</td>
<td></td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>0.81</td>
<td>0.42</td>
<td>-4.04</td>
<td></td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

For materiality and auditor’s opinion, management responsibility for compliance with corporate law, and whether external auditors obtain a general understanding of the legal and regulatory framework applicable to the entity, the means are high from the external auditors’ perspective suggesting that external auditors believe they take the level of compliance of the ISAs into consideration in their audit report in respect of these areas. For materiality and auditor’s opinion, and management responsibility for compliance with corporate law, statistics suggest no significant differences in perceptions between groups of each pairing. As discussed in Chapter Four, adverse opinions are usually only expressed when the disagreement or the conflict between financial reporting frameworks have quite material effects and the auditor concludes that the overall usefulness of the financial report taken as a whole is impaired. Regarding management compliance with corporate law, as discussed in Chapter Three, it is management’s responsibility to ensure that the entity’s operations are conducted in accordance with laws and regulations and to prevent and detect non-compliance. If management fail in their responsibility, the external auditor should report to the appropriate legal authority about their failure.

(4) Detecting illegal transactions

The lower mean for auditors’ responsibility for detecting illegal transactions suggests that external auditors do not feel strongly that they are responsible (or perhaps equipped) for detecting illegal transactions. 40% of academics, 28.6% of shareholders, 60% of internal auditors, and 47.8% of financial managers strongly agree that external auditors should be responsible for detecting illegal transactions (for more details see appendix a, b, c, d, e). On the other hand, 31.6% of external
auditors disagree with that statement. Thus there are significant differences of opinion between external auditors and the other respondents regarding external auditors’ responsibility for detecting illegal transactions.

Regarding whether auditors obtain a general understanding of the legal and regulatory framework significant differences appear to exist between the perceptions of external auditors and shareholders, 68.4% of external auditors strongly agree, 26.7% disagree, and 4.9% strongly disagree that they do that. 31.5% of external auditors have foreign professional qualifications, and 76.3% of those disagree that they obtain a general understanding of the legal and regulatory framework. The external auditors who have foreign professional qualifications, as discussed in Chapter Three, are not required to do the Jordanian corporate law, tax law or any other subject related to the Jordanian legal and regulatory issues. The majority of the other four groups (AC, FM, IA, SH) strongly agree that the external auditors should obtain a general understanding of the legal and regulatory framework. If a substantial minority of external auditors do not have such knowledge of the legal and regulatory framework of the audit client then they could hardly detect illegal transactions. When a correlation was taken between the external auditors who obtain a general understanding of the legal and regulatory framework and their responsibility for detecting illegal transactions, there was a significant relationship at the .05 (2-tailed) level (the Pearson Correlation Coefficient was .471).

(5) Evaluation of the internal control system

Table 7.25: The groups’ perceptions whether (1) the EA are responsible or should be responsible for the evaluation of the internal control system (2) the audit report should include a statement about the auditor’s evaluation of the internal control system.

<table>
<thead>
<tr>
<th>group</th>
<th>responsible</th>
<th>sd.</th>
<th>should be responsible</th>
<th>sd.</th>
<th>should report</th>
<th>sd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td>3.22</td>
<td>0.92</td>
<td>3</td>
<td>1.17</td>
<td>2</td>
<td>1.54</td>
</tr>
<tr>
<td>AC</td>
<td>NA*</td>
<td>NA</td>
<td>3.66</td>
<td>0.61</td>
<td>2.53</td>
<td>1.45</td>
</tr>
<tr>
<td>SH</td>
<td>NA</td>
<td>NA</td>
<td>2.92</td>
<td>0.93</td>
<td>2.82</td>
<td>0.89</td>
</tr>
<tr>
<td>FM</td>
<td>NA</td>
<td>NA</td>
<td>2.63</td>
<td>1.15</td>
<td>2.86</td>
<td>0.97</td>
</tr>
<tr>
<td>IA</td>
<td>NA</td>
<td>NA</td>
<td>2.92</td>
<td>1.05</td>
<td>3.28</td>
<td>0.81</td>
</tr>
</tbody>
</table>

The scales used: (0 = strongly disagree, 4 = strongly agree)

* not asked
Table 7.26: Differences between the perception of EA and the other four groups whether they perceive that (1) auditors are responsible or should be responsible for the evaluation of the internal control system (2) the audit report should include a statement about the auditor’s evaluation of the internal control system.

<table>
<thead>
<tr>
<th>group</th>
<th>should be responsible</th>
<th>sig.t</th>
<th>should report</th>
<th>t</th>
<th>sig.t</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA &amp; AC</td>
<td>1.216</td>
<td>0.22</td>
<td>-2.9</td>
<td>0.005</td>
<td></td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>0.357</td>
<td>0.72</td>
<td>-3.12</td>
<td>0.003</td>
<td></td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>2.425</td>
<td>0.02</td>
<td>-3.03</td>
<td>0.004</td>
<td></td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>0.256</td>
<td>0.79</td>
<td>-4.28</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

The scales used: (0 = strongly disagree, 4 = strongly agree)

External auditors with an average score 3.22 believe they are responsible for the evaluation of the internal control system. The statistics clearly indicate that external auditors are not meeting the expectations of the other groups in that external auditors do not believe they should report on the internal control system. The differences in responses between the external auditors and each of the other respondents are significantly. The “gap” could be reduced if the external auditors report disclosed their internal control evaluations.

7.3 The Perceptions of the External Auditors, Academics, Internal Auditors, Shareholders, and Financial Managers on the Application of:

7.3.1 The International Auditing Standard “Planning the Audit” in Jordan

This part aims to examine the perceptions regarding the application of the ISA “Planning the Audit”. For this purpose, six variables have been identified for examination. These variables cover the main aspects of audit planning, as discussed in Chapter Four, of obtaining knowledge of the business, materiality, supervision, and auditors’ judgement.

The application of the fieldwork standards has been examined from the external auditors’, financial managers’, and internal auditors’ points of view because financial managers and internal auditors are very close to external auditors when they audit the company’s accounts. Shareholders and academics and other external users see only the audit report making it difficult for them to form judgements about the auditors’ work.
(1) Obtaining knowledge of the business

Table 7.27: The perceptions of EA, FM, and IA whether they believe that:
(1) the auditor obtains sufficient knowledge about the entity before starting the audit stage
(2) the auditor updates and re-evaluates information gathered previously

<table>
<thead>
<tr>
<th>group</th>
<th>EA obtain sufficient knowledge about the entity</th>
<th>EA update and re-evaluate information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
</tr>
<tr>
<td>EA</td>
<td>3.8</td>
<td>0.4</td>
</tr>
<tr>
<td>FM</td>
<td>3.3</td>
<td>0.7</td>
</tr>
<tr>
<td>IA</td>
<td>3.4</td>
<td>0.5</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

Table 7.28: Differences between the perception of EA & FM, and EA & IA whether they believe that:
(1) the auditor obtains sufficient knowledge about the entity before starting the audit stage
(2) the auditor updates and re-evaluates information gathered previously

<table>
<thead>
<tr>
<th>group</th>
<th>obtaining sufficient knowledge</th>
<th>updating and re-evaluating information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>4.58</td>
<td>0</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>3.54</td>
<td>0.001</td>
</tr>
</tbody>
</table>

The means shown in Table 7.27 for obtaining sufficient knowledge (3.8), and updating and re-evaluating information gathered previously (3.7) are nearly the same from the external auditors’ point of view. This suggests external auditors strongly agree that they are complying with the ISA in these areas. 78.9% of external auditors, 34.8% of financial managers, and 40% of internal auditors strongly agree that the external auditors obtain sufficient knowledge about the entity. Also 73.7% of EA, 39.1% of FM, and 33.3% of IA strongly agree that the external auditors update and re-evaluate information gathered previously. Thus whilst financial managers and internal auditors also believe that external auditors obtain sufficient knowledge about the entity before starting the audit and update that information, their belief are not as strong as those of the external auditors. According to the IFAC (1997, p.110), understanding the business, and using gathered information appropriately, assist the auditor in: assessing risks and identifying problems, planning and performing the audit effectively and efficiently, evaluating the audit evidence, and providing better service to the client.
(2) Materiality consideration

Table 7.29: The perception of the groups to examine whether they perceive:
(1) The auditor establishes the acceptable materiality level to detect the quantitatively material
misstatements when designing the audit plan
(2) Materiality is considered by the auditors when they evaluate the effect of misstatements.
(3) In planning the audit, the auditor can expect to reduce audit risk to an acceptably low level.

<table>
<thead>
<tr>
<th>group</th>
<th>acceptable materiality level</th>
<th>materiality consideration</th>
<th>reducing audit risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
<td>m</td>
</tr>
<tr>
<td>EA</td>
<td>3.7</td>
<td>0.5</td>
<td>3.7</td>
</tr>
<tr>
<td>FM</td>
<td>3</td>
<td>0.6</td>
<td>3.3</td>
</tr>
<tr>
<td>IA</td>
<td>3.3</td>
<td>0.8</td>
<td>3.1</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

Table 7.30: Differences between the perceptions of EA & FM, and EA & IA whether they perceive:
(1) The auditor establishes the acceptable materiality level to detect the quantitatively material
misstatements when designing the audit plan
(2) Materiality is considered by the auditors when they evaluate the effect of misstatements.
(3) In planning the audit, the auditor can expect to reduce audit risk to an acceptably low level.

<table>
<thead>
<tr>
<th>group</th>
<th>acceptable materiality level</th>
<th>materiality consideration</th>
<th>reducing audit risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
<td>t</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>5.3</td>
<td>0</td>
<td>2.99</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>2.32</td>
<td>0.025</td>
<td>3.57</td>
</tr>
</tbody>
</table>

Table 7.29 shows high means for the perceptions of the EA, and lower but confirming
means for the perceptions of IA, and FM regarding establishing acceptable level of
materiality, materiality consideration, and reducing audit risk. Thus external auditors
strongly feel that they are complying with the ISA. Also, the statistics (Table 7.30)
clearly indicate significant differences between the perception of the external auditors
and the other two groups regarding the establishment of an acceptable materiality
level, and materiality consideration. Also, the statistics suggest significant differences
between the perception of EA & FM regarding the ability of auditors to use planning
to reduce audit risk.

As discussed in Chapter Four, the auditor should consider materiality when
determining the nature, timing and extent of audit procedures, and evaluating the
effect of misstatements. That is because the auditor’s assessment of materiality,
related to specific account balances and classes of transactions, helps the auditor
decide on what items to examine and how to use sampling and analytical procedures.
But as also discussed in Chapter Four, standard-setting bodies have not provided
specific guidance with respect to materiality.
(3) Supervisory responsibilities

Table 7.31: The perceptions of the groups to examine whether they believe that the person who carries out supervisory responsibilities, monitors the progress of the audit by considering whether:
(1) Assistants have the necessary skills and competence
(2) Assistants understand the audit direction
(3) The work is being carried out in accordance with the audit program

<table>
<thead>
<tr>
<th>group</th>
<th>assistants' skills and competence</th>
<th>understanding audit direction</th>
<th>audit program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
<td>m</td>
</tr>
<tr>
<td>EA</td>
<td>3.8</td>
<td>0.4</td>
<td>3.7</td>
</tr>
<tr>
<td>FM</td>
<td>3.1</td>
<td>0.4</td>
<td>3.2</td>
</tr>
<tr>
<td>IA</td>
<td>3.5</td>
<td>0.4</td>
<td>3.5</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

Table 7.32: Differences between EA & FM, and EA & IA to examine whether they believe that the person who carries out supervisory responsibilities, monitors the progress of the audit by considering whether: (1) assistants have the necessary skills and competence (2) assistants understand the audit direction (3) the work is being carried out in accordance with the audit program

<table>
<thead>
<tr>
<th>group</th>
<th>assistants' skills &amp; competence</th>
<th>understanding audit direction</th>
<th>audit program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
<td>t</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>5.94</td>
<td>0</td>
<td>3.1</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>2.8</td>
<td>0.007</td>
<td>1.08</td>
</tr>
</tbody>
</table>

The means shown in Table 7.31 suggest that the EA feel strongly that the auditor ensure that in delegation of responsibilities the persons given the work have the requisite skills and competence, and understand the direction of the audit, and carry it out accordingly. That whilst financial managers believe that occurs their beliefs are not so strong. The presence of audit committees may help to bridge any gap between the perceptions of the groups. The audit committees provide significant benefits to the corporation, public, investors and regulatory agencies. The most cited functions of the audit committees (Vanasco, 1999, p.29) are:

- Strengthening the internal and external audit functions
- Co-ordinating the work of the external and internal auditors
- Strengthening the position of non-executive directors
- Assisting the board of directors to fulfil their legal responsibilities.

Finally, in regard to audit planning, Grigorieff (1980, p.67) recommended that the audit committee should discuss with the auditors the scope of their examination, with particular attention to areas where either the committee or the accountants believe special attention should be directed. A planning meeting would enable the auditor to
explain the audit function, potential problem areas or areas of special interest to be identified, and new or proposed authoritative pronouncements of the profession or regulatory bodies to be discussed.

(4) The audit firm culture and auditors’ judgement

Table 7.33 shows that EA, FM, and IA all believe that the culture of the audit firm is an important variable influencing the auditors’ judgement in planning the audit. Different national cultures provide different frameworks of knowledge (Hofstede, 1984, Swidler, 1990, Laurent, 1986) and cultural factors can present issues for the harmonisation of accounting and auditing standards in the world. Furthermore, external auditors exercise professional judgement in determining the type and extent of information to collect and in assessing the implication of this information. Also professional judgement is influenced by lengthy formal education and prior job experience.

<table>
<thead>
<tr>
<th>group</th>
<th>influence of culture</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
</tr>
<tr>
<td>EA</td>
<td>3.21</td>
</tr>
<tr>
<td>FM</td>
<td>3.54</td>
</tr>
<tr>
<td>IA</td>
<td>3.5</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

7.3.2 The International Auditing Standards “Gathering Appropriate Sufficient Evidence”, and “Internal Control system” in Jordan

The objective of this part is to examine whether external auditors in Jordan are perceived to be complying with the ISA “gathering sufficient and appropriate evidence”, and “internal control system”. Also this part aims to examine to what extent financial managers, and internal auditors believe that external auditors are gathering sufficient appropriate evidence, and examining the internal control system. That is because this study aims also to examine auditors’ performance and any expectation gaps that exist.
The application of the ISA “gathering appropriate sufficient evidence” has been examined by identifying the following variables:

- The auditor reviews the audit evidence critically with respect to its validity.

- The audit firm provides auditors with extensive training to develop appropriate cognitive models, for obtaining more comprehensive evidence.

- The auditor considers the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk when obtaining evidence from tests of control.

- The auditor considers the sufficiency and appropriateness of audit evidence to support financial statement assertions when obtaining audit evidence from substantive procedures.

- The auditor examines if the accounting and internal control systems are suitably designed to prevent and/or detect and correct material misstatements when obtaining audit evidence.

- The auditor examines whether the accounting and internal control system has operated effectively throughout the relevant period.

- The auditor reaches the judgment about the strength of the evidence at a reasonable cost to the client.

