

Areas of Improving the Quality Performance of the External Auditors Firms in the Business Environment in Jordan

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Abstract

The importance of this study has arisen from addressing the Jordanian business environment, where the accounting and auditing profession have significant changes to meet the requirements of the regulations, the financial and economic legislations and changes in the Information Technology environment. The study primary aims to identify areas through which the quality of external audit in the Jordanian business environment can be improved. One of the most important findings of the study is that there is a clear impact of the study variables, represented by the existence of regulatory system of quality control performance and the use of information technology by the external auditing firms, as well as the activation of the legal accountability of the audit firms to improve the quality of auditing services in the business environment. The most significant recommendations of the study are the need to activate the means of performance control on the audit firms and reliance on the information technology and modern information systems as well as increasing the awareness of the auditors to their legal responsibilities when auditing the activities of the data framework in accordance with the international audit and assurance standards.

Keywords: Quality audit, external audit, legal accountability of the external auditor, quality performance, audit standards.

Introduction

Accounting and internal and external audit experienced progress, represented in the interest of professional organizations and scientific bodies in the quality of the professional performance of the accounting and auditing firms, particularly after the emergence of the concept of total quality and institutional governance and its applications in the modern management thought in the industrial organizations. The service organizations began directing their concerns for the subject of quality as a strategic tool for achieving competitive advantage in the service market and a means to develop market share, as well as to improve profitability rates and achieve customer satisfaction.

The quality performance of audit firms is deemed an important requirement for all parties and the beneficiaries receiving auditing service, following to the appearance of financial problems in a number of business organizations worldwide, which has been associated with the credibility and quality of the auditor's work, but determining the quality of performance of external audit is so difficult due to the multiple beneficiaries of such service. The beneficiary considers the quality performance of the audit, in the light of its fulfillment to his desires and needs, while the professional institutions consider it in the light of the auditor's commitment to the established professional standards and rules agreed. There are also many features and factors that may affect the quality of audit performance, which are associated with the Audit Firm, the customers, auditing process, professional organizations and users of the financial reports.

Research Problem and Questions:

Audit service activity is highly sensitive because of the high degree of impartiality and independence of the external auditor. Important questions were raised on reliability and quality of the independent auditor's report on the financial reports of the organizations as a result of the collapse of some international organizations. Such collapse is linked to errors or fraudulence of these organizations; either because of the participation of the audit firms in fraud or their inability to discover errors and deviations (such as Anderson Impact). The global financial crisis has produced a climate characterized by a lack of confidence in the work of the Auditors and audit firms in general, in addition to the amendments made to the audit profession Act in Jordan No. 73 to 2003: **Based on the foregoing, the study problem can be represented by the following questions:**

- 1) Would the regulatory professional system on the quality performance of audit firms in Jordan enable us to achieve quality audit therein?

- 2) Does the use of IT technology by auditors in the Jordanian business environment contribute to their development of high quality performance?
- 3) Would the development and activation of legal accountability enable the audit firms in the Jordanian business environment to develop quality performance?

Hypotheses:

Based on the foregoing problem elements the following hypotheses can be presented:

- H1:** The existence of professional regulatory system on the quality of audit firm performance in the Jordanian Business environment would enable achieving the audit quality activities.
- H2:** The use of IT technology by the Audit firms in the Jordanian business environment will contribute to the development of quality performance.
- H3:** The development and activation of legal accountability would enable the audit firms in the Jordanian business environment to develop their quality performance.

The Model of the Study:

The model of the study consists of independent variables and a dependent variable according to the following model:

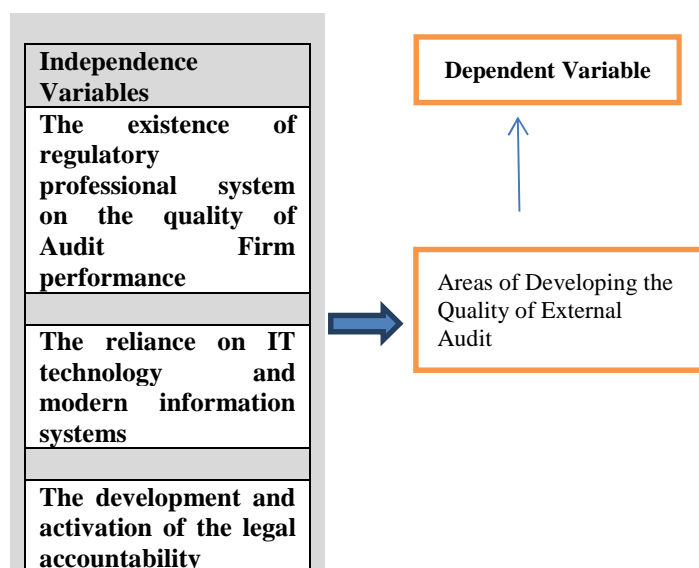


Figure (1) – prepared by the researchers

The Importance of the Research:

