

Overview of the audit profession in Jordan: Review the change and development of the profession

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Abstract: *The paper aim is to overview of the audit profession in Jordan. To satisfy the aim, the author carries out secondary research in which past research on the topic has been evaluated and the following findings have been found. for this, the author has considered 1982 to present as a relevant period for conducting this research. Additionally, “establishment of audit firm in Jordan”, “overview of Jordan”, “ the Jordanian capital market”, “the corporate governance implementation in Jordan”, “the Jordan Association of Certified Public Accountants”, “the role of International Financial Reporting Standards in Jordan”, and other related search terms have been used for obtaining the required data. Firstly, the accounting system in Jordan has been significantly influenced by British accounting and at the same time, recently, with the adoption of IAS/IFRS, which mirrors British accounting standards, this influence has become greater.*

Keywords: *audit, auditing profession, Emergence, Development, Jordan*

I. INTRODUCTION

The importance of the audit profession is a necessity to meet the needs of the community where the audit is expected to be always in the evolution and modernity in order to meet the evolving needs, This is because the desires and expectations are different, the categories that are of interest to the auditor's report are many and renewable. Since different categories may have different interests with different desires and expectations, for example, users rely on audited financial statements when deciding to direct and investment until they achieve the greatest possible return. Commercial banks adopt audited financial statements from a neutral technical body when checking the financial focus of projects which apply for loans and facilities. Economists rely on these lists in their national income report and in planning economy. All stakeholders rely on the financial statements thus it requires to raise the bar on the quality produced by auditors.

The gap between management, shareholders and other external parties based on the financial statements has had an impact on data reliability. In addition, to the development of economic processes and the complexity of accounting transaction thus the financial reporting process are susceptible prone to misstatement which reflected negatively on the financial statements. Therefore it needs to auditing.

These factors have contributed to the increased need for an external impartial auditor where the auditor's role is to obtain and evaluate objectively relevant evidence of economic events for the purpose of ascertaining the degree to which these elements meet objective criteria and then communicating the results to the parties concerned in order to satisfy beneficiaries of the financial statements (Peecher, Solomon, & Trotman, 2013). Because the concept of audit quality varies depending on where it is viewed, the audit quality becomes a controversial issue. Financial reporting users may believe that high audit quality is should be free from material misstatement of fraud or errors. The auditor believes that the high audit quality is related to the extent of his conviction that the audit was performed within the methodology approved by the audit firms, in a manner that achieves legal protection for him in particular and for the audit firms in a more comprehensive manner. Audit bodies may consider the high quality of auditing linked to the auditor's compliance with professional standards and requirements (Knechel et al, 2013).

Therefore, this study aims to overview of the audit profession in Jordan its origin and development. This paper will contributed to the literature by fills the gap in the auditing research in Jordan. Additionally, this paper

discuss the emergence of the Amman capital market and its effect on the audit profession. The remainder of this paper is structured as follows: A brief overview of Jordan and Jordan Annual GDP Growth in the second sections of the paper. Section three discuss the emergence of the Amman financial market, the Jordanian Capital Market, restructure the Jordanian capital market, and the corporate governance implementation in Jordan. Fourth section, Professional Auditing Examination, The Jordan Association of Certified Public Accountants. Section five, audit firm (establishment of audit firm in Jordan), and the role of International Financial Reporting Standards in Jordan. Finally, conclusion and future research are discussed.

II. Jordan - Historical Background

2.1 Overview of Jordan

The Hashemite Kingdom of Jordan is one of the Arab countries located in the Middle East with a small area of 92342 square kilometers (Freihat et al, 2016). Jordan ranks 92nd among the world's countries in terms of population. The population of Jordan by August,2019 was estimated to be 10,084,659 people. The Jordanian population was about 6,773,694 people in 2019 or about 69% of the total population of the Kingdom, compared to the 31% of non-Jordanians (DOS, 2019). Jordan gained its independence from the British Mandate in May, 1946. After independent, the Jordanian government established large companies to support the Jordanian economy, such as the potash and fertilizer industry (Marashdeh,2014). Which led to the growth of the economy in the 1950s and 1960s, which led to increased demand for accounting in Jordan (Freihat et al, 2016), the Jordanian government continued to expand the scope of the government sector. In 1976, it established the Amman Financial Market (AFM) to organize the national savings program and issue and trade shares of public companies (Freihat et al, 2016; Abu-Nassar & Rutherford, 1996).