The application of the international auditing standard “internal control system” has been examined by identifying the following aspects:

- The auditor obtains an understanding of the accounting and internal control systems sufficient to plan the audit.

- The auditor obtains an understanding of the control procedures sufficient to develop the audit plan.

- The auditor makes a preliminary assessment of control risk at the assertion level, for each material account balance or class of transactions.

- The entity’s accounting and internal control systems are not effective.

- Evaluation the effectiveness of accounting and internal control systems would not be efficient.
Table 7.34: The external auditors gather sufficient appropriate evidence, and obtain an understanding of the internal control system.

<table>
<thead>
<tr>
<th>The variables</th>
<th>EA</th>
<th>FM</th>
<th>IA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
<td>m</td>
</tr>
<tr>
<td>reviewing evidence</td>
<td>3.5</td>
<td>0.5</td>
<td>2.9</td>
</tr>
<tr>
<td>extensive training</td>
<td>3.77</td>
<td>0.42</td>
<td>2.75</td>
</tr>
<tr>
<td>control risk</td>
<td>3.8</td>
<td>0.36</td>
<td>3.09</td>
</tr>
<tr>
<td>financial statement assertions</td>
<td>3.57</td>
<td>0.94</td>
<td>3.47</td>
</tr>
<tr>
<td>suitability of ICS</td>
<td>3.78</td>
<td>0.4</td>
<td>2.7</td>
</tr>
<tr>
<td>effectiveness of ICS</td>
<td>3.73</td>
<td>0.55</td>
<td>3.04</td>
</tr>
<tr>
<td>evidence and cost</td>
<td>3.63</td>
<td>0.67</td>
<td>2.9</td>
</tr>
<tr>
<td>sufficient understanding of ICS</td>
<td>3.66</td>
<td>0.5</td>
<td>3.13</td>
</tr>
<tr>
<td>control procedures and audit plan</td>
<td>3.84</td>
<td>0.4</td>
<td>3</td>
</tr>
<tr>
<td>control risk</td>
<td>3.68</td>
<td>0.5</td>
<td>3.1</td>
</tr>
<tr>
<td>ICS are not effective</td>
<td>3.73</td>
<td>0.4</td>
<td>3.42</td>
</tr>
<tr>
<td>evaluation of ICS is not efficient</td>
<td>3.57</td>
<td>0.6</td>
<td>3.45</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

Table 7.35: Differences between the perceptions of EA & IA, and EA & FM to examine whether the external auditors gather sufficient appropriate evidence, and obtain an understanding of the internal control system

<table>
<thead>
<tr>
<th>The variables</th>
<th>EA &amp; FM</th>
<th>EA &amp; IA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
</tr>
<tr>
<td>reviewing evidence</td>
<td>3.75</td>
<td>0</td>
</tr>
<tr>
<td>extensive training</td>
<td>6.48</td>
<td>0</td>
</tr>
<tr>
<td>control risk</td>
<td>6.6</td>
<td>0</td>
</tr>
<tr>
<td>financial statement assertions</td>
<td>0.57</td>
<td>0.65</td>
</tr>
<tr>
<td>suitability of ICS</td>
<td>5.89</td>
<td>0</td>
</tr>
<tr>
<td>effectiveness of ICS</td>
<td>4.68</td>
<td>0</td>
</tr>
<tr>
<td>evidence and cost</td>
<td>3.86</td>
<td>0</td>
</tr>
<tr>
<td>sufficient understanding of ICS</td>
<td>4.004</td>
<td>0</td>
</tr>
<tr>
<td>control procedures and audit plan</td>
<td>6.2</td>
<td>0</td>
</tr>
<tr>
<td>control risk</td>
<td>4.11</td>
<td>0</td>
</tr>
<tr>
<td>ICS are not effective</td>
<td>2.6</td>
<td>0.011</td>
</tr>
<tr>
<td>evaluation of ICS is not efficient</td>
<td>1.009</td>
<td>0.3316</td>
</tr>
</tbody>
</table>

From Table 7.34, it is noted that the means are high for all of the variables in general and particularly for obtaining an understanding of the control procedures sufficient to develop the audit plan, extensive training provided by audit firms, and considerations of sufficiency and appropriateness of evidence to assess the level of control risk from the auditor’s point of view. Also it is clear that the means for the perceptions from FM, and IA points of view for the variables are significantly lower than the means from the external auditors’ point of view except for the sufficient of evidence to support the financial statement assertions. This means that the external auditors have stronger beliefs than financial managers and internal auditors that they are complying with these aspects of ISA.
The statistical results in Table 7.35 suggest expectation gaps exist between the perception of the groups for all the variables except for the sufficient of evidence to support the financial statement assertions, and the assessment of the control risk at a high level for some or all assertions when the internal control system are not effective. This could indicate either (1) differences in perceptions or (2) the external auditors’ opinion may be satisfactory in this regard because they are professionals and have more relevant professional experience, or (3) the external auditors cannot objectively evaluate their own activities. As has been discussed in Chapter Four, the adequacy of the client’s internal accounting control is a major factor in determining how much evidence the auditors need to gather from other sources. When internal control is weak, the auditors must gather a correspondingly greater amount of other kinds of evidence.

The presence of an audit committee can be an important factor in improving communication between the EA, IA, and FM. The Treadway Commission (Vanasco, 1999, p.18) recommended a series of steps to enhance the quality of audits. One of the more important recommendations is that the audit committee meets with external auditors to discuss the performance of internal auditors and vice versa. The audit committee and internal auditors have common goals. A good working relationship with internal auditors can assist the audit committee in fulfilling its responsibility to the board of directors, shareholders and other outside parties. Audit committees have considerable influence on internal auditing. Liss (1980) suggested that the audit committee will strengthen this role of the internal auditor because improved financial controls are more likely to be accepted and implemented. This insinuates that the audit committee may intervene on the auditor’s behalf and force management’s compliance. This would appear beneficial if the issue at hand were illegal or fraudulent actions or refer to non-compliance with generally accepted accounting principles.
7.4 The Perceptions of the External Auditors, Academics, Internal Auditors, Shareholders, and Financial Managers in Jordan on the Application of Reporting Standards in Terms of the ISAs

The objective of this part is to examine whether the audit report in Jordan satisfies the needs of shareholders. The main aspects of reporting standards are examined in Tables 7.36-7.41. These aspects are related to:

- the auditor's opinion
- management's responsibilities
- the going concern dimension
- reporting on the internal control system (discussed earlier)
- audit report language
- reporting the results of entities' plans.

Table 7.36: The perception of EA, AC, SH, FM, and IA to examine whether they believe the audit report includes a clear statement about the auditors' opinion, responsibility of management, and the entity's ability to continue in the future.

<table>
<thead>
<tr>
<th>group</th>
<th>auditor's opinion</th>
<th>responsibility of management</th>
<th>entity's ability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
<td>m</td>
</tr>
<tr>
<td>EA</td>
<td>3.77</td>
<td>0.54</td>
<td>3.94</td>
</tr>
<tr>
<td>AC</td>
<td>3.06</td>
<td>1.03</td>
<td>3</td>
</tr>
<tr>
<td>SH</td>
<td>2.9</td>
<td>0.88</td>
<td>2.98</td>
</tr>
<tr>
<td>FM</td>
<td>3.27</td>
<td>0.45</td>
<td>3.5</td>
</tr>
<tr>
<td>IA</td>
<td>3.5</td>
<td>0.63</td>
<td>3.7</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

Table 7.37: Differences between the perception of EA and the other four groups about whether they believe the audit report includes a clear statement about the auditors' opinion, responsibility of management, and the entity's ability to continue in the future.

<table>
<thead>
<tr>
<th>group</th>
<th>auditor's opinion</th>
<th>responsibility of management</th>
<th>entity's ability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
<td>t</td>
</tr>
<tr>
<td>EA &amp; AC</td>
<td>7.87</td>
<td>0</td>
<td>13.2</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>2.4</td>
<td>0.027</td>
<td>3.37</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>4.47</td>
<td>0</td>
<td>4.58</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>1.84</td>
<td>0.07</td>
<td>2.36</td>
</tr>
</tbody>
</table>

Table 7.38: The perceptions of the groups whether they believe the audit report should include a clear statement about auditors' opinion, responsibility of management, and the entity's ability to continue in the future.

<table>
<thead>
<tr>
<th>group</th>
<th>responsibility of MA</th>
<th>entity's plan</th>
<th>entity's ability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd.</td>
<td>m</td>
</tr>
<tr>
<td>EA</td>
<td>3.58</td>
<td>0.78</td>
<td>1.81</td>
</tr>
<tr>
<td>AC</td>
<td>3.35</td>
<td>0.92</td>
<td>2.64</td>
</tr>
<tr>
<td>SH</td>
<td>3.52</td>
<td>0.52</td>
<td>2.81</td>
</tr>
<tr>
<td>FM</td>
<td>3.36</td>
<td>0.78</td>
<td>2.54</td>
</tr>
<tr>
<td>IA</td>
<td>3.14</td>
<td>0.84</td>
<td>2.5</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)
Table 7.39: Differences between EA and the other four groups whether they believe the audit report should include a clear statement about auditors’ opinion, responsibility of management, and the entity’s ability to continue in the future.

<table>
<thead>
<tr>
<th>group</th>
<th>responsibility of MA</th>
<th>entity’s plan</th>
<th>entity’s ability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
<td>t</td>
</tr>
<tr>
<td>EA &amp; AC</td>
<td>0.81</td>
<td>0.42</td>
<td>-2.06</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>0.47</td>
<td>0.63</td>
<td>-3.5</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>1.25</td>
<td>0.21</td>
<td>-2.31</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>2.13</td>
<td>0.038</td>
<td>-1.99</td>
</tr>
</tbody>
</table>

The external auditors, as shown in Table 7.36, tend to strongly agree/agree that the audit report in Jordan includes a clear statement about the responsibility of management. The IA who have an accounting background, and did a high percentage of accounting subjects, have stronger belief than the IA who did a low percentage of accounting subjects, that the audit report in Jordan includes a clear statement about the responsibility of management for the financial statements. This result is supported by a significant correlation (Pearson Correlation = .842*) at a .05 level, between the perceptions of IA who did a high and low percentage of accounting subjects and their beliefs. The lowest mean perceptions of whether the audit report in Jordan includes a clear statement about the responsibility of management is that of shareholders at 2.9.

The institutional shareholders have stronger beliefs than the individual shareholders that the audit report in Jordan includes a clear statement about the management responsibility for the financial statements. This could indicate either differences in perceptions or differences in familiarity with the audit report (see Table 7.41). Also the survey findings suggest, as shown in Table 7.39, no significant differences between the perceptions of each two groups regarding responsibility of management with the exception of EA & IA. This means that EA, FM, AC, and SH strongly agree that the audit report should include a clear statement about the responsibility of management.

External auditors hold different views to the other respondents in that they (EA) are reluctant to include in the audit report their comments on managements’ annual plans. Noor (1996) points out that in the developing countries auditors take a more active role in controlling and evaluating the entity’s plan, because the welfare of these countries can depend on the effective economic planning of companies. The auditor

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1 * Correlation is significant at the .05 level (2-tailed)
can play a more stable and independent role in those countries than governments that change within a short period such as in Jordan.

78.9% EA strongly agree, and 10.5% agree that the audit report in Jordan includes a clear written expression of the auditors' opinion on the disclosure in the financial statements. But concerning whether the auditors express an unqualified opinion when there is limitation on their work, the mean was 1.68. And the mean was 1.52 concerning whether the auditors express an unqualified opinion when there is unacceptable accounting policy selected. This means the auditors themselves do not believe that they comply with the ISA in relation to expressing an unqualified opinion. But the EA strongly agree that a disclaimer of opinion is expressed when the auditor has not been able to obtain sufficient appropriate audit evidence.

Regarding the perceptions of EA about whether the audit report includes a statement describing the entity's ability to continue in the future, the mean from Table 7.38 is low at 1.89, this could reflect that auditors only mention it if there is a problem. The mean of 3.48 for the shareholders on the other hand suggests that shareholders believe that the audit report should include a statement about the entity's ability to continue in the future. Monroe & Woodlif (1994) point out that the auditor should report on the company's ability to remain solvent in the year after the audit.

As discussed in Chapter Five, expanding the audit report with a statement about a company's ability to continue in the future is one of the main areas that could help to narrow the expectation gap between public expectations of the audit report and the auditor's work.

Table 7.40: The audit report is considered easy for the users of the report to understand.

<table>
<thead>
<tr>
<th>group</th>
<th>audit report easy to understand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
</tr>
<tr>
<td>EA</td>
<td>3.5</td>
</tr>
<tr>
<td>AC</td>
<td>3</td>
</tr>
<tr>
<td>SH</td>
<td>1.6</td>
</tr>
<tr>
<td>FM</td>
<td>3.13</td>
</tr>
<tr>
<td>IA</td>
<td>3.07</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)

The figures suggest the external auditors believe that the audit report is easy to understand because 47.4% of external auditors strongly agree and 47.4% agree with that. The mean is low for the findings about the perceptions of SH. 11.9% of
shareholders strongly agree, and 21.4% agree that the audit report is easy to understand. As discussed in Chapter Four, the reason people do not read the audit report is that it is not written for the average reader to understand. It uses technical jargon—"present fairly", "except for", "subject to" and other more serious qualifying terms such as "adverse opinion" or "disclaimer of opinion". Degrees of qualification tend to confuse the reader who is not an auditor (Alfano, 1980).

Table 7.41: To what extent do the shareholders rely on the audit report

<table>
<thead>
<tr>
<th>the scale used</th>
<th>Reliance on the audit report</th>
<th>frequency</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>all of the time</td>
<td></td>
<td>6</td>
<td>2.40%</td>
</tr>
<tr>
<td>most of the time</td>
<td></td>
<td>102</td>
<td>40.50%</td>
</tr>
<tr>
<td>a minority of the time</td>
<td></td>
<td>93</td>
<td>36.90%</td>
</tr>
<tr>
<td>never</td>
<td></td>
<td>51</td>
<td>20.20%</td>
</tr>
</tbody>
</table>

70.8% of the institutional shareholders, and just 30% of the individual shareholders rely on the audit report most of the time. On the other hand 8% of the institutional shareholders, and 1% of the individuals rely on the audit report all of the time. It seems that the institutional shareholders rely on the audit report more than the individuals. Furthermore, the institutional shareholders trust the audit report more than the individuals. The shareholders were asked whether they trust the audit report. The statistic result shows that 99 (24 institutional shareholders, and 75 individual shareholders) shareholders do not trust the audit report in Jordan. On the other hand 153 shareholders trust the audit report (24 institutional, 36 have their own shares and also manage institutional portfolio, and 93 individuals). This could indicate either (a) the audit report language is not easy for the individual shareholders to understand or (b) the audit report doesn’t satisfy the individual shareholders’ needs or (c) the institutional shareholders are more qualified than the individuals to understand the audit report.

Table 7.42: Materiality is an essential consideration in determining the appropriate type of audit report for a given set of circumstances.