The significance of this research arises through the analysis and study of the followings:

1. The development of audit firms performance in the Jordanian business environment to meet requirements of Amman Exchange Stock Market, and the financial and economic legislations.
2. Analyzing the factors that could elevate the profession of auditing in the Jordanian business environment under financial, economic and renewable technology changes.

The Objectives of the Research:

The researchers of this study aim from their choice to the subject of this research to achieve the following objectives:

- 1) Recognition of the nature of the changes took place in audit profession in the Jordanian Business environment under the financial, economic and renewable technology.
- 2) To identify the areas and means by which the audit quality could be improved in the Jordanian Business environment and to present recommendations that would improve the auditing profession.

Research Methodology:

The descriptive analytical approach has been used in this research as the research was divided into two parts:

First: Theoretical Part: With reference to the literature, periodicals and books to achieve a conceptual framework for research.

Second: Practical Part: Includes a field study by using a survey form, personal interviews, observations, queries and clarifications, with the assistance of the statistics program (SPSS). To complete this part, the content analysis approaches has been adopted through the concluded results, data and indicators of the field studies and determination of the final outputs which were converted into data and information on which the researchers relied on as the basis for developing their proposals and recommendations.

The Study Community and Sample:

The community of the study consisted of Auditors working in main and significant audit firms in Jordanian business environment. The study sample included (40) auditors who work in (10) certified audit firms in Amman.

Previous studies:

- **(Al-Deneibat et al, 2012)** study aimed to test the extent of impact of the amendments to the Act of regulating the accounting profession No. 73 of 2003, on the quality of the profession, in view of the certified auditors in Jordan. The results of the study showed that the amendments of organizing the certified audit profession Act; whether related the certified auditor or organizing the profession has an impact of medium degree on the quality certified audit profession, as well as such amendments help in achieving the purposes of the Act at medium degree too. The results indicate that such amendments, in spite of it is for the benefit of the certified auditors, society and users of the financial data, are not at the level required.
- **(Azzah, 2014):** The article presents a case study on the effects of an external quality audit in the Al-Musanna College of Technology in Oman. Topics covered include an overview of the College, the online survey used in the study, and analysis of the findings from the online questionnaire with a focus on academic staff perception on different audit impacts. An overall comparison between internal and external audit is also provided based on the findings.
- **(Mahsood, 2012):** This study analyses the extent to which external audits in Australia have improved quality assurance in universities over the past 10 years. The analysis is based on discussions with 40 participants in a workshop on the effectiveness of audits and the review of 60 external quality audit reports between 2001 and December 2010. The research found that while external audits have led to an improvement in systems and processes in Australian universities, they have not necessarily improved the student experience. This lack of impact on the student experience in Australia is similar to other countries, according to the literature review. This study is timely in its analysis on the effectiveness of the current improvement-led audits, as government in Australia is in the process of renewing quality assurance arrangements of higher education institutions with a focus on standards and outcomes.

Description of the Search Variables:

In the light of the changes in the Jordanian business environment and intense competition between the international Audit firms, the most important methods of improving and developing the quality of the external auditors are:

1. **The existence of a control system on quality performance:** the Quality control mechanisms are divided into major sections: (Shawky et al, 2003)
 - ✓ Quality assurance processes: quality assurance terminology refers to the audit procedures and internal control on the quality conducted by audit firm itself.
 - ✓ Quality control processes: quality control terminology refers to external auditing conducted by a neutral external party to determine the extent of audit firm commitment to quality control system. The American Institute of Certified Public Accountants issued a program called (Peer Review Program), which compels the audit firms to register in certain committee in the Institute, which is specialized in evaluating the performance of auditing firms, where such committee examines and evaluates the quality control system and then issues a report on the results of such examination. The committee has set standards for quality control of the American Institute of Certified Public Accountants, the elements and requirements of quality control as set in the following table: (Basal, 2003)