The Jordanian government continued to control the accounting and auditing profession until 1987, which there were no officially recognized professional bodies in Jordan until the promulgation of Law No. 32 of 1985 for the first professional body for auditing in Jordan, Law No. 42 of 1987 was issued in accordance with Article 18 of the Auditing Profession, Law No. 32 of 1985 (Abu-Nassar & Rutherford, 1996). The Jordanian Association Of Certified Accountants (JACPA), which was a significant start to the development and regulation of the auditing profession in Jordan (Al- Farah et al., 2015).

The Jordanian government has promulgated laws and regulations to control the profession of accounting, auditing, and companies, including Law No. 22 of 1997 dealing with Jordanian companies. In 2002, the Securities Law and the Stock Exchange Law No. 76 were issued. After that, Law of Organizing the Profession of Jordanian Certified Public Accountants No. 73 of 2003 was issued. In 2006 Jordanian government passed a law, No. 7 of 2006, the Jordanian Legal Accounting Profession (Al-Atawneh, 2016).

2.2 Jordan Annual GDP Growth

Jordan relies economically on three main sectors to support its economy: tourism, trade, and services, such as financial institutions, hospitals, and the education sector (Abdullatif and Al-Khadash, 2010). Jordan has limited natural resources such as oil and water, so it follows the strategy of developing the tourism sector, banks, insurance, and the industrial sector to increase state revenues (Al- Shbail et al, 2018). Jordan's economy remains slow with a GDP by 2.0 % in 2017 (IBRD.IDA, 2018). The table below shows Jordan's annual GDP growth.

Table 2.1: Jordan Annual GDP growth

	2002	2003	2007	2008	2009	2010	2011
Jordan Annual GDP Growth	5.8	4.2	8.2	7.2	5.5	2.3	2.6
	2012	2013	2014	2015	2016	2017	2018
	2.7	2.8	3.1	2.4	2.0	1.97	1.9

Source: World Development Indicators

Series : GDP growth (annual %)

According to Al-Sraheen (2014) Jordanian companies listed in ASE are of the contribution of 73% of Jordan GDP. With encouragement from the government, the industry played an increasingly important part in Jordan's economy. About one-third of Jordan's rapid economic growth was due to the industrial sector. The industrial sector's share of GDP grew at an average rate of around 35% in the 1970s which doubled in the last two decades. Despite this enormous growth, the share of the services sector was even higher due to activity in the real estate market (Marashdeh, 1996). According to DOS (2019) Jordan GDP growth 2% in 2018, marginally lower than growth in 2017 while services sector contributing 1.5% to GDP growth, followed by the industrial sector 0.4 percent to GDP growth.

III. The Emergence of the Amman Financial Market

3.1 The Jordanian Capital Market

The Amman Financial Market (AFM) was established in 1976 by the Central Bank of Jordan to organize the national savings program and to regulate the issuing and trading of public companies' shares (Freihat et al., 2016). During that time, around 57 companies were listed on AFM after which the list increased to 120 companies by 1988 (Abu-Nassar and Rutherford, 1996). There were almost 241 public shareholding companies registered in the Jordan Securities Commission in 2019 (JSC, 2019).

The list of companies should disclose their performance and any material progress in their affairs that might influence the prices of stocks, according to Article 17 of the Amman Financial Market, Law No. 31 (1976) (Naser, 1998; Naser & Al- Khatib, 2000). The AFM's establishment has encouraged investors to establish more public companies in Jordan and in turn, the demands of the accounting and auditing profession have increased (Freihat et al., 2016). The establishment of AFM and its subsequent developments brought about major impacts on the accounting and auditing profession in Jordan (Al-Rai & Dahmash, 1998).

3.2 Restructure the Jordanian Capital Market- Law NO. 23 (1997)

Under law No. 23 of the year 1997, was aimed to restructure the Jordanian capital market, The Law provided for setting up three new institutions to replace AFM, namely: ASE was established in 1999, for trading public securities (Marashdeh, 2014). The JSC which regulator and supervise the equity market. The SDC which preservation investor and arbitrates transactions (Freihat et al., 2016). Companies listed on the ASE shall appoint an external auditor to audit the financial statements and assess the continuity of the company. To ensure continuity due to instable business environment, thus the role of an external auditors to assess the risk that could exposed companies listed on ASE (Al-Khaddash et al., 2013).