<table>
<thead>
<tr>
<th>group</th>
<th>materiality m</th>
<th>materiality sd</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td>3.52</td>
<td>0.76</td>
</tr>
<tr>
<td>AC</td>
<td>3.06</td>
<td>1.03</td>
</tr>
<tr>
<td>SH</td>
<td>3.15</td>
<td>0.65</td>
</tr>
<tr>
<td>FM</td>
<td>3.3</td>
<td>0.47</td>
</tr>
<tr>
<td>IA</td>
<td>3.35</td>
<td>0.48</td>
</tr>
</tbody>
</table>

The scale used: (0 = strongly disagree, 4 = strongly agree)
The auditor should assess the risk that fraud may cause the financial statements to contain material misstatements and should advise shareholders of any material fraud which has been discovered. If the auditor is precluded by the entity from obtaining sufficient appropriate evidence to determine if the fraud is material to the financial statements, the auditor should express a qualified opinion or disclaimer of opinion on the basis of a limitation on the scope of the audit. The figures in Table 7.42 suggest that the EA strongly agree that materiality is an essential consideration in determining the appropriate type of report. The findings do not suggest any significant differences (sig.t > .05) between the groups (except EA & SH) in this regard. This could indicate either (a) EA, FM, IA, and AC agree that EA take the level of compliance of the ISA into consideration in the audit report or (b) the shareholders, especially individuals, do not understand the audit report language or (c) both of (a) and (b). As shown in Table 7.41 the shareholders do not rely on the audit report.

Table 7.43: The perception of the groups whether:
(1) the auditors in Jordan are complying with the ISAs
(2) the ISAs are appropriate to Jordan

<table>
<thead>
<tr>
<th>group</th>
<th>complying with ISAs</th>
<th>appropriateness of ISAs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>sd</td>
</tr>
<tr>
<td>EA</td>
<td>3.44</td>
<td>0.5</td>
</tr>
<tr>
<td>AC</td>
<td>3.00</td>
<td>0.57</td>
</tr>
<tr>
<td>SH</td>
<td>2.98</td>
<td>0.71</td>
</tr>
<tr>
<td>FM</td>
<td>3.00</td>
<td>0.7</td>
</tr>
<tr>
<td>IA</td>
<td>3.14</td>
<td>0.65</td>
</tr>
</tbody>
</table>

The scale used for compliance with ISAs: (0 = strongly disagree, 4 = strongly agree). The scale used for appropriateness of ISAs: (all of them = 4, a majority of them = 3, a minority of them = 2, none =1)

Table 7.44: Differences between the perception EA and the other four groups whether:
(1) the auditors in Jordan are complying with the ISAs
(2) the ISAs are appropriate to Jordan

<table>
<thead>
<tr>
<th>group</th>
<th>complying with ISAs</th>
<th>appropriateness of ISAs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>sig.t</td>
</tr>
<tr>
<td>EA &amp; AC</td>
<td>2.45</td>
<td>0.024</td>
</tr>
<tr>
<td>EA &amp; SH</td>
<td>4.68</td>
<td>0</td>
</tr>
<tr>
<td>EA &amp; FM</td>
<td>3.16</td>
<td>0.002</td>
</tr>
<tr>
<td>EA &amp; IA</td>
<td>2.02</td>
<td>0.048</td>
</tr>
</tbody>
</table>

It may be noted that the mean for the perceptions of EA about compliance with the ISAs is 3.44 and the mean for the perceptions of EA about the appropriateness of the ISAs is 3.44. The high means suggest that both of the external auditors who started before and after 1985 strongly believe they are complying with the ISAs and that they
believe in the appropriateness of these standards. The findings concerning the perceptions of the other four groups (AC, FM, SH, IA) are somewhat different with more of the respondents appearing to believe that the ISAs are not appropriate to Jordan because of differences between Jordan and western countries in religion, law (corporate law, tax law, stock market regulation, civil law), culture, and economic system. This result is indicated from the respondents' point of view when they asked to justify their beliefs about the appropriateness of the ISAs to Jordan (see the last question in the questionnaires). As discussed in Chapter Three, the accounting systems and practices in developing countries in general and in particular in the middle east have been significantly influenced by several cultural values with the most significant being associated with religion.

The statistics (Table 7.44) suggest significant differences between the perceptions of each pair concerning compliance with ISAs. 42.1% of external auditors strongly agree and 52.6% of them agree that they are complying with the ISAs. The differences between the EA and the other four groups could be eliminated by incorporating their (the four groups) perceptions, as discussed through Chapter Seven, into the main aspects of the ISAs, providing interpretations to the ISAs, and educating the users of the audit report, specially the shareholders, to understand the meaning of the auditing standards and auditors' responsibility. On the other hand, 20.2% of shareholders, 17.4% of financial managers, 13.3% of academics, and 26.7% of internal auditors strongly agree that external auditors are complying with the ISAs. Comparisons of the views of EA on the appropriateness of ISAs with the other respondents indicate significant differences in the strength of the opinions of three of the four groups. This result could indicate the main issues of the ISAs (as discussed through Chapter 3, 4, 5, and 7) should be revised by the professionals in Jordan to examine the suitability of these standards to Jordan and possibly to introduce local interpretations of these standards. As a total group, 78.3% of financial managers, 51.2% of shareholders, and 60% of internal auditors agree that the ISAs are appropriate to Jordan. On the other hand, 94.7% of EA agree/strongly agree with that the ISAs are appropriate to Jordan.
7.5 Chapter Summary

This chapter analyses the perceptions of the five groups (EA, AC, SH, FM, IA) to evaluate the performance of auditors in Jordan in terms of the ISAs. The first part of this chapter examines the application of the General Auditing Standards. From the statistical analysis for the first standard “Skills and Competence” it was found that there are significant differences between the perceptions of EA and the four groups (AC, SH, FM, IA) regarding their perceptions about whether the EA should complete formal courses in the Jordanian tax law and corporate law if they have only foreign accounting qualification. The findings suggest that the EA do not rank them highly. However, the other four groups seem to believe that auditors should do these courses. The results of the survey findings suggest significant differences between the perceptions of EA and the four groups regarding professional education courses. The EA believe they do continuing professional education courses but the other four groups do not have strong beliefs that they do. There also seems to be significant differences between the perceptions of EA and the other four groups regarding the level of experience that the Jordanian auditors have in rules of ethics. All of the groups appear to believe that auditors have a high level of experience in mathematics and statistics. But the findings suggest a significant difference between the perceptions of EA and AC regarding the knowledge of computer systems for supervisors, and between the perceptions of EA & FM, and EA & IA for juniors and between EA & IA for seniors.

Regarding the perceptions of the groups relating to the auditor’s independence in Jordan in terms of the ISA, the findings indicate that a minority of EA agree that they:
- perform concurrent internal and external audits
- perform concurrent audit and non-audit services.

The findings also suggest the majority of external auditors strongly believe that some audit firms have a financial interest in the companies they audit. EA, AC, and SH appear to believe that there is a conflict of interest in performing concurrent internal and external audits for the same client, but FM and IA appear not to share this belief. EA and FM seem not to believe there is a conflict of interest in performing any concurrent audit and non-audit services for the same client but AC, SH, and IA seem not to agree.
AC, and EA appear to strongly agree, and IA and FM agree that there is a conflict of interest if the audit firm has a financial interest in the company audit client. However, the findings also suggest that external auditors agree that they believe some auditors accept significant gifts from a minority of clients, but shareholders believe that external auditors accept significant gifts from a majority of clients. All of the groups appear to believe that the accepting of significant gifts affects an auditor's independence. All of the groups appear to agree that the audit committees enhance the auditor's independence. All of the groups except EA seem to agree that some auditors in Jordan are concurrently engaged in other business occupations, or activities that impair their independence.

Regarding the professional due care in Jordan, it was found that all of the groups seem to strongly agree that management should be responsible for detecting all fraud. SH and AC appear to believe that the auditor should be responsible for detecting major fraud and FM & IA appear to strongly agree that the external auditor should detect all fraud, but EAs disagree. All of the groups seem to strongly agree that the management should be responsible for complying with corporate law. The findings also suggest that SH, FM, AC, and IA believe that the auditors should be responsible for detecting illegal transactions, but that EA do not agree. FM and IA appear to believe that external auditors disclose all detected fraud in the audit report. However external auditors appear to believe that they should disclose only major detected fraud. All of the groups (except EA) seem to believe the external auditors should disclose all detected fraud. The findings suggest EA, AC, and SH strongly agree that EA should be responsible for the evaluation of the internal control system, but that FM and IA agree but not so strongly. All of the groups (except EA) appear to strongly agree that the EA should report to the shareholders about the weaknesses of the internal control systems.

From the findings about the perceptions of the five groups for the application of the field work standards, significant differences were apparent between the perceptions of EA & FM, and EA & IA for the application of the first standard “Planning the Audit”. These differences were found in the following aspects: obtaining sufficient knowledge about the entity before starting the audit stage, updating and re-evaluating information gathered previously, considering materiality in evaluation of the effect of
misstatements, and whether assistants have necessary skills and understand the audit direction. Regarding the findings about the perceptions of the EA, MA, and IA for the application of the second field work standard “gathering appropriate sufficient evidence”, significant differences were again apparent between the perceptions of EA & FM, and EA & IA in the following aspects: whether the auditor considers the sufficiency and appropriateness of audit evidence, reviewing the audit evidence critically, and whether the auditor examines whether the accounting and internal control system has operated effectively throughout the relevant period. From the findings about perceptions of EA, FM, and IA concerning application of the third standard in the field work standards, it was found that EA strongly agree they obtain an understanding of the internal control system to develop the audit plan, they make an assessment of whether the internal control system is not effective, and they make a preliminary assessment of control risk at the assertion level, for each material account balance or class of transaction, and the IA and FM also agree that EA should cover these aspects. However, the strength of their convictions were significantly different.

Finally, from the findings about the perceptions of EA, AC, FM, SH, and IA concerning the reporting standards in Jordan, the EA strongly agree that the audit report includes a clear written expression of auditor’s opinion on the financial statements and the responsibility of management, but that the other four groups do not agree. The findings indicate external auditors do not agree that the audit report should include a statement about the entity’s ability to continue in the future whereas the shareholders want such a statement. All of the groups appear to strongly agree that the audit report should include a statement about the responsibility of management. The EA seem not to agree that the audit report should include a statement about the auditor’s evaluation of the internal control system, but the other four groups agree that the audit report should include that statement. The shareholders in Jordan do not appear to find the audit report easy to understand but EA appear to believe it is.

The survey results indicate that EA strongly believe they are complying with the ISAs, and they believe in the appropriateness of the ISAs. Some of the respondents from the other four groups appear to believe that the ISAs are not appropriate to Jordan because of differences between Jordan and western countries in relation to religion, law, culture, and the economic system.
Chapter Eight

Conclusions and Recommendations

8.1 Introduction
8.2 Conclusions of the Study
8.3 Recommendations of the study
8.4 Limitations of the Study
8.5 Areas of Further Research
8.1 Introduction

This study discussed the need for the International Auditing Standards as viewed from a historical perspective. There is a difference between the early and modern audits, because of the changing social and economic environment. The professional bodies set standards to guide the audit profession. This thesis examines whether ISAs standards are providing adequate guidance, are being implemented as intended in Jordan, and are achieving the intended outcomes of high quality audits, and are meeting the needs of shareholders. To achieve these objectives, an evaluation of the main aspects of the ISAs was undertaken, and the perceptions of the five interested parties (EA, IA, SH, FM, AC) of the attainment’s of ISAs in Jordan took took. This step was very important to help examine the presence of the audit gap in Jordan. Furthermore, this study collected data relating to the possible causes of this audit expectation gaps.

The methodology of the study discussed the objectives and the justifications for choosing certain samples. Furthermore, the methodology of the study covered the development of the questionnaires, sample selection, and the methods of data analysis. This study analysed and evaluated the perceptions of the EA, AC, SH, FM, and IA as to the current performance of external auditors. Chapter Seven analysed and evaluated the expectations of SH, AC, FM, and IA regarding audit performance and standards, and examined whether external auditors are perceived as complying with the ISAs.

Chapter Eight introduces recommendations to improve the application of the ISAs and to bridge the audit expectations gap in Jordan.

8.2 Conclusions of the Study

This study concludes that the role of auditing has changed from the simple requirement that all resources have been duly accounted for, and that all uses were in accordance with the directives of the nobleman. In modern society the audit is reviewed as providing assurances as to reports on performance of management in public companies whose investors may be local or international. In the early audits
(see Chapter Two) there was a clearly specified relationship and there was no ambiguity about the role. In the modern company audits there may be a diversity of views about what an audit should achieve, particularly the needs of users of the audit report, and users influence over the auditor is limited except in extreme cases. In this changed social and economic environment, the professional bodies have moved to fill the need for guidance as to the role and performance of audits by developing standards to guide the audit professional. These standards need to be accepted by the users of the standards and beneficiaries, and should be understood and be easily applicable. Also, these standards should reflect the environmental circumstances in which the audit is to be conducted.

This study evaluates the general auditing standards “Skills and Competence, Independence, and Due Care”, and concludes that the auditor should be qualified, and should comply with the code of ethics for professional accountants such as independence, professional competence and due care. The audit law in Jordan permits auditors to practice auditing as a principal if they finished a bachelor degree from any department or faculty of business or faculty of law. Also in section 4.7, the audit law permits persons who have any foreign professional accounting qualification from foreign countries to practice auditing in Jordan as principal. The field study found that there are significant differences between the perceptions of EA and the four groups (AC, SH, FM, IA) concerning whether foreign qualified EA should complete formal courses in the Jordanian tax law and corporate law. The foreign qualified EA do not believe that they should do these courses. As discussed in Chapter Four, the auditor’s responsibility to detect irregularities require that CPAs design audits to provide reasonable assurance of detecting irregularities, and illegal acts that have a material impact on the financial statements. The other four groups believe that the auditors should do these courses leading to an expectation gap.

The EA believe that they undertake appropriate levels of professional education but the other four groups do not share the same perception. There are significant differences at a .05 level (2-tailed) between the perceptions of EA and the other four groups regarding the level of experience that the Jordanian auditors have in rules of ethics. In the absence of a local code of ethics, all of the groups believe that external auditors should comply with the International Code of Ethics. On the other hand, the
external auditors tend to believe that they are complying with that code. All of the groups believe that auditors have a high experience in maths and statistics. There is a significant difference between the perceptions of EA and AC regarding the knowledge of computer system that the audit supervisors have, and between the perceptions of EA & FM, and EA & IA relating to the computer knowledge of audit juniors and between EA & IA in respect of the knowledge of audit seniors.