**Table No. (1)
 Quality Control Elements and Requirements**

Quality control elements	Requirements
- Independence - Honesty - Objectivity	Auditors must maintain their independence in terms of both the essence and appearance and to perform their professional duties honestly, and to maintain objectivity in the performance of their responsibilities.
- Personnel management	Policies and procedures must be designed to give the assurance that: All new persons are qualified to carry out their work efficiently. The work has to be assigned to trained persons who possess the required skills. All personnel must attend continuing professional education programs and professional development activities, so that they can perform their works assigned.
The acceptance of a Client and continuing with the old Client	- Policies and procedures must be designed to determine whether you should accept a new client or continue with an old client. Such policies and procedures must be designed to reduce the communication risks with a customer of low management efficiency to the least limit as possible. - Audit firm must accept customer orders in accordance with professional integrity component.
Performance of the auditing job	There must be policies and procedures that lead to ensure that the work performed by the Audit Firm is done in accordance with generally accepted professional standards, regulatory requirements and quality standards established.
Control	Policies and procedures must be established to ensure that the four above-mentioned quality control elements are applied effectively.

It is noted that the elements and requirements of the above-mentioned quality control, if available in the audit firms in the Jordanian business environment, will develop the external audit quality.

2. The Use of Information Technology:

The advantages of using modern information systems in auditing are represented in the followings: (Mortadha, 2002)

- Maintaining the professional expertise in the various specialized areas of audit firms by documenting the use of accounting software.
- Publishing and distributing expertise within and outside the audit firms.
- Improving workers' productivity in the audit firms.

3. Legal accountability:

In the context of attempts aimed to achieve a successful audit, the efforts of the professional organizations, especially IAASB – IFAC, focused on the issuance and development of the professional standards and data, as well as many developments in the criteria relevant to the auditing failure, mainly: (IFAC, 2004)

- Expanding the responsibility of auditors for fraud and error when auditing the financial statements and providing reasonable assurance principle.
- The auditor's responsibility for the appropriateness of using the hypothesis of organization's continuity by the management.
- Expanding the responsibility of the Auditor's communications with assigned management of the organization in matters related to audit.

Data Presentation and Testing Hypotheses:

The respondents were requested determine the degree of agreement and disagreement according to their own convictions. The instrument of the study reliability had been tested statistically by testing the questionnaire questions reliability by using alpha Cronbach coefficient and it has been found that alpha value is (69%). It is a good value which indicates the reliability of the dimensions of the variables of the study. The results of data analysis were as follows:

The First Hypothesis:

Table(2)
Demonstrates the Arithmetic Means and Standard Deviations of the First Hypothesis Variables

Ser.	Question	Arithmetic mean	Standard Deviation
1	Making sure that there is no special relation between the audit firms and the organizations their works being audited.	4.57	0.50
2	Testing and assessment for applicants for positions in audit firms are conducted.	4.26	0.70
3	The desired available experiences is selected in beginner Auditors (academic background – experience – certificates).	4.71	0.46
4	Personnel of audit firms participate in the continuing professional education programs.	3.89	0.83
5	Personnel of audit firms participate in the conferences, seminars and preparing articles and researches to the participant in these conferences.	4.37	0.77
6	The number of individuals required for each process is determined according to the time needed.	4.71	0.46
7	The time requires is estimated for each audit.	4.89	0.32
8	A work plan is prepared clearly and specifically for each audit.	4.74	0.44
9	A detailed program is developed for each audit process separately.	4.29	0.79
10	The work of the auditors is reviewed by other auditors.	4.00	0.77
11	The work of the auditors is reviewed by other audit firms.	1.26	0.44
12	The extent of adherence to the policies and procedures of quality control are followed-up and examined by the Auditors of the same Firm.	3.74	0.74
13	The extent of adherence to the policies and procedures of quality control are modified and tested by the Auditors of the same Firm as required.	3.66	0.48
14	The extent of adherence to the policies and procedures of quality control are followed up and examined by the Auditors of other audit firms.	1.29	0.46
	The arithmetic means of averages	3.88	0.42

It has been noted in Table 2 that the arithmetic mean of questions collectively is 3.88, which is higher than average measurement tool, which 3.00, and the standard deviation of the questions collectively is 0.42. This shows a clear consistency and agreement between the answers of the study sample. The answers of the respondents of the study sample also show that the audit firms in Amman do not apply the auditing mechanism of auditing their performed works by other audit firms, as the arithmetic average of the answers was (1.29) and the quality control elements were limited to the internal control office only.