3.3 The corporate governance implementation in Jordan

Six dimensions of corporate governance in Jordan, which are extensively stated in the Company Law 1997 and its mandates of 2002, and some in the Securities Law of 2002, are the legislative framework and government oversight, a capital market, disclosure and accounting standards, transparency in privatization, effective supervision of board of directors, preservation of property rights and lastly protection of the minority rights (Khoury, 2003). The one who controls a company will assume an essential role in enforcing provisions of corporate governance of the Company Law (World Bank, 2004).

The Company Law provides some rules of corporate governance in regards to the auditor of the corporation. It states requirements for what should be contained in the auditor's report and the way of appointing the auditor. The Company Law allows for the appointment of an auditor in an annual general shareholders' meeting for a period of one year; the auditor should not be removed during the period of auditing except for reasons specified in the law. The independence of the auditor is protected by the law. The auditor reports an opinion about the financial statements to the general shareholders based on international standards of auditing and the law.

The 1997 Company Law introduced the first provisions of the governance- policy framework to focus on the protection of the rights of shareholders, equitable treatment of shareholders and their role in corporate governance, and the board of directors' responsibilities. Furthermore, the 1997 Company Law required listed companies to form audit committees comprising of three non-executive directors. However, the responsibilities

of the audit committee, particularly with respect to compliance with the requirements of the JSC, were not laid down until the enactment of the 2002 Securities Law (Al-Akra et al, 2009).

IV. Professional Auditing Examination

4.1 The Jordan Association of Certified Public Accountants

Jordan Association of Certified Public Accountants (JACPA) was founded in 1988 under the 42/1987 law as an independent financial and managerial entity with the rights to own tangible and intangible assets as well as the right to practice all required laws to adhere its visions. A chairman will represent JACPA and a committee consists of Certified Public Accountants – about (596) members is present. The committee plays a role to negotiate the annual report of the association and certifies the financial statement, closing statement, choosing the auditors for the association records, electing the chairman and board members and also reviewing the related legislations of the audit profession (JACPA, 2019).

International accounting standards were adopted by JACPA in 1989 but JACPA still did not have the legal power to impose Jordanian companies to adhere to its recommendations. The New Company Law of 1997 outlined that accounting practices adopt accounting standards internationally and implemented as a basis. International accounting, auditing, and performance evaluation standards were adopted by the Securities Commission Law 1997 for all entities supervised by the Securities Commission (Al-Akra, Ali, & Marshdeh, 2009).

The first amendment demanded that JACPA became an organization that is administratively independent and self-funded (JACPA Law 2002, Article 7), while the second amendment required JACPA to join the High Council of the Accounting Profession which gave JACPA new powers including the responsibility to draft its own regulations, disciplinary authority towards its members and the right to carry out an inspection on the working permits of the members (Abdullatif & Al-Khadash, 2010; Obaidat, 2007).

The main responsibility of JACPA is to develop the technical level of the association members (Note 1), then it has to monitor the professional code of ethics, encourage and support scientific research of different fields in the auditing profession, and raise awareness of the rules and principles of accounting (Al-Farah et al., 2015).

An organization that promulgates and develops local accounting and auditing standards does not exist in Jordan even though international standards are adopted, as stipulated in the company law where the financial reporting and auditing framework applicable are stated. Also, the company law will determine the sort of companies which are required to prepare audited financial statements (Atmeh, 2016).

V. Audit Firm and The role of International Financial Reporting Standards

5.1 Establishment of audit firm in Jordan

The first audit firm was established in Amman, the capital city of Jordan, George Khadar's audit firm in 1944 (Abdullah, 1982). Prior to that, audit service was provided through Palestine audit firms (Obaidat, 2007). The professional codes were highly affected by British law and regulation in the 1920s and 1930s and were limited to British auditors and the audit profession was only located at Russell & Co audit firm (Obaidat, 2007; Alshiab, 2003). After 1948, the audit profession increased in size as auditors moved out from Palestine to Amman (Abdullah, 1982). Currently, there are 327 audit firms operating in Jordan (According to Statistics of Jordan Association of Certified Public Accountants (JACPA) in 2019). According to Alzeaideen and Al-Rawash (2018), the companies listed on ASE which audited by big 4 audit firms constitute of 77% , whereas companies audited by local audit firms were 33%. In the 1950s, a high number of accounting and audit firms was established in Jordan and until the 1960s, the profession in the country remained uncontrolled or unregulated (Abdullatif & Al- Khaddash, 2010).