Chapter Three discussed the main factors that impair independence such as consulting services, the dual role of external/internal auditing, gifts and discounts, whether auditors own shares in a company they audit or not, and the relationship between the auditors and managements. The study concludes that the issue of independence becomes more complicated when external auditing, and internal auditing are concurrently performed by the same accounting firm for the same client. Regarding performing concurrent audit and non-audit services, the study found that auditors cannot offer the managerial consulting type of advice to management on a fee basis and still appear completely independent to alert and intelligent outsiders. A comparison of the perceptions of external auditors and shareholders results significant differences between their perceptions that performing consulting services impairs auditor’s independence. 57.9% of external auditors disagree that there is a conflict of interest in performing audit and non-audit services. Some researchers pointed out that the auditor is not a decision-maker, just an adviser so there is not a conflict between his work and performing these services. But it is not easy to separate the two cases, when the auditor is a decision-maker, and when he is adviser. Further, it is not just an issue of whether there is a conflict of interest, but rather the level of confidence in audits when other relevant parties perceive there may be possible conflicts. The ISAs (IFAC, 1999, p.559) and the audit law (1985, p.15) in Jordan permit auditors to perform consulting services. 31.6% of EA believe that their audit firms perform concurrent internal and external audits, audit and non-audit services for a majority of clients, and 26.3% of external auditors believe they (EA) have a financial interest in the companies they audit.

The EA, AC, and SH believe that there is a conflict of interest in performing concurrent internal and external audits for the same client, but FM and IA do not believe in that. The EA and FM do not believe that there is a conflict of interest in
performing any concurrent audit and non-audit services for the same client. And there is a significant correlation between the perceptions of EA who started to work before and after 1985 with different years of experience, and their beliefs in this regard. This correlation means the external auditors who started to work after 1985 believe more strongly than who started before that year, that performing non-audit services impairs their independence. AC, SH, and IA believe that there is a conflict of interest in performing any concurrent audit and non-audit services for the same client. All of the groups, except EA, perceive the size of non-audit services performed concurrently for the same client impact on the audit firm’s independence. 68.4% of EA, 73.3% of AC, 72% of SH strongly agree that there is a conflict of interest if the audit firm has a financial interest in the company audit client. On the other hand 33.4% of IA, and 26.1% of FM strongly disagree with that. 73.7% of EA believe that they (EA) do not accept significant gifts from their clients, and 26.3% of them believe that they (EA) accept significant gifts from a minority of clients. On the other hand FM, IA, and SH believe that EA accept significant gifts from a majority of clients. All of the groups believe that accepting significant gifts affect auditor’s independence. On the other hand it has been stated in the ISAs (IFAC, 1999, p.562) that “goods and services should not be accepted by professional accountants in public practice”.

The theoretical framework concluded that audit committees could play a role in enhancing the auditor’s independence by providing a buffer between the auditor and management. Audit committees are not established in Jordan. Establishing these committees needs some rules and regulations to be followed by the listed companies. From the results of the field study, all of the groups agree that the audit committees enhance the auditor’s independence. All of the groups except EA agree that the auditors in Jordan are concurrently engaged in other business occupations, or activities, that impair their independence.

Chapter Three indicates that previous research in other countries that the general public appears to have a high expectation that auditors detect or prevent all fraud, whereas the auditing profession does not regard fraud detection as a primary audit objective. Thus, there is an expectation gap whereby the general public believe that the auditor should be responsible for detecting all fraud, while the auditing profession believes its responsibilities are limited to planning the audit so that there is a
reasonable expectation of detecting material fraud. It was stated in the ISA (1997, p.88) that “the responsibility for the prevention and detection of fraud and error rests with management through the implementation and continued operation of adequate accounting and internal control systems”.

The field study concluded that all of the groups (EA, AC, SH, FM, IA) strongly agree that management should be responsible for detecting all fraud. SH, and AC believe that external auditors should be responsible for detecting major fraud, and FM & IA strongly agree that the external auditor and management should detect all fraud, but EA disagree. There is a significant correlation at a .05 level (2-tailed) between the perceptions of EA who started to work before and after 1985 from different size of audit firms in this regard. This correlation means that the external auditors who started to work after 1985 believe more strongly than the external auditors who started to work before that year that EA are responsible for detecting fraud. SH, FM, AC, and IA strongly agree that the auditor should be responsible for detecting illegal transactions, but EA do not believe in that, and there is a significant difference between the perception of EA&FM, EA&IA, and EA&SH in this regard.

The FM and IA believe that the auditors disclose all detected fraud in the audit report. The EA believe that they disclose the major detected fraud, but the AC and SH believe that they disclose the minor detected fraud. All of the groups believe that the EA should disclose all detected fraud. The EA, AC, and SH strongly agree that the EA should be responsible for the evaluation of the internal control system, but the FM and IA do not agree with that. All of the groups (except EA) strongly agree that the EA should report to the shareholders about the internal control system. There is a significant correlation at a .05 level (2-tailed) between the perception of both of individual and institutional shareholders and their beliefs that the audit report should disclose the weaknesses and the strengths of the internal control system. This correlation means that the institutional shareholders believe more strongly than the individuals that the audit report should disclose the results of external auditor’s evaluation of the internal control system. The reporting standards do not require the weaknesses or strengths of the internal control system to be reported. If auditors in Jordan do not report to the shareholders about the internal control system, they are
complying with the ISAs, so that the ISAs may bear some responsibility for any expectation gap.

Regarding the fieldwork standards, this study found that the auditor should develop and document an overall audit plan and supervision, obtain sufficient appropriate audit evidence as a basis to express an audit opinion, and obtain an understanding of the accounting and internal control systems sufficient to plan the audit. The theoretical framework found that the field work auditing standards include intangible and subjective terms of measurement as adequate planning, sufficient competent evidential matter, and proper evaluation of internal control. To decide under the circumstances of each audit engagement what is adequate, proper, sufficient and competent requires the exercise of professional judgement. Auditing can not be reduced to rote; the exercise of judgement by the auditor is vital at numerous points in every examination. However, the formulation and publication of carefully worded auditing standards are of immense aid in raising the quality of audit work, even though these standards require professional judgement in their application.

From the theoretical framework, this study found that adequacy of the client’s internal accounting control is a major factor in determining how much evidence auditors will need to gather from other sources. The stronger the internal control, the less evidence of other types that will be required as a basis for the auditors’ opinion. When internal control is weak, auditors must gather a correspondingly greater amount of other kinds of evidence. The ISAs did not introduce such models to assist the auditor to recognise and assess more items of evidence and their complex interactions. Also, the reporting standards do not include a statement or a standard to report about the results of the external auditor’s evaluation of the internal control system. Reporting about the strength and weaknesses of the internal control system is of benefit for the judgment of the credibility of the evidence that the auditor collected. Also the reliability of the accounting records is directly related to the effectiveness of the entity’s internal controls. Strong internal controls enhance the accuracy and reliability of the financial records, whereas weak internal controls often do not prevent or detect errors and irregularities in the accounting process.
The field study concludes there is a significant difference between the perceptions of EA & FM, and EA & IA for the application of the first standard “Planning the Audit”. These differences are in the following aspects, obtaining sufficient knowledge about the entity before starting the audit stage, updating and re-evaluating information gathered previously, considering materiality in evaluation of the effect of misstatements, and considering whether the assistants have the necessary skills and understand the audit direction. The differences between the perceptions of EA, IA, and FM indicate an expectation gap. On the other hand, the external auditors strongly agree that they are complying with these aspects. The external auditors who work in the large audit firms believe more strongly than those who work in the small audit firms that they are complying with the main aspects of the planning of the audit.

EA believe that they are complying with the main aspects of the second field work standard “Gathering Appropriate Sufficient Evidence”. But there is a significant difference between the perceptions of EA & FM, and EA & IA for the following aspects: considering the sufficiency and appropriateness of audit evidence, reviewing the audit evidence critically, and whether external auditors examine to what extent the accounting and internal control system has operated effectively throughout the relevant period.

From the perceptions of EA, FM, and IA regarding the application of the third standard in the field work standards “Internal Control System”, the field study found that EA strongly agree that they obtain an understanding of the internal control system to plan and develop the audit plan, make an assessment of control when the accounting and internal control system are not effective, and they make a preliminary assessment of control risk at the assertion level, for each material account balance or class of transaction. The statistical results indicate that the external auditors agree that they are complying with the main aspects of the ISA “Internal Control Standard”, on the other hand IA and FM do not agree with that.

From the perceptions of EA, AC, FM, SH, and IA for the reporting standards in Jordan, the EA strongly agree that the audit report includes a clear written expression of auditor’s opinion on the financial statements and the responsibility of management. The other four groups do not agree that. The EA disagree that the audit report should
include a statement about the entity’s ability to continue in the future. All of the groups strongly agree that the audit report should include a statement about the responsibility of management. The difference between the perceptions of external auditors and the four groups causes an expectation audit gap. The EA do not agree that the audit report should include a statement about the auditor’s evaluation of internal control system and the result of reviewing the entity’s ability to continue in the future. This may reflect that reporting standards do not require that. On the other hand, the shareholders strongly agree that the audit report should include a statement about the results of the evaluation of the internal control system and the entity’s ability to continue in the future. This is one of the reasons for the audit expectations gap in Jordan. External auditors should move closer to outside expectations and expand the audit report to include a clear statement about the results of evaluation of the internal control system, the entity’s ability to continue in the future, the responsibility of management, and report to the shareholders what external auditors do not do.

This study found that the audit report should contain a clear written expression of opinion on the financial statements taken as a whole. It should consider whether the financial statements have been prepared in accordance with an acceptable financial reporting framework being either international accounting standards or relevant national standards or practices. The audit report language is a standard language to external parties. The present audit report is too short, uses a standard language, and does not distinguish between the quality of the systems and standards of companies unless they are so bad as to lead to qualification, for these reasons, they are not widely read. The individual shareholders in Jordan do not believe that the audit report is easy to understand, and they do not trust it. On the other hand the institutional shareholders trust and rely on the audit report more than the individual shareholders. EA believe that the audit report is easy to understand.

Finally, this study concludes that EA strongly agree that they comply with the ISAs. In addition, some of them believe in the appropriateness of the ISAs to Jordan. But some of the respondents from the other four groups believe that ISAs are not appropriate to Jordan because of differences between Jordan and western countries in religion, law, culture, and economic system.
8.3 Recommendations of the Study

8.3.1 The application of the ISA “skills and competence”

To bridge the gap between the perceptions of EA and the four groups (AC, SH, IA, FM), the professional rules and the audit law should make it mandatory that the external auditors should complete the Jordanian tax law and corporate law if they only have foreign accounting qualifications before starting to practice auditing as a principal. That is because the audit law in Jordan, section 4.7, permits persons who have any certification such as a CPA from western countries to practice auditing in Jordan. CPA and other qualified accountants from western countries do not necessarily have sufficient knowledge in Jordan tax law, and Jordanian corporation law. Also audit firms in Jordan should make it mandatory for their auditors to follow up the modern educational programs and computing systems to do continuing professional education courses because the four groups (AC, SH, IA, FM) believe that external auditors do not do that. Furthermore, the professionals in Jordan should create local rules of ethics to be suitable for the nature of Jordan since many of the shareholders, academics, financial managers, and internal auditors believe in that.

8.3.2 Independence

The best solution to the problem of independence in auditing is to recognise that auditing must be a specialty separate from the other main functions of public accountants. The issue of independence becomes more complicated when external auditing, and internal auditing are concurrently performed by the same accounting firm for the same client. Therefore, to maintain integrity, objectivity and independence, the public accounting firm should not simultaneously act as external and internal auditor for the same entity. That is because the internal audit is part of the management responsibility and irrespective of its autonomy and objectivity it cannot normally meet the prime criterion of independence (IFAC, 1997, p.212). Therefore, it may be unrealistic to expect that an auditor will remain independent when he is
serving both management and shareholders. This view is supported by Schult, Hoenemeyer and Dover (Schult et al, 1967).

The profession should consider how to address the long-term ramifications of today's restructuring on both auditor independence and investor confidence. Any regulatory action must address several fundamental public policy issues such as:
- more appropriate limits on the types of services that an audit firm can render to a public company client, because the ISAs stated (IFAC, 1999, p.560) that the independence of the professional accountant in public practice is not impaired by offering advisory services.
- should audit firms be permitted to affiliate with entities who provide services to the firm's audit clients that the firms themselves would not be allowed to provide.

There are at least three possible ways to address these potential conflicts. Many in the profession once sought to establish broad "principles" of independence. Alternatively, public disclosure of the types of amounts of services offered could be required. That is because practice and the law in Jordan do not require the disclosure of these services. Or, certain services considered inconsistent with an independent public auditor could be prohibited. Each of these alternatives, as one might expect, has both advantages and drawbacks. Principles may sound "high-minded". But the lack of precision may not address the level of uncertainty as to which services are permissible and which ones are not. A public disclosure-based model, could be worth while for certain types of perceived conflicts. Perhaps a more reliable way to safeguard independence would be to clearly define those consulting services that compromise the integrity of the audit without adding benefits to that audit.

At the same time, the presence of audit committees could help to investigate the types of services that auditors perform, and question whether it would be more in the investors' interests to have some of those services performed by another party. An effective audit committee can moderate management attempts to pressure auditors into accepting inappropriate accounting treatments. It also can be a channel of communication for the auditor to the full board, thereby helping to ensure that the auditor's positions are heard. Effective audit committees thus can serve as a safeguard.
to auditor independence. This view is supported by Apostolou & Nicholas (1989), and Vanasco (1999), Johns (1980), Gigrieff, (1980).

Some further factors should be made to enhance the appearance of auditor independence in relation to the financial interests and significant gifts:
- Disclosing financial interests and personal relationships. There are no legal or professional requirements that the auditor should disclose these interests. Therefore, it could be advocated that, to make the auditor position clear, they should be required to disclose full details of any shares or relationships with the management to give the report users a reasonable knowledge of the facts of the situation.
- Legal prohibition of the financial interests and significant gifts. This could be preferable to disclosing the financial interests from the shareholders' point of view.

8.3.3 Detecting and preventing fraud

To bridge the audit gap between the perceptions of EA, ISAs, and the four groups (AC, SH, FM, IA) whether external auditors are responsible for detecting fraud and illegal transactions and internal control system, the following recommendations is suggested:
- The management and auditors in Jordan should be responsible for detecting fraud and error and the auditor should disclose all fraud in the audit report. The international auditing standard (IFAC, 1997, p.88) should reconsider the external auditor's responsibility for detecting, and disclosing the major or all fraud in the audit report.
- The auditor should be careful about the various types of irregularities, searching for characteristics that may provide a clue to those for which the auditor should accept the burden of discovery and those for which the auditor cannot. The auditor's responsibility to detect and report errors and irregularities require that CPAs design audits to provide reasonable assurance of detecting errors, irregularities, and illegal acts that have a material impact on the financial statements.
- The auditor also must have a concern for the internal control measures that increase the reliability and the credibility of the financial statements and reduce irregularities. The external auditor is required to report to the audit committee any reportable
conditions or material weaknesses in the system of internal accounting control that the auditor discovers in the course of the examination of the financial statements.

3.8.4 The external auditors’ responsibility for the internal control system

The auditor is the only independent authority who can evaluate, and report on the internal control system to the users of the audit report. That is because if management is not adequately concerned about establishing and maintaining a good systems of internal control, any internal control system may be so weak that the auditor will not be able to place reliance on its specific controls. As stated in the ISA, writing to the management and the audit committee about the weaknesses of the internal control system is not enough to protect the shareholders. The weaknesses should be reported to the legislature, shareholders, and other governing body.