Based on foregoing results, the hypothesis is acceptable. To make sure of this result, double T-test was used on the arithmetic averages of the first variable of the study for comparing to the assumed mean (3):

- Test of the first hypothesis by using (One Sample T-test)

Table (3)
Testing the First Hypothesis by using One-Sample Test

	Test Value = 3					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
h1	12.444	34	.000	.88367	.7394	1.0280

It has been found after conducting the above test that (T) value calculated is (12.44), which is higher its indexed value, as it has been found that sig=0, therefore the null hypothesis (H0) is rejected and accept the alternative hypothesis (H1). This means **that the existence of a professional control system on the performance quality of the audit firms in Jordan would enable achieving the quality of their audit activities.**

The Second Hypothesis:

This hypothesis was tested by relying on questions (15-18) of Part II of the questionnaire. Table No. (4) shows the answers on questions of the second hypothesis, the arithmetic mean values, and standard deviation, which were as follows:

Table (4)
Arithmetic Averages and Standard Deviations of the Variables of the Second Hypothesis

Se r.	Question	Arithmeti c mean	Standard deviation
15	The audit firm shall publish a web on the Internet allows customers to learn about the activities of the Firm	4.06	0.54
16	Provide internal network allows the personnel of the audit firm to exchange of views and proposals with other members of the firm.	4.31	0.47
17	Use the Internet for constant communication and exchange of information during the audit process.	3.91	0.85
18	Use ready designed software specialized in the work of auditing; such as:		
18 -1	Expertise Systems to evaluate the internal control systems	3.14	0.65
18 -2	Expertise Systems to take decisions related to assessing the relative importance levels	2.40	0.69
18 -3	Expertise Systems to determine the adequacy of the allowance for doubtful account	2.66	0.73
18 -4	Expertise Systems to take decisions for continuity of the organization being audited	2.94	0.87
18 -5	The use of software designed by the audit firm.	3.49	0.56
	The arithmetic means of averages	3.36	0.18

It has been noted from Table 4 that the arithmetic mean of questions collectively is 3.36, which is higher than average of measurement tool (3) and the standard deviation of questions collectively is 0.18. This indicates a clear consistence and agreement between the answers of the sample, as the answers of the respondents indicates that audit firms do not use specialized expertise systems for assessing the relative importance levels and determine the extent of adequacy of the allowance of doubtful debts account, as well as on taking decisions related to the continuity of the organization being audited. The averages were respectively (2.94 - 2.66 - 2.40), which are less than the assumed average. The use of expertise systems to assess the control system was higher rate, reached 3.14. This proves that all respondents of the study sample do not agree on applying this system but partially by the audit firms. In finding out the arithmetic mean of the averages of the sub-questions of question No 18, we find that the ratio is (2.92) and the standard deviation is 0.25. This indicates the rejection of the study sample; in general, that the audit firms in Amman rely on expertise systems, but the agreement was through the arithmetic mean of the average of the study sample for all the assumed variables that the audit firms actually use modern information technology.

Based on foregoing results, the hypothesis is acceptable. To make sure of this result, double t-test was used for the arithmetic means of the variable to study for comparison to the assumed arithmetic mean.

Table (5)
Testing the Second Hypothesis by using One-Sample Test

	Test Value = 3					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
h2	11.476	34	0.000	.36429	.2998	.4288

It has been found that after conducting the test that the T value calculated = 11.47, which is larger than the indexed value; where SIG = 0, and pursuant to the decision rule, the null hypothesis is rejected and the alternative hypothesis (H2) is accepted: **The use of Information Technology by the audit firms in the**

Jordanian business environment in their activities contributes to the development of their quality performance.

The Third Hypothesis:

This hypothesis was tested by relying on questions (19 - 23) of part III of the questionnaire.