The first law regulating the auditing profession was issued by the Jordanian government in 1961, which is No. 10 of 1961. Between 1961 and 2003, three law to regulate the auditing profession were issued. While limited in scope, the Audit Law No. 10 of 1961 was amended by the Auditing Profession Act No. 12 1964 to

require financial statements of public companies to be audited (Abdullah, 1982). A new practice in the accounting profession was then issued in June 2003 which covered the legal accounting profession (JACPA, 2019).

5.2 The role of International Financial Reporting Standards in Jordan

Before 1997, no accounting and auditing standard-setting bodies were legally established in Jordan and the regulating process of the accounting practice in Jordan was solely promulgated by the government, the Ministry of Industry and Trade with the presence of the private sector playing a very minor role. Enforcement mechanism, specifically punitive did not exist to ensure compliance of the requirements of disclosure by the law. Like other developing countries, the accounting regulation in the country experienced many weaknesses. The Jordanian government then enacted the Company Law No.22 in 1997 and then in 2002 the Securities Law No. 76. Both of the laws allowed the use of IAS/IFRS by all public shareholding companies in Jordan (Al-Akra et al., 2009).

Any itemization or guidelines for measurement and disclosure were lacking before 1997. The practice of disclosure in Jordan was determined by the 1964 Companies' Act (amended in 1989) and the Commerce Code of 1966. Jordanian firms were required by the Income Tax Laws and the Amman Financial Market to prepare annual reports according to the Generally Accepted Accounting Principles (GAAP) but failed to provide the interpretation of what constitutes GAAP (Naser, 1998).

Jordanian companies were recommended by JACPA to adopt International Accounting Standards starting from January 1990. Then in 1996, Jordan started its privatization program and to ensure its success, Jordan revamped the rule of corporate disclosure by enacting the 1997 Company Law, the 1997 Temporary Securities Law, and the 2002 Securities Law (ASE, 2019).

There is a higher pressure to change international accounting practices due to globalization and integration of capital markets, the greater mobility of monetary and actual goods and the development of new technologies. Jordan has been pressured to coincide towards a global benchmark, IAS, applied by several international institutions including the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC), the International Organization of Securities Commissions (IOSCO), the World Bank and the International Monetary Fund (IMF). Jordan then agreed with the European Commission for the Jordanian listed companies to adopt IAS/IFRS (Al-Akra et al., 2009).

After independence, Jordan remained a monarchy ruled by the family appointed by the British during their rule of Jordan. These associations made the transfer of the British model in regard to the training of accountants and the organization of the profession seem natural (Arafat, 2002; Hutaibat, 2005; Sale et al., 2007; Nassar et al., 2011). The accounting system in Jordan has been significantly influenced by British accounting and recently, with the adoption of IAS/IFRS, which mirrors British accounting standards, this influence has become greater. Jordan remained a monarchy ruled by the family appointed by the British rule even after independence.

VI. Conclusion

The important of the audit profession is a necessity to meet the needs of the community where the audit is expected to be always in the evolution and modernity in order to meet the evolving needs. This study focused on covering the auditing profession in Jordan and its development since when Jordan was under British occupation to the present. Additionally, this study shows that until 1944; there were no audit firms, which practice the audit profession in Jordan. Therefore, Jordanian companies were audited by Palestine audit firms. More importantly, discuss the emergence of the Amman capital market, as a result, increased the demand for an audited financial statement which were listed to obtain reasonable assurance about the validity and reliability of the financial statement to make decisions from the third party such as investors and lenders. The current study contributions to research in auditing area in the MENA countries such as Jordan, since there are small research made on the development of the auditing profession. Hence, it is fills the gap in the literature. Future research can be made on the quality of audit provided by the Jordanian audit firms among external audit after adopted the International Standards on Auditing.

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