8.3.5 Planning the audit

In designing the audit plan, the auditor should establish an acceptable materiality level so as to detect material misstatements. However, both the amounts (quantity) and nature (quality) of misstatements need to be considered. Also, it is very important that the auditor, when work is delegated to assistants, to direct, supervise and review the work delegated. In delegation of responsibilities the auditor should be sure that the persons given the work have the requisite skills, competence and independence. The extent of delegation of responsibilities, supervision and review will depend on the skills and competence of the individual accountants in the audit team.

8.3.6 The audit report and the audit expectation gap

The audit report should be expanded by including a statement about the auditor’s evaluation of the internal control system, and the results of reviewing the entity’s ability to continue in the future. Expansion of the standard audit report to explain more fully what the auditor does, and does not do, and the degree of assurance provided by an audit is very important to shareholders and other users of the audit report. Furthermore, the content of the audit report should be changed to cover more
than an opinion on the financial statements and address the entire audit function (process).

8.4 Limitations of the Study

- This study only covers the selected issues of ISAs, in relation to Jordan; there are many other issues which could be covered from a different perspective.
- This study does not satisfy the needs of the Islamic Companies from the Islamic perspective, because this kind of studies needs scholars in Sharia' Islamiyah.
- This study also does not include more countries than Jordan to generalise the results, because each country has its own nature and culture.
- Cost and time consideration influence the researcher decisions about the size and type of sample that has been chosen.
- This study does not cover the internal auditors to examine their compliance with some issues related to the ISAs such as the international code of ethics, their responsibility for detecting and preventing fraud, and their independence and competence.
- The changes or proposed changes in the ISAs since the research was undertaken are one of the limitations of the study. The new edition of the ISAs issued by the end of 2001, therefore this study couldn’t change the questionnaire survey or the theoretical framework to cover the new issues in the ISAs.
- The external auditors have not been asked whether they perceive the International Accounting Standards are appropriate to Jordan, and whether they believe they should disclose in the audit report if management does not comply with the IAS. The other four groups (AC, SH, MA, IA) have been asked about their beliefs regarding the above two issues (see Table 7.21).

Finally, from my experience in this research, a survey questionnaire should be distributed to cover a larger sample of the external auditors, academics, internal auditors, and financial managers. That would add more credibility to the results. In light of the experience with the current questionnaires it would be possible to improve the content and wording of the questionnaire. It could be better to survey some other countries which have the same culture, and applying the ISAs, to examine whether
there are differences between the countries in the application of the ISAs and determine the reasons for these differences. This step is important to generalise the results of this study. Also, covering the internal auditors and examining whether they are complying with the main issues of the ISAs as said earlier could help the researcher to introduce more recommendations to enhance the quality of audit in Jordan.

8.5 Areas of Further Research

- Local Code of Ethics: further researches are needed to formulate and create a local code of ethics. The professionals and academics in Jordan believe that the International Code of Ethics needs more interpretations and improvements to be suitable to Jordan. That is because of the differences between Jordan and the other countries in religion, legal, economic, social, and culture factors.

- Further researches and improvements are needed for the audit law in Jordan from the professionals themselves and not from the government. That is because the government in Jordan is responsible for the supervision of the audit profession.

- Further researches are needed in specific to establish and formulate auditing standards and to expand accounting standards for the Islamic Companies in Jordan. That is because of the differences between Islamic and conventional companies in the profit and loss measurement and disclosure requirements. Furthermore, these differences impact on expanding the audit report to achieve the needs of financial statement users from the Islamic perspective.
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Appendices
Appendices A: Survey Questionnaires

Appendix A1: Survey Questionnaire (A)

Survey Questionnaire (A)
(External Auditors)

Dear Respondent,

This questionnaire is designed to collect information about the suitability of using International Auditing Standards (ISA) in Jordan. The empirical study aims to compare shareholders’, external auditors’, managements’, and internal auditors’ views.

The empirical study forms one of the requirements for a Ph.D thesis entitled “An Evaluation of the International Auditing Standards and their Application to the Audit of Listed Corporations in Jordan”.

I would appreciate you taking the time to complete this questionnaire and provide me with the necessary feedback about the application of the International Auditing Standards in Jordan. Your information will only be reported in a summary form and all questionnaire responses are confidential.

Thanking you for your assistance with this research

With kind regards

Waleed Abdel-Qader
Ph.D student
UWS Macarthur
Australia
* A note on word usage in this questionnaire:
Please be advised that the word auditor refers to external auditor.

* Part One: Please tick your choice

Did you start your work as an auditor, owner or partner of an auditing firm before 1985 [ ] 1985-1990 [ ] after 1990 [ ] total [ ]
2- If you started before 1985, have you qualified as a Jordanian CPA after that year?
   Yes [ ] No [ ] not answered [ ] total [ ]
3- Have you conducted an audit in the last twelve months? Yes [ ] No [ ]
   total [ ]
4- In considering your educational background, have you completed?
   High school qualification [ ] Bachelor degree [ ] Master degree [ ] Ph.D [ ]
   Foreign accounting professional qualification (please specify) [ ]
   Jordanian CPA [ ] others (please specify) [ ]
5- What percentage of accounting subjects did you complete in your bachelor degree?
   less than 15% [ ] 16-30% [ ] 31-45% [ ] 46-60% [ ] over 61% [ ]
   total [ ]
6- The audit firm for which you conduct audits is: (multiple answers possible)
   one of the big five [ ] multinational firm [ ] a large firm [ ]
   a medium sized firm [ ] a small firm [ ] total [ ]
7- The number of years of experience in auditing which you have is:
   1-5 [ ] 6-10 [ ] 11-15 [ ] 16-20 [ ] 21-25 [ ] More than 25 [ ]
   total [ ]
The scale used in this survey is explained here:

0 = strongly disagree
1 = disagree
2 = neither agree nor disagree
3 = agree
4 = strongly agree
5 = don't know

* Part Two: please tick or circle each of the following questions.

1- As an auditor, have you done continuing professional education courses:

very often [ ]
often [ ]
ocasionally [ ]
ever [ ]
not applicable [ ]
not answered [ ]

Does your audit firm establish minimum academic qualifications for the various levels of responsibility within the audit firm?

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3- The auditors should complete formal courses in the Jordanian tax law if they only have a foreign accounting qualification

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4- The auditors should complete formal courses in the Jordanian corporate law if they only have foreign accounting qualifications.

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Do you consider the Jordanian auditors have a sufficient knowledge of computer system:

(a) senior auditors

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(b) junior auditors

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(c) supervisors

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6- (a) From your perspective as an auditor, you are complying with the international code of ethics

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(b) From your perspective as an auditor, auditors in Jordan are complying with the international code of ethics.
7- If your answer in question 6 (a) was 0 or 1, please explain your reasoning.

8- What level of experience do you consider Jordanian auditors have in areas such as
(a) statistics very high 0 high 16 medium 6 low 12 very low 4
    total 38
(b) mathematics very high 4 high 14 medium 10 low 8
    very low 2 total 38
(c) rules of ethics very high 0 high 12 medium 16 low 6
    very low 4 total 38

* Please tick or circle each of the following questions.

1- Your audit firm performs concurrent internal and external audits for:
   all clients 4 majority of clients 12 a minority of clients 14
   no clients 8 total 38

2- Is there a conflict of interest in performing concurrent internal and external audits for the same client.
   scale 0 1 2 3 4 5 total
   frequency 2 2 6 8 16 0 4 total 38

3- If you perceive any conflict of interest in performing concurrent internal and external audits for the same client, why do you think that? .........................
   ..................................................................................
   ..................................................................................
   ..................................................................................

4- Does your firm perform concurrent audit and non-audit services at the same time for:
   all clients 2 majority of clients 12 minority of clients 22
   no clients 2 total 38

5- Is there a conflict of interest in performing any concurrent audit and non-audit services for the same client?
   scale 0 1 2 3 4 5 total
   frequency 16 6 10 4 2 0 total 38

209
6- The size of non-audit services relative to the size of audit services performed concurrently for the same client impacts on the audit firm's independence.

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7- Does your audit firm has a financial interest in the companies they audit?

- all of them [ ]
- a majority of them [ ]
- a minority of them [ 10 ]
- none of them [26]
- not answered [2]
- total [38]

8- Do you feel under pressure because the audit fee is: (multiple answers possible)

A- significant relative to the total fees of the firm [8]

B- small relative to consulting fees for the same client [4]

C- linked on your mind with access to a total package of services to the client [6]

D- low relative to the amount of work to be done [16]

E- not answered [4]
- total [38]

9- If your answer in question 8 was A, B, C or D, do you think the pressure felt affects the audit firm's independence

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10- There is a conflict of interest if the audit firm has a financial interest in the company audit client

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11- (a) Do you accept significant gifts from the audit clients?

- all of them [ 0]
- majority of them [ 0]
- a minority of them [10]
- none of them [28]
- total [38]

(b) Do you believe other auditors accept significant gifts from audit client?

- all of them [ 0]
- a majority of them [4]
- a minority of them [20]
- none of them [10]
- not answered [4]
- total [38]

12- Acceptance of significant gifts from audit clients affects the independence of the auditors.

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13- Auditors in Jordan are concurrently engaged in other business occupations, or activities which impair their independence

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14- In what proportion of the listed companies which you audit, are audit committees established?

- all of them: 8
- a majority of them: 2
- a minority of them: 24
- none of them: 4

Total: 38

15- The presence of an audit committee enhances the auditor’s independence.

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*Please tick or circle the suitable answer*

1- The auditor should be responsible to detect:

- all fraud: 0
- major fraud: 10
- minor fraud: 2
- should not do that: 22
- not answered: 4

Total: 38

2- The management should be responsible to detect:

- all fraud: 24
- major fraud: 14
- minor fraud: 0
- should not do that: 0

Total: 38

3- What proportion of the international accounting standards are you complying with?

- all of them: 16
- majority of them: 18
- a minority of them: 2
- none of them: 0
- not answered: 2

Total: 38

4- If you are not complying with some of these standards, please explain why not.

.................................................................
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5- The auditor issues a qualified report or disclaimer if he/she discovers a materiality to the errors or irregularities

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6- The auditor should be responsible for detecting illegal transactions.

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7- As an auditor, I feel management should be responsible for compliance with corporate law.

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8- The auditor obtains a general understanding of the legal and regulatory framework applicable to the entity.

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9- What level of detected fraud does the auditor disclose in the audit report?
   all detected fraud | 8 | major detected fraud | 18 | minor detected fraud | 4 |
   no detected fraud | 4 |
   not answered | 4 |
   total | 38 |

10- What level of detected fraud should the auditor disclose in the audit report?
   all detected fraud | 10 |
   major detected fraud | 12 |
   minor detected fraud | 4 |
   not answered | 12 |
   total | 38 |

11- The auditor is responsible for evaluation of the internal control system.

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12- The auditor should be responsible for evaluation of the internal control system.

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13- The audit report should include a statement about the auditor’s evaluation of the internal control system.

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- **Part Three: please circle your answer**

1- The auditor obtains sufficient knowledge about the entity before starting the audit stage.

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2- The auditor updates and re-evaluates information gathered previously.

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3- Culture is an important variable that influences the auditor's judgment about many matters in planning the audit.

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4- The auditor establishes the acceptable materiality level to detect the quantitatively material misstatements when designing the audit plan.

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5- Materiality is considered by the auditors when they evaluate the effect of misstatements.

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6- In planning the audit, the auditor can expect to reduce audit risk to an acceptable low level.

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7- The person who carries out supervisory responsibilities, monitors the progress of the audit by considering whether:

* Assistants have the necessary skills and competence

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* Assistants understand the audit direction

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* The work is being carried out in accordance with the audit program

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* Please circle your answer.

1- The auditor obtains sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.

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2- The auditor reviews the audit evidence critically with respect to its validity.

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3- The audit firm provides auditors with extensive training to develop appropriate cognitive models, for obtaining more comprehensive evidence.

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4- When obtaining evidence from tests of control, the auditor considers the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk.

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5- When obtaining audit evidence from substantive procedures, the auditor considers the sufficiency and appropriateness of audit evidence to support financial statement assertions.

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6- The auditor examines if the accounting and internal control systems are suitably designed to prevent and/or detect and correct material misstatements when obtaining audit evidence.

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7- The auditor examines whether the accounting and internal control system has operated effectively throughout the relevant period.

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8- The auditor reaches the judgment about the strength of the evidence at a reasonable cost to the client.

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</table>

*Please circle your answer*

1- The auditor obtains an understanding of the accounting and internal control systems sufficient to plan the audit.

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<tr>
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2- The auditor obtains an understanding of the control procedures sufficient to develop the audit plan.

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3- The auditor makes a preliminary assessment of control risk at the assertion level, for each material account balance or class of transactions.

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</table>
4- The auditor ordinarily assesses control risk at a high level for some or all assertions when:

* The entity’s accounting and internal control systems are not effective.

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</table>

* Evaluating the effectiveness of accounting and internal control systems would not be efficient.

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* Part Four: please circle your answer

1- The audit report includes a clear written expression of the auditor’s opinion on the disclosure in the financial statements.

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2- The auditor expresses an unqualified opinion when there is a limitation on his work.

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3- The auditor expresses an unqualified opinion when there is a disagreement with management regarding the acceptability of accounting policies selected.

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4- Materiality is an essential consideration in determining the appropriate type of report for a given set of circumstances.

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</table>

5- The audit report includes a clear statement about the responsibility of management for the financial statements.

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6- The audit report is considered easy for the users of the report to understand.

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7- The audit report in Jordan includes a statement that describes the entity’s ability to continue in operation in the future.

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8- The audit report includes a statement about the auditor's evaluation of the internal control system.

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9- The audit report should include a clear statement about the responsibility of management for the financial statements.

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10- The auditor should review the entity's annual plan.

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11- The auditor should disclose in the audit report the result of reviewing the entity's annual plan.

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12- The audit report in Jordan should include a statement that describes the entity's ability to continue in the future.

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13- The audit report should include a statement about the auditor's evaluation of the internal control system.

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* Part Five: please circle or tick your answer *

1- The auditors in Jordan are complying with the International Auditing Standards.

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2- The International Auditing Standards appropriate for Jordan are:

- all of them 16
- a majority of them 20
- a minority of them 0
- none of them 0
- not answered 2
- don't know 0
3- If the International Auditing Standards are not appropriate to Jordan, do you consider this is because of?

(a) Difference in religion, please specify...........................

(b) Difference in law, please specify,

Corporate law, please specify...........................................
Tax law, please specify..................................................
Stock market regulations, please specify...........................
Civil law, please specify................................................
Others, please specify..................................................

(c) Difference in culture, please specify.............................

(d) Difference in economic system, please specify...................

(e) Other factors, please specify........................................
......................................................................................
......................................................................................
......................................................................................
......................................................................................

I take this opportunity to thank you for completing the questionnaire.

A preaddressed envelope is enclosed for your convenience.
Appendix A2: Survey Questionnaire (B)

Survey Questionnaire (B)

(Shareholders)

Dear Respondent,

This questionnaire is designed to collect information about the application of the International Auditing Standards (ISA) in Jordan. The empirical study aims to compare shareholders’ and auditors’ views.

