ABSTRACT

This study makes a review of the “auditing practices of the banking sector in Jordan.” It aims at identifying the auditing practices as prevalent in the banking sector of Jordan, assessing their efficacy and efficiency; examining their conformance to the international standards; evaluating their contribution to instill confidence in the stakeholders and foster trustful relationship between bank management, employees and customers. The study also purposes to ascertain whether the auditors have the realization of their responsibility and obligations in carrying out the banking business operations in keeping with the banks policies, banking rules and regulations, and in the best interest of the stakeholders.

The review of literature made in this study reflects that fairly much work has been done in the field of auditing by learned academics and professional connoisseurs of auditing. However, the literature review brings to fore that the published work generally and mostly relates to the theoretical aspects of auditing. The published books commonly delineate on the nature, principles and practices of auditing. They indeed provide treasure of knowledge to the academic faculty and scholars concerned with the teaching and learning of the discipline of audit. On the other hand, the published articles on auditing, however, deal only with a specific aspect of auditing, go into its depth to emerge with pointing out deficiencies and end with making suggestions to overcome them. As far as this researcher could rummage among the pertinent published literature reviewed in this study, no work has been specifically done relating to the auditing practices as obtain and followed in the banking sector of Jordan. Hence, this study which fills this gap.
The study has been conducted in a structured manner and the whole work has been divided into seven chapters. Each chapter has been designed with a direct bearing on the subject matter of study.

The first chapter introduces the nature and tenor of the study. It explains as to what the study is about and how it proceeds ahead to achieve its objectives and reaches the logical conclusion. The second chapter reviews the available literature on the subject matter of study. It points out the gap the published work leaves which this study endeavours to fulfill. It also explains the objectives and sets out the hypotheses of the study.

The research methodology followed for conduct of the study includes the data collection from both the primary sources and the secondary sources. Statistical tools have been applied to make analysis of the collected facts and figures and inferences have been drawn on the basis of analytical outcome.

The third chapter presents an overview of the banking sector in Jordan in two parts. The first part sketches the brief profile of Jordan and its economy while the second part traces the evolution and growth of the banking sector in Jordan and presents its current status.

The study reflects that Jordan, in geographical and political status, is a small Arab monarchy ruled by king Abdullah at present. It is neighboured by Saudi Arabia, Syria, Iraq and West Bank. The country remained under foreign occupation for a long time, under Ottoman Empire and later under Great Britain. The former ruled Jordan till the end of the World War I while the latter held its reign till 1946. During the period of colonial occupation there was hardly any worthwhile development of Jordan. The political, economic, monetary, fiscal and foreign policies were linked to
the policies of the colonial powers so much so that their home currency, the Turkish Lira during Ottoman rule and Pound Sterling during British rule, used to circulate as legal tender money in Jordan.

On attaining sovereign nation status in 1946, the Jordan government launched plans for the national development in all spheres, most importantly in economic and social sectors. The country’s development, however required capital formation in order to finance the development projects. Financial institutions, significantly the banking sector, perform this function by mobilizing the small scattered savings in the country. The national government enacted banking laws and established the Central Bank of Jordan (CBJ) in 1964. The CBJ promoted domestic banking activity by granting licence for the establishment of national banks. Banking sector in Jordan developed in due course of time. At present the sector comprises 15 domestic banking sector with 478 of their branches all over Jordan 8 foreign banks and 41 their branches; Islamic banks with 10 branches, a number of specialized financial institutions, and development banks.

The fifth chapter discusses the audit practices as prevalent in the banks of Jordan. The banking sector in Jordan conducts both the internal audit and the external audit. Internal audit is an in-house function established by the management of the banks. The chief objective of internal audit function is to assist the management in achieving the organization objective of ensuring the orderly and efficient conduct of the banking business. The internal audit in the banks of Jordan, therefore, performs the function of (a) ensuring that the existing controls and internal checks are adequate and effective in timely detection of errors, frauds, misappropriation of bank funds; the transaction are backed by proper authority, sanction and voucher; transactions are
correctly and completely recorded in the account books; the financial statements constructed on the basis of summarized accounts of these transactions are accurate and authentic; ascertaining that the prescribed policies and procedures as laid down by the bank management, banking legislation, and/or enforced by the Central Bank of Jordan are being followed in letter and spirit, (b) ensuring that assets of banking institutions are properly safeguarded; and (c) keeping a watchful eye that the resources of the banks are being used efficiently and economically. The internal audit is a continuous precautionary and supervisory function in the banking sector of Jordan which is engaged in the task of reviewing the various activities of the banks and reporting on the same to the management in order to help it in the decision making process. The function is performed by qualified audit personnel enjoying independence and access to all information, records and activities of the banks.