Table (6)

Table 6 demonstrates the answers to questions related to the third hypothesis, arithmetic mean values, and standard deviation which were as follows:

Ser.	Question	Arithmetic mean	Standard Deviation
19	The auditor is responsible for discovery of non-compliance with laws and regulations.	4.71	0.46
20	The auditor is responsible for preventing misstatements when auditing the accounting estimates.	4.31	0.76
21	The auditor is responsible for applying the basic principles of auditing and discovering the errors and fraud in the financial statements.	4.37	0.49
22	It is the auditor's responsibility to consider the appropriateness of using the continuity hypothesis by the management in preparing the financial statements.	3.89	0.58
23	The auditor is responsible for communicating with the management on matters relevant to the auditing task.	4.29	0.75
	The arithmetic mean of the averages	4.31	0.18

It has been noted in Table No. (6) that the arithmetic mean of the averages for the variables of the Third Hypothesis is (4.31), which is higher than the assumed arithmetic mean, which (3.0) and the standard deviation of the answers of the sample respondents is (0.18), which demonstrates consistency of respondents answers to questions of the questionnaire. All respondents of the sample agreed that the auditor is responsible for discovery of non-compliance with laws and regulations, which is the highest rank of respondents answers (4.71) percent, followed in the second rank by the phrase stating that "The auditor is responsible for applying the basic principles of auditing and discovering the errors and fraud in the financial statements" by (4.37) percent, then the phrase stating "The auditor is responsible for preventing misstatements when auditing the accounting estimates" by (4.31) percent, then the phrase stating that "The auditor is responsible for communicating with the management on matters relevant to the auditing task" by (4.29) percent and the last rank was the phrase stating "It is the auditor's responsibility to consider the appropriateness of using the continuity hypothesis by the management in preparing the financial statements by (3.89) percent.

Based on foregoing results, the hypothesis is acceptable. To make sure of this result, double t-test of the arithmetic means has been used on the variable of the study to be compared to the assumed arithmetic means.

Table (7)

Testing the Third Hypothesis by using One-Sample Test

	Test Value = 3					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
h3	42.410	34	.000	1.31429	1.2513	1.3773

After testing, it was found that the T value calculated = 42.41, which is greater than the indexed value and the value of SIG=0. Pursuant to the decision rule, the null hypothesis is rejected and the alternative hypothesis H3 is accepted: **the development and activation of legal accountability could enable the audit firms in the Jordanian business environment from developing their quality performance.**

Results and Recommendations

I- The Results:

The research concluded a set of results representing the answer to the problem of the study raised in the Introduction of this research which would achieve the objectives which are represented in the follows:

- The public audit Forms in the Jordanian business environment exercise quality control elements by providing the independence and objectivity, and they exercise scientific mechanisms in personnel management operations. Auditing and accepting a customer have been done in accordance with generally accepted professional standards. Quality control processes take place only through self-censorship without relying on external examination method for quality performance.
- Audit firms in Amman depend on the modern information technology without reliance on advanced expertise systems that help the beginner auditors to perform their duties efficiently, particularly in the following areas:
 - * Evaluating the internal control systems and the assessment of relative importance levels and the extent of adequacy of the doubt debt allowance and take decisions on the extent of the continuity of the organization.
 - * The legal accountability has been activated on the audit firms in Jordan, so the auditor in the Jordanian business environment becomes responsible to discovering the non-compliance to the laws and regulations, as well as he is responsible for preventing the misstatements when auditing accounting estimates, in addition to his responsibility for discovering error and fraud in the financial statements and to consider the appropriateness of using the continuity of the organization hypothesis by the management in the preparation of the financial statements.

II- Recommendations:

Based on the results concluded we recommend the following:

- It is necessary to activate the elements of quality control in the audit firms in the Jordanian business environment and the professional organizations should obligate the audit firms in Jordan to activate the audit firms control by other audit firms.
- It is necessary for the audit firms to invest a portion of their capabilities in the information technology, in particular those relating to the expertise and internet software where the quality of auditing will be higher by using the information technology and modern information systems as such technology would assist to increase the auditor performance and minimize disruptive behaviors in auditing.
- The need to adhere to the audit standards, International guarantee and principles of the professional conduct of the auditors when conducting their professional duties, and to carry out accurate examination of the potential customers and their managements prior to inter into contract with them. Moreover, it is necessary activate the control on Amman Stock Exchange to compel the audit firms to apply the auditing standards and international guarantee to the companies listed in Amman Stock Exchange.

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