The empirical study is one of the requirements for a Ph.D thesis entitled “An Evaluation of the International Auditing Standards and their Application to the Audit of Listed Corporations in Jordan”. I would appreciate you taking the time to complete this questionnaire and provide me with the necessary feedback about the application of the International Auditing Standards in Jordan.

Thank you for your assistance with this research

With kind regards

Waleed Abdel-Qader
Ph.D student
UWS Macarthur
NSW, Australia
* A note on word usage in this questionnaire:
   Please be advised that the word auditor refers to external auditor

* Part One: please tick your choice

1- What classification do you come under?
   - Individual shareholder [168]  
   - Institutional shareholder [48]  
   - Both [36]  
   Total [252]  

2- How many companies, approximately, do you invest in.
   - 1-5 [108]  
   - 6-10 [66]  
   - 11-15 [45]  
   - 16-20 [18]  
   - more than 24 [15]  
   Total [252]  

3- What is your level of experience in investing in shares?
   - 1-5 years [57]  
   - 6-10 years [87]  
   - 11-15 years [57]  
   - over 15 years [51]  
   Total [252]  

4- As a shareholder, are you satisfied with the financial statements that are provided by the management.
   - Yes [174]  
   - No [78]  
   Total [252]  

5- Do you rely on the audit report to make decisions about investments in companies?
   - all of the time [102]  
   - most of the time [40]  
   - a minority of the time [50]  
   - never [52]  
   Total [252]  

6- Do you trust the audit reports of Jordan.
   - Yes [153]  
   - No [99]  

7- Why did you answer question 7 the way you did?  


219
The scale used in this survey is explained here:

0 = strongly disagree  3 = agree
1 = disagree            4 = strongly agree
2 = neither agree nor disagree  5 = don’t know

* Part Two: Please circle or tick each of the following questions

1- How many auditors in Jordan, do you think, keep up to date by doing continuing professional education courses?
   don’t know  [0]   not answered  [42]

2- The audit firms in Jordan should establish a minimum academic qualification for the various levels of responsibility within the audit firm.

   | Scale | 0 | 1 | 2 | 3 | 4 | 5 | NA | Total |
---|------|---|---|---|---|---|---|-----|-------|
   | Frequency | 0 | 3 | 21 | 111 | 78 | 0 | 39 | 252 |

3- The auditor should complete formal courses in the Jordanian tax law if he/she only has a foreign accounting qualification.

   | Scale | 0 | 1 | 2 | 3 | 4 | 5 | NA | Total |
---|------|---|---|---|---|---|---|-----|-------|
   | Frequency | 21 | 48 | 57 | 57 | 42 | 0 | 27 | 252 |

4- The auditor should complete formal courses in the Jordanian corporate law if he/she only has a foreign accounting qualification.

   | Scale | 0 | 1 | 2 | 3 | 4 | 5 | NA | Total |
---|------|---|---|---|---|---|---|-----|-------|
   | Frequency | 12 | 27 | 54 | 81 | 39 | 0 | 39 | 252 |

5- The following categories of auditors have a sufficient knowledge of computer systems

   (a) senior auditors

   | Scale | 0 | 1 | 2 | 3 | 4 | 5 | NA | Total |
---|------|---|---|---|---|---|---|-----|-------|
   | Frequency | 0 | 3 | 48 | 99 | 54 | 0 | 48 | 252 |

   (b) junior auditors

   | Scale | 0 | 1 | 2 | 3 | 4 | 5 | NA | Total |
---|------|---|---|---|---|---|---|-----|-------|
   | Frequency | 0 | 9 | 54 | 90 | 48 | 0 | 51 | 252 |

   (c) supervisors

   | Scale | 0 | 1 | 2 | 3 | 4 | 5 | NA | Total |
---|------|---|---|---|---|---|---|-----|-------|
   | Frequency | 0 | 3 | 48 | 87 | 63 | 0 | 51 | 252 |

6- Do you have information about the international code of ethics?
   Yes   108   No   138   not answered   6

7- The auditors in Jordan should comply with the international code of ethics.

   | Scale | 0 | 1 | 2 | 3 | 4 | 5 | NA | Total |
---|------|---|---|---|---|---|---|-----|-------|
   | Frequency | 0 | 0 | 30 | 78 | 66 | 0 | 78 | 252 |

8- If your answer in question 7 was 0 or 1, why do you think that?

..............................................................
9- What level of experience do you consider Jordanian auditors have in areas such as

(a) statistics
- very high: 48
- high: 42
- medium: 84
- low: 54
- very low: 24
- total: 252

(b) mathematics
- very high: 42
- high: 48
- medium: 99
- low: 45
- very low: 18
- total: 252

(c) rules of ethics
- very high: 42
- high: 78
- medium: 84
- low: 36
- very low: 6
- not answered: 6
- total: 252

*Please tick or circle your answer*

1- As an investor, I believe there is a conflict of interest in performing concurrent internal and external audits for the same client.

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<tbody>
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<td>81</td>
<td>87</td>
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</table>

2- If you perceive any conflict of interest in performing concurrent internal and external audits for the same client, why do you think that?......................

.................................................................

.................................................................

3- As an investor, I consider there is a conflict of interest in performing any concurrent audit and non-audit services for the same client.

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<td>75</td>
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<td>252</td>
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</table>

4- The size of non-audit services compared with the size of audit services for the same clients as a percentage are:

- very high: 0
- high: 45
- medium: 84
- low: 42
- very low: 24
- don't know: 57
- total: 252

5- There is a conflict of interest if the firm has any financial interest in the audited company

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<td>96</td>
<td>87</td>
<td>0</td>
<td>6</td>
<td>252</td>
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</tbody>
</table>

6- What percentage of auditors do you think are accepting significant gifts from clients?

- 0: 63
- 1-10%: 51
- 11-20%: 15
- 21-30%: 30
- over 30%: 27
- don't know: 66
- total: 252
7- Accepting significant gifts affects auditors’ independence.

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<tbody>
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<td>18</td>
<td>87</td>
<td>111</td>
<td>18</td>
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<td>15</td>
<td>252</td>
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</tbody>
</table>

8- What percentage of auditors in Jordan do you consider concurrently engaged in other business occupation, or activity which impairs independence

<table>
<thead>
<tr>
<th>percentage</th>
<th>0</th>
<th>1-10%</th>
<th>11-20%</th>
<th>21-30%</th>
<th>over 30%</th>
<th>don’t know</th>
<th>total</th>
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</thead>
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<td>48</td>
<td>27</td>
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<td>99</td>
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</tbody>
</table>

9- Do you consider audit committees* should be established in companies to enhance an auditor’s independence?

<table>
<thead>
<tr>
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<tbody>
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<td>90</td>
<td>69</td>
<td>0</td>
<td>30</td>
<td>252</td>
</tr>
</tbody>
</table>

* Please tick or circle your answer

1- The auditor should be responsible to detect:

- all fraud [57]
- major fraud [123]
- minor fraud [42]
- should not do that [30]

total [252]

2- The management should be responsible to detect:

- all fraud [153]
- major fraud [66]
- minor fraud [24]
- should not do that [9]

total [252]

3- Do you consider auditors should disclose in an audit report that management does not comply with International Accounting Standards?

<table>
<thead>
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<th>4</th>
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<td>6</td>
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<td>99</td>
<td>90</td>
<td>0</td>
<td>24</td>
<td>252</td>
</tr>
</tbody>
</table>

4- Do you consider International Accounting Standards are appropriate for Jordan?

- all of them [54]
- a majority of them [117]
- a minority of them [63]
- none of them [9]
- don’t know [9]

total [252]

5- If you believe International Accounting Standards are not appropriate for Jordan, please explain why...

6- The auditor should issue a qualified report or disclaimer if he/she discovers material errors or irregularities

<table>
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<tr>
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<tbody>
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<td>15</td>
<td>87</td>
<td>108</td>
<td>0</td>
<td>33</td>
<td>252</td>
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</tbody>
</table>
7- The auditor should be responsible for detecting illegal transactions.

<table>
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<th>total</th>
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</thead>
<tbody>
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<td>93</td>
<td>72</td>
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<td>252</td>
</tr>
</tbody>
</table>

8- Management should be responsible for compliance with corporate law.

<table>
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<th>2</th>
<th>3</th>
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<th>NA</th>
<th>total</th>
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</thead>
<tbody>
<tr>
<td>frequency</td>
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<td>0</td>
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<td>102</td>
<td>108</td>
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</tbody>
</table>

9- The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity

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<tbody>
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<td>99</td>
<td>84</td>
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<td>252</td>
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</tbody>
</table>

10- What level of detected fraud does the auditor disclose in the audit report?

<table>
<thead>
<tr>
<th></th>
<th>all fraud</th>
<th>major fraud</th>
<th>minor fraud</th>
<th>no detected fraud</th>
</tr>
</thead>
<tbody>
<tr>
<td>percentage</td>
<td>54</td>
<td>84</td>
<td>66</td>
<td>39</td>
</tr>
</tbody>
</table>

11- What level of detected fraud should the auditor disclose in the audit report?

<table>
<thead>
<tr>
<th></th>
<th>all fraud</th>
<th>major fraud</th>
<th>minor fraud</th>
<th>no detected fraud</th>
</tr>
</thead>
<tbody>
<tr>
<td>percentage</td>
<td>108</td>
<td>96</td>
<td>21</td>
<td>15</td>
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</tbody>
</table>

12- The auditor should be responsible for the evaluation of the internal control system.

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<th>total</th>
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</thead>
<tbody>
<tr>
<td>frequency</td>
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<td>6</td>
<td>42</td>
<td>93</td>
<td>57</td>
<td>0</td>
<td>48</td>
<td>252</td>
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</tbody>
</table>

13- The audit report should include a statement about the auditor’s evaluation of the internal control system

<table>
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<tr>
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<th>2</th>
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<th>total</th>
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</thead>
<tbody>
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<td>frequency</td>
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<td>6</td>
<td>51</td>
<td>102</td>
<td>45</td>
<td>0</td>
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<td>252</td>
</tr>
</tbody>
</table>

*Part three: please circle your answer*

1- The audit report includes a clear written expression of the auditor’s opinion on the disclosure in the financial statements

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</thead>
<tbody>
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<td>57</td>
<td>66</td>
<td>57</td>
<td>0</td>
<td>63</td>
<td>252</td>
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</tbody>
</table>

2- Materiality is an essential consideration in determining the appropriate type of audit report for a given set of circumstances.

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<tr>
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<td>98</td>
<td>54</td>
<td>0</td>
<td>72</td>
<td>252</td>
</tr>
</tbody>
</table>
3- The audit report includes a clear statement about the responsibility of management for the financial statements.

<table>
<thead>
<tr>
<th>scale</th>
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<th>1</th>
<th>2</th>
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<td>84</td>
<td>63</td>
<td>0</td>
<td>48</td>
<td>252</td>
</tr>
</tbody>
</table>

4- The audit report is considered not easy for the users of the report to understand.

<table>
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<tr>
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</thead>
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<td>90</td>
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<td>0</td>
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<td>252</td>
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</tbody>
</table>

5- The audit report in Jordan includes a statement that describes the entity’s ability to continue in operation in the future.

<table>
<thead>
<tr>
<th>scale</th>
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<th>1</th>
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<td>96</td>
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<td>33</td>
<td>252</td>
</tr>
</tbody>
</table>

6- The audit report should include a clear statement about the responsibility of management for the financial statements.

<table>
<thead>
<tr>
<th>scale</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
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</thead>
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<td>84</td>
<td>120</td>
<td>0</td>
<td>39</td>
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</tr>
</tbody>
</table>

7- The auditor should disclose in the audit report the result of reviewing the entity’s plan.

<table>
<thead>
<tr>
<th>scale</th>
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<th>1</th>
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<td>27</td>
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</tbody>
</table>

8- The audit report in Jordan should include a statement that describe the entity’s ability to continue in the future.

<table>
<thead>
<tr>
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</table>

9- The audit report should include a statement about the auditor’s evaluation of the internal control system.

<table>
<thead>
<tr>
<th>scale</th>
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<th>1</th>
<th>2</th>
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</thead>
<tbody>
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<td>99</td>
<td>66</td>
<td>0</td>
<td>21</td>
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</tr>
</tbody>
</table>

* Part Four: please tick or circle your answer

1- Auditors in Jordan are complying with the International Auditing Standards.

<table>
<thead>
<tr>
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<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>frequency</td>
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<td>0</td>
<td>54</td>
<td>99</td>
<td>51</td>
<td>0</td>
<td>48</td>
<td>252</td>
</tr>
</tbody>
</table>

2- The International Auditing Standards appropriate for Jordan are:

- all of them 45
- a majority of them 129
- a minority of them 27
- none of them 0
don’t know 51

total 252
3- If you believe that the International Auditing Standards are not appropriate for Jordan, this is because of:

(a) Difference in religion, please specify

(b) Difference in law:
☐ Corporate law, please specify
☐ Tax law, please specify
☐ Stock market regulations, please specify
☐ Civil law, please specify
☐ Others, please specify

(c) ☐ Difference in culture, please specify

(d) ☐ Difference in economic system, please specify

(e) ☐ Other factors, please specify,

I take this opportunity to thank you for completing the questionnaire.

A preaddressed envelope is enclosed for your convenience.
Survey Questionnaire (C)

(Academics)

Dear Respondent,

This questionnaire is designed to collect information about the suitability of the International Auditing Standards (ISA) for use in Jordan. The empirical study aims to compare shareholders’, managements’, internal auditors’ and external auditors’ views. The empirical study is one of the requirements for a Ph.D thesis entitled “An Evaluation of the International Auditing Standards and their Application to the Audit of Listed Corporations in Jordan”.

I would appreciate you taking the time to complete this questionnaire and provide me with the necessary feedback about the application of the International Auditing Standards in Jordan.

Your information will only be reported in a summary form and all questionnaire responses are confidential.

Thanking you for your assistance with this research

With kind regards

Waleed Abdel-Qader
Ph.D student
UWS Macarthur
NSW, Australia
* A note on word usage in this questionnaire:

Please be advised that the word auditor refers to external auditor.

* Part One: please tick your choice

1- How many years of experience do you have in auditing?
   1-5 5 6-10 7 11-15 3 more than 15 0

2- Is your experience in auditing: (multiple answers possible)
   a- as an academic 11  b- as a consultant for audit firms 3
   c- working as an auditor 1

3- In considering your educational background do you have a :
   Bachelor degree 0  Master degree 3  Ph.D 12

4- Do you have a : (multiple answers possible)
   Foreign professional accounting qualification, please specify 1
   Jordanian CPA 4  no professional accounting qualification 10

5- What percentage of accounting subjects did you complete in your bachelors Degree?
   less than 15% 1  16-30% 1  31-45% 3  46-60% 6  over 60% 4
The scale used in this survey is explained here:

0 = strongly disagree  3 = agree
1 = disagree          4 = strongly agree
2 = neither agree nor disagree  5 = don't know

* Part Two: please tick or circle each of the following questions.

1- Have you participated in teaching in the continuing professional education program in Jordan.
   Yes 8   No 7   Not applicable 0

2- If your answer in question 1 was yes, how many years of experience in teaching do you have?
   1-5 years 4   5-10 years 4   11-15 years 1   over 15 years 6

3- As an academic, what proportion of the auditors in Jordan do you estimate participated in the continuing professional education courses?
   all of them 0   a majority of them 4   a minority of them 7
   none of them 0   don’t know 4

4- As an academic, what proportion of the audit firms in Jordan, do you estimate, have established the minimum academic qualification for the various levels of responsibility within the audit firms?
   all of them 1   a majority of them 2   a minority of them 9
   none of them 0   don’t know 3

5- As an academic, do you consider the auditor should complete formal courses in the Jordanian tax law, if he/she has only a foreign accounting professional qualification, before starting work as a principal.

<table>
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<td>15</td>
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</tbody>
</table>

6- As an academic, do you consider the auditor should complete formal courses in the Jordanian corporate law, if he/she has only a foreign accounting qualification, before starting work as a principal.

<table>
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<tr>
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<th>4</th>
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<td>15</td>
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</tbody>
</table>

7- Do you consider the Jordanian auditors have a sufficient knowledge of computer system:

(a) senior auditors

<table>
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<tr>
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<td>1</td>
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</table>
(b) junior auditors

<table>
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</table>

c) supervisors

<table>
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<th>4</th>
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<td>15</td>
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</tbody>
</table>

8- What category of auditors should have a sufficient knowledge of the computer information system to plan, direct, supervise and review the work performed

a- senior auditors 1
b- junior auditors 0
c- supervisors 2
d- all of them 12

9- The auditors in Jordan should comply with the international code of ethics.

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<th>Scale</th>
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<th>1</th>
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<td>2</td>
<td>15</td>
</tr>
</tbody>
</table>

10- If your answer in question 9 was 0 or 1, please explain your reasoning.

..........................................................................................................................

..........................................................................................................................

11- What level of experience do you consider Jordanian auditors have in areas such as

(a) statistics  very high 0  high 4  medium 5  low 5  very low 1

| Total | 15 |

(b) mathematics  very high 0  high 3  medium 6  low 5  very low 1

| Total | 15 |

(c) rules of ethics  very high 0  high 7  medium 7  low 1  very low 0

| Total | 15 |

* Please tick or circle your answer

1- There is a conflict of interest in performing concurrent internal and external audits for the same client

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<tr>
<th>Scale</th>
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<th>1</th>
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<td>5</td>
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<td>2</td>
<td>15</td>
</tr>
</tbody>
</table>
2- If you perceive any conflict of interest in performing concurrent internal and external audits for the same client, why do you think that? 

3- Is there a conflict of interest in performing any concurrent audit and non-audit services for the same client?

<table>
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4- As an academic, do you consider the size of non-audit services compared with the size of audit services as a percentage is:

very high 0 high 4 medium 8 low 1 very low 0 don't know 2

5- Do you consider the quality of audits in Jordan is:

very high 0 high 0 medium 10 low 4 very low 0 don't know 1

6- If your answer in question 5 was low or very low, do you think this is because the audit fees in Jordan are too low?

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7- There is a conflict of interest if the audit firm has any financial interest in the company they audit.

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8- What percentage of auditors do you consider have a financial interest in a company they audit?

0% 0 1-10% 1 11-20% 3 21-30% 2 over 30% 0

don't know 9

9- What percentage of auditors in Jordan do you consider accept significant gifts from their clients.

0% 1 1-10% 2 11-20% 1 21-30% 2 over 30% 1

don't know 8

10- Accepting significant gifts affects auditors’ independence in Jordan.

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</table>
11- What percentage of auditors in Jordan do you consider are concurrently engaged in other business occupations, or activities which impair independence?

- 0% 0
- 1-10% 2
- 11-20% 2
- 21-30% 2
- over 30% 0
- don’t know 9

12- Audit committees should be established in public companies.

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13- The presence of an audit committee enhances the auditor’s independence.

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* Please tick or circle your answer

1- The auditor should be responsible to detect:

- all fraud 1
- major fraud 4
- minor fraud 4
- should not do that 6
- total 15

2- The management should be responsible to detect:

- all fraud 13
- major fraud 2
- minor fraud 0
- should not do that 0
- total 15

3- The auditors should disclose in the audit report if management does not comply with the International Accounting Standards.

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4- What proportion of the International Accounting Standards, do you consider, are appropriate for Jordan?

- all of them 3
- a majority of them 11
- a minority of them 0
- none of them 0
- don’t know 1
- total 15

5- If you believe International Accounting Standards are not appropriate for Jordan, please explain why...

........................................................................................................

........................................................................................................

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........................................................................................................
6- The auditor should issue a qualified report or disclaimer if he/she discovers material errors or irregularities.

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7- The auditor should be responsible for detecting illegal transactions.

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8- Management should be responsible for compliance with corporate law.

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9- The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity.

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10- What level of detected fraud does the auditor discloses in the audit report?

- all fraud: 0
- major fraud: 6
- minor fraud: 5
- no detected fraud: 2
- not answered: 2
- total: 15

11- What level of detected fraud should the auditor disclose in the audit report?

- all fraud: 1
- major fraud: 12
- minor fraud: 1
- no detected fraud: 0
- not answered: 1
- total: 15

12- The auditor should be responsible for the evaluation of the internal control system.

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13- The audit report should include a statement about the auditor’s evaluation of the internal control system.

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*Part Three: please circle your answer*

1- The audit report includes a clear written expression of the auditor’s opinion on the disclosure in the financial statements.

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2. Materiality is an essential consideration in determining the appropriate audit opinion for a given set of circumstances.

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3. The audit report includes a clear statement about the responsibility of management for the financial statements.

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4. The audit report is considered easy for the users of that report to understand.

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5. The audit report in Jordan includes a statement that describes the entity’s ability to continue in operation in the future.

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7. The auditor should disclose in the audit report the results of reviewing the entity’s plan.

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9. The audit report should include a statement about the auditor’s evaluation of the internal control system.

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*Part Four: please circle or tick your answer*

1. Auditors in Jordan are complying with the International Auditing Standards.

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2- The International Auditing Standards appropriate for Jordan are:


3- If you believe that the International Auditing Standards are not appropriate for Jordan, this is because of:

(a) Difference in religion, please specify..............................................................

(b) Difference in law, please specify,

Corporate law, please specify.................................................................
Tax law, please specify.................................................................
Stock market regulations, please specify........................................
Civil law, please specify.................................................................
Others, please specify.................................................................

(c) Difference in culture, please specify..............................................................

(d) Difference in economic system, please specify.....................................................

(e) Other factors, please specify.................................................................

........................................................................................................

I take this opportunity to thank you for completing the questionnaire.

A preaddressed envelope is enclosed for your convenience.
Survey Questionnaire (D)

(Internal Auditors)

Dear Respondent,

This questionnaire is designed to collect information about the suitability of using International Auditing Standards (ISA) in Jordan. The empirical study aims to compare shareholders’, external auditors’, managements’, and internal auditors’ views.

The empirical study forms one of the requirements for a Ph.D thesis entitled “An Evaluation of the International Auditing Standards and their Application in the Audit of Listed Corporations in Jordan”.
I would appreciate you taking the time to complete this questionnaire and provide me with the necessary feedback about the application of the International Auditing Standards in Jordan.

Your information will only be reported in a summary form and all questionnaire responses are confidential.

Thanking you for your assistance with this research

With kind Regards

Waleed Abdel-Qader
Ph.D student
UWS Macarthur
NSW, Australia
* A note on word usage in this questionnaire:
Please be advised that the word auditor refer to external auditor.

* Part One: please tick your choice

1- How many years of experience in internal auditing do you have?
   1-5 □  6-10 □  11-15 □  16-20 □  over 21 □

2- In considering your educational background, have you completed:
   Bachelor degree □  Master degree □  Ph.D □
   others, please specify □

3- Do you have: (multiple answers possible)
   Foreign accounting professional qualification □  please specify..............
   Jordanian CPA □  no professional accounting qualification □

4- What percentage of accounting subjects did you do in your bachelor degree
   or in your diploma (community college)
   less than 15% □  16-30% □  31-45% □  46-60% □  over 60% □
The scale used in this survey is explained here:
0 = strongly disagree
1 = disagree
2 = neither agree nor disagree
3 = agree
4 = strongly agree
5 = don’t know

* Part Two: please circle or tick each of the following questions*

1- Do you consider the auditors in Jordan have kept up to date by doing continuing professional development education courses after they start their work

- all of them [ ]
- a majority of them [ ]
- a minority of them [ ]
- none [ ]
- don’t know [ ]

2- The audit firms in Jordan should establish a minimum qualification for the various levels of responsibility within the audit firm

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3- The auditors (principals) should complete formal courses in the Jordanian tax law if they only have foreign accounting professional qualification

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4- The auditors (principals) should complete formal courses in the Jordanian corporate law if they only have foreign accounting qualification

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5- Do you consider the Jordanian auditors have a sufficient knowledge of computer system:

(a) senior auditors

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(b) junior auditors

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(c) supervisors

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6- What category of auditors should have a sufficient knowledge of the computer information system to plan, direct, supervise and review the work performed

- a - senior auditors [ ]
- b - junior auditors [ ]
- c - supervisors [ ]
- d - all of them [ ]
- not answered [ ]
7- Do you have information about the international code of ethics?

Yes [22]  No [8]

8- The auditors in Jordan should comply with the international code of ethics.

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9- For your answer in question 8, why do you think that?

........................................................................................................................................................................

........................................................................................................................................................................

10- What level of experience do you consider Jordanian auditors have in areas such as


   total [30]


   very low [0]  total [30]


   very low [0]  total [30]

* Please tick or circle each of the following questions.

1- As an internal auditor, I feel there is a conflict of interest in performing concurrent internal and external audits for the same client.

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2- If you perceive any conflict of interest in performing concurrent internal and external audits for the same client, why do you think that? ...........................................

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3- As an internal auditor, I feel there is a conflict of interest in performing any concurrent audit and non-audit services for the same client.

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4- The size of non-audit services compared with the size of audit services performed by external auditors as a percentage is:

5- Is there a conflict of interest if the audit firm has any financial interest in the company they audit?

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6- The auditors in Jordan accept significant gifts from their clients:

- All of them: [ ]
- A majority of them: [ ]
- A minority of them: [ ]
- None: [ ]
- Don't know: [ ]

7- Accepting significant gifts affects auditors' independence

- All of them: [ ]
- A majority of them: [ ]
- A minority of them: [ ]
- None of them: [ ]
- Don't know: [ ]

8- Auditors in Jordan are concurrently engaged in other business occupation, or activity which impairs independence

- All of them: [ ]
- A majority of them: [ ]
- A minority of them: [ ]
- None of them: [ ]
- Don't know: [ ]

9- Do you think the audit committees* should be established in the companies

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10- The presence of an audit committees enhances the auditor’s independence

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- Please tick or circle your answer.

1- The auditor should be responsible to detect:

- All fraud: [ ]
- Major fraud: [ ]
- Minor fraud: [ ]
- Should not do that: [ ]

Total: [ ]

2- The management should be responsible to detect:

- All fraud: [ ]
- Major fraud: [ ]
- Minor fraud: [ ]
- Should not do that: [ ]

Total: [ ]
3- The auditors should disclose in the audit report if the management doesn’t comply with the International Accounting Standards

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4- Do you consider the International Accounting Standards are appropriate to Jordan?

- All of them [8]
- A majority of them [20]
- A minority of them [2]
- None of them [0]

5- If the International Accounting standards are not appropriate, what are the reasons for that?

6- The auditor should issue a qualified report or disclaimer if he/she discovers material errors or irregularities

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7- The auditor should be responsible for detecting illegal transactions.

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8- Management should be responsible for the compliance with corporate law

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9- The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity

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10- What level of fraud does the auditor discloses in the audit report:

- All fraud [12]
- Major fraud [18]
- Minor fraud [0]
- Does not do that [0]
- Not answered [0]

Total [30]

11- What level of fraud should the auditor disclose in the audit report:

- All fraud [20]
- Major fraud [10]
- Minor fraud [0]
- Does not do that [0]
- Not answered [0]

Total [30]

240
12- The auditor should be responsible for the evaluation of the internal control system.

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13- The audit report should include a statement about the auditor’s evaluation of the internal control system.

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**Part Three: please circle your answer**

1- The auditor obtains sufficient knowledge about the entity before starting the audit stage.

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2- The auditor updates and re-evaluates information gathered previously.

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3- Culture is an important variable that influences the auditor’s judgment about many matters in planning the audit.

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4- The auditor establishes the acceptable materiality level to detect the quantitatively material misstatements when designing the audit plan.

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5- Materiality is considered by the auditors when they evaluate the effect of misstatements.

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6- In planning the audit, the auditor can expect to reduce audit risk to an acceptable low level.

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7- The person who carries out supervisory responsibilities, monitors the progress of the audit by considering whether:

* the assistants have the necessary skills and competence.

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* the assistants understand the audit direction.  

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* the work is being carried out in accordance with the audit program.  

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8- The auditor reviews the audit evidence critically with respect to its validity.  

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9- The audit firms in Jordan provide the auditors with extensive training to develop appropriate cognitive models, for obtaining more comprehensive evidence.  

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10- When obtaining evidence from tests of control, the auditor considers the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk.  

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11- When obtaining audit evidence from substantive procedures, the auditor consider the sufficiency and appropriateness of audit evidence to support financial statement assertions.  

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12- The auditor examines whether the accounting and internal control systems are suitably designed to prevent and/or detect and correct material misstatements when obtaining audit evidence.  

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13- The auditor examines whether the accounting and internal control system have operated effectively throughout the relevant period.  

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14- The auditor reaches the judgment about the strength of the evidence at a reasonable cost to the client.  

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15- The auditor obtains an understanding of the accounting and internal control systems sufficient to plan the audit.  

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16- The auditor obtains an understanding of the control procedures sufficient to
develop the audit plan.

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17- The auditor makes a preliminary assessment of control risk at the assertion level,
for each material account balance or class of transactions.

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18- The auditor ordinarily assesses control risk at a high level for some or all
assertions when:

* The entity’s accounting and internal control systems are not effective.

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* Evaluating the effectiveness of accounting and internal control systems as
not efficient.

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* Part Four: please circle your answer

1- The audit report includes a clear written expression of the auditor’s opinion on the
disclosure in the financial statements.

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2- The auditor considers materiality as an essential consideration in determining the
auditor’s opinion for a given set of circumstances.

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3- The audit report includes a clear statement about the responsibility of management
for the financial statements.

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4- The audit report is considered easy for the users of that report to understand.

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5- The audit report includes a statement that describes the entity’s ability to
continue in operation in the future.

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6. The audit report should include a clear statement about the responsibility of management for the financial statements.

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7. The auditor should disclose in the audit report the result of reviewing the entity’s plan.

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8. The audit report should include a statement that describes the entity’s ability to continue in the future.

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9. The audit report should include a statement about the auditor’s evaluation of the internal control system.

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*Part Five: please tick or circle your answer*

1. The auditors in Jordan are complying with the International Auditing Standards.

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2. The International Auditing Standards appropriate for Jordan are:

- all of them 6
- a majority of them 18
- a minority of them 4
- none of them 0
- don’t know 2
- total 30

3. If the International Auditing Standards are not appropriate to Jordan, do you consider that is because of:-

(a) □ Difference in religion, please specify.................................................................

(b) □ Difference in law, please specify:

□ Corporate law, please specify.................................................................
□ Tax law, please specify.................................................................
□ Stock market regulations, please specify.................................................................
□ Civil law, please specify.................................................................
□ Others, please specify.................................................................

(c) □ Difference in culture, please specify.................................................................

244
(d) Difference in economic system, please specify

(e) Other factors, please specify,

I take this opportunity to thank you for completing the questionnaire.
Appendix A5: Survey Questionnaire (E)

Survey Questionnaire (E)

(Financial Management)

Dear Respondent,

This questionnaire is designed to collect information about the suitability of using International Auditing Standards (ISA) in Jordan. The empirical study aims to compare shareholders’, managements’, internal auditors’, and external auditors’ views.

The empirical study forms one of the requirements for a Ph.D thesis entitled “An Evaluation of the International Auditing Standards and their Application to the Audit of Listed Corporations in Jordan”.

I would appreciate you taking the time to complete this questionnaire and provide me with the necessary feedback about the application of the International Auditing Standards in Jordan.

Your information will only be reported in a summary form and all questionnaire responses are confidential.

Thanking you for your assistance with this research

With kind regards

Waleed Abdel-Qader
Ph.D student
UWS Macarthur
NSW Australia
* A note on word usage in this questionnaire:
Please be advised that the word auditor refers to external auditor.

* Part One: please tick your choice

1- How many years of experience in management do you have?
   1-5 10 6-10 8 11-15 18 16-20 4 over 20 6

2- In considering your educational background, have you completed:
   Bachelor degree 30 Master degree 8 Ph.D. 0
   Community college 8

3- Do you have: (multiple answers possible)
   Foreign accounting professional qualification 6 please specify.................
   Jordanian CPA 6 no professional accounting qualification 28

4- What percentage of accounting subjects did you do in your bachelor degree
   or in your diploma (community college)
   less than 15% 0 16-30% 4 31-45% 16 46-60% 26 over 60% 0
The scale used in this survey is explained here:

0 = strongly disagree
1 = disagree
2 = neither agree nor disagree
3 = agree
4 = strongly agree
5 = don’t know

* Part Two: please circle or tick each of the following questions *

1- Do you consider the auditors in Jordan have kept up to date by doing continuing professional development education courses after they start their work

   all of them  14
   a majority of them  12
   a minority of them  6
   none  10
   don’t know  4

2- The audit firms in Jordan should establish a minimum qualification for the various levels of responsibility within the audit firm

   scale  0 1 2 3 4 5 NA total
   frequency  2 10 6 8 18 0 2 46

3- The auditors (principals) should complete formal courses in the Jordanian tax law if they only have foreign accounting professional qualification

   scale  0 1 2 3 4 5 NA total
   frequency  0 2 6 30 6 0 2 46

4- The auditors (principals) should complete formal courses in the Jordanian corporate law if they only have foreign accounting qualification

   scale  0 1 2 3 4 5 NA total
   frequency  0 2 6 28 8 0 2 46

5- Do you consider the Jordanian auditors have a sufficient knowledge of computer system:

   (a) senior auditors

   scale  0 1 2 3 4 5 NA total
   frequency  0 2 8 24 10 0 2 46

   (b) junior auditors

   scale  0 1 2 3 4 5 NA total
   frequency  0 0 12 18 10 0 6 46

   (c) supervisors

   scale  0 1 2 3 4 5 NA total
   frequency  0 2 8 24 6 0 6 46

6- What category of auditors should have a sufficient knowledge of the computer information system to plan, direct, supervise and review the work performed

   a- senior auditors  10
   b- junior auditors  18
   c- supervisors  12
   d- all of them  0
   not answered  6
7- Do you have information about the international code of ethics?

Yes 20  No 24  not answered 2

8- The auditors in Jordan should comply with the international code of ethics.

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9- For your answer in question 8, why do you think that?

........................................................................................................

10- What level of experience do you consider Jordanian auditors have in areas such as

(a) statistics  very high 0  high 14  medium 22  low 8  very low 2  

   total 46

(b) mathematics  very high 0  high 24  medium 18  low 4  

   very low 0  

   total 46

(c) rules of ethics  very high 2  high 18  medium 26  low 0  

   very low 0  

   total 46

* Please tick or circle each of the following questions.

1- There is a conflict of interest in performing concurrent internal and external audits for the same client.

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2- If you perceive any conflict of interest in performing concurrent internal and external audits for the same client, why do you think that? ....................

........................................................................................................

3- There is a conflict of interest in performing any concurrent audit and non-audit services for the same client.

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4- Comparing size of non-audit services with the size of audit services performed for the same clients, as a percentage are:

very high 0  high 0  medium 26  low 16  very low 2  don’t know 2

5- There is a conflict of interest if the audit firm has any financial interest in the company they audit.

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6- What percentage of auditors do you believe are accepting significant gifts from clients:

0% 2  1-10% 16  11-20% 4  21-30% 8  over 30% 2  don’t know 14

7- Do you consider accepting significant gifts affect the auditors’ independence

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8- Do you consider the auditors in Jordan are concurrently engaged in other business occupation, or activity which impairs independence?

all of them 10  a majority of them 12  a minority of them 4

none of them 4  don’t know 16

9- Do you consider audit committees established by company’s enhances the auditor’s independence.

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* Please tick or circle your answer.

1- The auditor should be responsible to detect:

all fraud 18  major fraud 24  minor fraud 4  should not do that 0

total 46

2- The management should be responsible to detect:

all fraud 38  major fraud 6  minor fraud 0  should not do that 2

total 46

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3- The auditors should disclose in the audit report if the management doesn’t comply with the International Accounting Standards

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4- Do you consider the International Accounting Standards are appropriate to Jordan?

- all of them: 12
- a majority of them: 30
- a minority of them: 2
- none of them: 2

5- If the International Accounting standards are not appropriate, what are the reasons for that?

6- The auditor should issue a qualified report or disclaimer if he/she discovers material errors or irregularities

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7- The auditor should be responsible for detecting illegal transactions.

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8- Management should be responsible for the compliance with corporate law

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9- The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity

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10- What level of fraud does the auditor discloses in the audit report:

- all fraud: 24
- major fraud: 22
- minor fraud: 0
- does not do that: 0
- not answered: 0
- total: 46

11- What level of fraud should the auditor disclose in the audit report:

- all fraud: 20
- major fraud: 26
- minor fraud: 0
- does not do that: 0
- not answered: 0
- total: 46
12- The auditor should be responsible for the evaluation of the internal control system.

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13- The audit report should include a statement about the auditor’s evaluation of the internal control system.

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**Part Three: please circle your answer**

1- The auditor obtains sufficient knowledge about the entity before starting the audit stage.

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2- The auditor updates and re-evaluates information gathered previously.

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3- Culture is an important variable that influences the auditor’s judgment about many matters in planning the audit.

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4- The auditor establishes the acceptable materiality level to detect the quantitatively material misstatements when designing the audit plan.

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5- Materiality is considered by the auditors when they evaluate the effect of misstatements

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6- In planning the audit, the auditor can expect to reduce audit risk to an acceptable low level

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7- The person who carries out supervisory responsibilities, monitors the progress of the audit by considering whether:

* the assistants have the necessary skills and competence.
* the assistants understand the audit direction.

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* the work is being carried out in accordance with the audit program.

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8- The auditor reviews the audit evidence critically with respect to its validity.

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9- The audit firms in Jordan provide the auditors with extensive training to develop appropriate cognitive models, for obtaining more comprehensive evidence.

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10- When obtaining evidence from tests of control, the auditor considers the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk.

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11- When obtaining audit evidence from substantive procedures, the auditor considers the sufficiency and appropriateness of audit evidence to support financial statement assertions.

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12- The auditor examines whether the accounting and internal control systems are suitably designed to prevent and/or detect and correct material misstatements when obtaining audit evidence.

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13- The auditor examines whether the accounting and internal control system have operated effectively throughout the relevant period.

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14- The auditor reaches the judgment about the strength of the evidence at a reasonable cost to the client.

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15- The auditor obtains an understanding of the accounting and internal control systems sufficient to plan the audit.

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16- The auditor obtains an understanding of the control procedures sufficient to develop the audit plan.

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17- The auditor makes a preliminary assessment of control risk at the assertion level, for each material account balance or class of transactions.

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18- The auditor ordinarily assesses control risk at a high level for some or all assertions when:

* The entity’s accounting and internal control systems are not effective.

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* Evaluating the effectiveness of accounting and internal control systems as not efficient.

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* Part Four: please circle your answer

1- The audit report includes a clear written expression of the auditor’s opinion on the disclosure in the financial statements.

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2- The auditor considers materiality as an essential consideration in determining the auditor’s opinion for a given set of circumstances.

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3- The audit report includes a clear statement about the responsibility of management for the financial statements.

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4- The audit report is considered easy for the users of that report to understand.

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5- The audit report includes a statement that describes the entity’s ability to continue in operation in the future.

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6- The audit report should include a clear statement about the responsibility of management for the financial statements

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7- The auditor should disclose in the audit report the result of reviewing the entity’s plan

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8- The audit report should include a statement that describes the entity’s ability to continue in the future

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9- The audit report should include a statement about the auditor’s evaluation of the internal control system.

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* Part Five: please tick or circle your answer

1- The auditors in Jordan are complying with the International Auditing Standards.

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2- The International Auditing Standards appropriate for Jordan are:

- all of them
- a majority of them
- a minority of them
- none of them
- don’t know

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3- If the International Auditing Standards are not appropriate to Jordan, do you consider this is because of:-

(a) [ ] Difference in religion, please specify………………………………………

(b) [ ] Difference in law, please specify…………………………………………

(c) [ ] Corporate law, please specify………………………………………………

(d) [ ] Tax law, please specify…………………………………………………………

(e) [ ] Stock market regulations, please specify………………………………………

(f) [ ] Civil law, please specify………………………………………………………

(g) [ ] Others, please specify…………………………………………………………

(h) [ ] Difference in culture, please specify………………………………………

(i) [ ] Difference in economic system, please specify……………………………

255
(e) □ Other factors, please specify, .................................................................
..................................................................................................................
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I take this opportunity to thank you for completing the questionnaire.

A preaddressed envelope is enclosed for your convenience.
Appendix B: The sample of the study

Appendix B1: The sample of the listed companies in Jordan

1- Arab Bank
2- Jordan National Bank
3- Cairo Amman Bank
4- The Housing Bank
5- Industrial Development Bank
6- Jordan Islamic Bank for Finance & Investment
7- Al-Nisr Al-Arabi Insurance
8- Jordan Electric Power
9- Arabian Seas Insurance
10- Jordan Cement Factories
11- Arab Potash
12- Jordan Paper & Cardboard Factories
13- Jordan Rockwool Industries
14- Jordan Petroleum Refinery
15- Arabian Steel Pipes Manufacturing
16- National Aluminium Industrial
17- General Engineering Industries
18- Arab Electrical Industries
19- The Union Tobacco & Cigarette Industries
20- Modern Food Industries & Vegetables oil
21- Livestock and Poultry
22- Nayzak Dies & Moulds Manufacturing
23- Vehicles Owners Federation
24- Real Estate Investment/Akarco
25- Jordan Press Foundation/ Alra’I
26- Al-Sharq Investments Projects
27- United Arabs Investors
28- Jordan Phosphate Mines
29- Intermediate Petro-Chemicals Ind.
30- Jordan Chemical Industries
31- Aladdin Industries
32- Universal Modern Industries
33- Jordan New Cable
34- International Tobacco & Cigarettes
35- Arab Inv. & International Trade
36- Arab Food and Medical Appliances
37- International Textile Manufacturing
38- Jordan Medical Corporation

Appendix B2: The sample of the accounting departments in universities of Jordan

Government Universities
University of Jordan
Yarmouk University
Muta University
Hashimite University
Al-Albait University

Private Universities
Applied Sciences University
Amman University
Philaadelphia University
Al-Isra’ University
Al Zaitounah University
Petra University
Jerash University
Al-Zarqa University
Irbid University
Appendix B3: The sample of audit firms

Saba & Co.
Allied Accountants
Abu Ghazaleh & Co.
Abbasi & Co.
Khleef & Co.
Khaleefa & Iman for Auditing
Ninoo for Auditing
Sada for Auditing
Abu Shareeha for Auditing
Sab & Co.
Manar for Investments and Auditing
Al-Maddad for Auditing
The Arab Professionals
Saada’ & Co.
Fetyan for Accounting
Al-Saudi & Co.
Arnest & Young
An Evaluation of the International Auditing Standards and
Their Application to the Audit of Listed Corporations in
Jordan

This thesis is submitted in fulfilment of the requirements for the award of the degree
of Doctor of Philosophy

From

The University of Western Sydney

By

Waleed Abdel-Qader

School of Accounting

The University of Western Sydney

Australia 2002
PLEASE NOTE

The greatest amount of care has been taken while scanning this thesis,

and the best possible result has been obtained.
Multimedia item accompanies print copy
Statement of Authentication

The work presented in this thesis is, to the best of my knowledge and belief, original except as acknowledged in the text. I hereby declare that I have not submitted this material, either in whole or in part, for a degree at this or any other institution.

................................................
(Signature)
Acknowledgments

I am particularly indebted to my supervisor, Prof. Garry Tibbits, whose knowledge, support, criticism, comments and encouragement were essential in developing this thesis. I am grateful for his valuable comments and endless patience in my attempts to complete the Ph.D. Also I thank my Co-supervisor Associate Professor John Ryan for his help and comments.

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This thesis is dedicated to my parents for their support and patience.
Abstract

This thesis found that many criticisms were directed to the International Auditing Standards. Therefore, the ISA needs more interpretations and improvements to be more applicable and suitable for Jordan.

The thesis concluded that the external auditors in Jordan are complying with the International Auditing Standards. From the perceptions of external auditors, shareholders, academics, internal auditors, and financial management an audit expectation gap found in Jordan. External auditors, shareholders, and ISA are responsible for that gap. Improvements are needed to both of auditor’s performance and the International Auditing Standards to bridge the audit expectation gap. Furthermore, this thesis introduces recommendations to eliminate the shareholders’ unreasonable expectations, which is one of the reasons for the audit expectation gap in Jordan.
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<td>AICPA</td>
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<td>ISA</td>
<td>International Standards on Auditing</td>
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<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
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<td>SEC</td>
<td>Security and Exchange Commission</td>
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<tr>
<td>SAP</td>
<td>Statement on Auditing Procedure</td>
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<td>IAPC</td>
<td>International Auditing Practice Committee</td>
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<tr>
<td>AAAC</td>
<td>American Accounting Associations Committee</td>
</tr>
<tr>
<td>AFM</td>
<td>Amman Financial Market</td>
</tr>
<tr>
<td>CIS</td>
<td>Computer Information System</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>OECD</td>
<td>Organisation for economic Co-operation and Development</td>
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<tr>
<td>POB</td>
<td>Public Oversight Board</td>
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<td>EA</td>
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<td>IA</td>
<td>Internal Auditors</td>
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