The external audit is a periodic statutory function in the banks of Jordan. It is outsourced and conducted by the duly qualified auditors approved by the Central Bank of Jordan (CBJ) for yearly audit of the banks. In fact, it is an independent and impartial audit carried out by qualified professional auditors not connected with the particular bank in any way. The main statutory function of external audit is to make an analytical and critical examination of the books of accounts, checking and verification of evidence in support of entries appearing in the books of accounts and ascertaining the authenticity of assertions made by the banks in their annual financial statements. The most important task of external audit is to report, expressing the expert opinion, that the financial statements represent a true and fair view of the financial position of the bank business.
The external audit in Jordan banks is conducted according to SAP-1 (Standard Audit Practices-1) and follows a well worked out plan to carry out the audit in an effective and efficient manner. The plan is based on the banks accounting system, policies, relevant banking laws and internal control procedures, the extent of reliance to be placed on the internal control system and proper coordination of work. The auditor, adhering to SAP-5 on “Audit Evidence” obtains sufficient and appropriate evidence by following (a) Compliance Procedures, and (b) Substantive Procedures. Assertions, express or implied and positive or negative, made in the financial statements are also identified by the external auditor. Sufficient and appropriate evidence in support of assertions in the financial statements is collected by means of audit techniques, such as (a) inspection, (b) observation, (c) inquiry and confirmation, (d) computation, and (e) analytical review, etc. The external auditor then evaluates the evidence collected on the basis of (a) results of the application of audit procedures, (b) the trend indicated by accounting ratios and analysis, (c) materiality of items, and (d) past experience. Formulation of judgement (opinion) is finally made by the external auditor and report submitted as regards (a) accounts examined, (b) balance sheet and profit & loss account (c) every documents declared to be a part of or annexed to the Balance Sheet or the Profit and Loss Account. The report also states expressly whether the Annual Financial Statements give a true and fair view of the banks affairs as at the end of the financial year, and whether the financial statements have been audited as per generally accepted auditing standards and practices.

The fifth chapter discusses the applications of Information Technology to the banking operations in Jordan. It is revealed that computerization of banking activities is fast permeating in Jordan. Software applications cover deposits and payments and maintenance of accounts data in software ledgers. E-banking offers some specific
banking services like Electronic Fund Transfer, Electronic Payments, ATM Services, online viewing of account balances, trade stock and mutual funds, track real time stock quotes, etc.

Audit function under computerized environment has been established in the banks of Jordan. The IT audit aims at reviewing and evaluating whether controls for data processing, management and administration are effective; whether use of bank resources is proper and efficient; whether integrity, reliability and efficiency of information systems and financial reporting is maintained; whether the IT assets are secure; and whether secrecy of information is maintained. The internal audit function in banks applies General Controls and Application Controls as audit tools to check and safeguard against computer abuses. Information reporting is also the function performed by IT auditors. External audit conduct control tests and has two approaches viz. (a) Around the Computer, and (b) Through the Computer. These approaches are not mutually exclusive but can be adopted in combination. The areas in which IT audit is required and conducted in banks are: (a) overall security; (b) programme development; (c) programme modification; (d) source data; (d) processing and (f) data files.

The aforesaid investigation, discussion and analysis of the auditing practices in the banking sector of Jordan reflects that the auditing practices are effective and compatible to International Audit Standards as well as Basel Committee guidelines on Banking Supervision; the banks follow uniform pattern of auditing practices; these practices contribute to trustful relations between bank, employees and customers; and auditors realize their obligation to stakeholders in the performance of their responsibility. The study thus confirms the hypotheses as valid.
The hypotheses of this study have, moreover, been further tested to strengthen their veracity through a survey. The survey ascertains the perceptions and levels of satisfaction of the respondents with the audit practices and the Information Technology controls established by the banking sector of Jordan. The questionnaire sought perceptions of the respondents with regard to effectiveness of audit including IT audit and controls; uniformity in audit pattern and practices; contribution of audit and IT controls to foster trustful relationship between auditor, bank employees and customers; and finally about realization by auditors of their responsibility to check errors and frauds; data accuracy, integrity and completeness; safety of assets; effective achievement of organizational goals and efficient use of resources.

Statistical tools have been applied to the analysis of hypotheses specific information collected from the respondents of survey. The findings and inferences drawn from the data analysis lead this study to come to the conclusions as worked out in Chapter VI and summarized in Chapter VIII of the thesis. The survey also confirms the hypothesis of this study.

MAJOR FINDINGS

1. The internal audit practices followed by the banking sector in Jordan are effective in checking and minimizing the chances of errors, frauds and embezzlements. An overwhelming majority of 86.7% of respondents “Agree” with this perception (of them 66.1% ‘Strongly Agree’); a minority of 5.3% ‘Disagree’; while 8.6% manifest indifference and are ‘neutral’.
2. The internal auditors perform the work as an independent, impartial and fearless watchdog of the activities of banking sector in Jordan. A large majority of 74.3% of respondents ‘Agree’ with this perception; while 8% ‘Disagree’ and 18% are neutral.

3. Internal auditing activities make the financial reporting and statements more accurate and reliable is another important response provided by the informants. A huge majority of 81.6% ‘Agree’ (of whom 49.8% ‘Strongly Agree’); 6% recorded their ‘Disagreement’ while 12.4% reported ‘neutral’.

4. Banks have established Information System audit and controls which are efficient and effective. Two-third (67.4%) of the respondents ‘Agree’ with this perception; 10.4% ‘Disagree’, while 22.2% are ‘neutral’.

5. Auditing procedures and practices followed in the banking sector of Jordan are of Uniform pattern. They also match the global standards of auditing. 64.8% of the respondents ‘Agree’ with this perception; 9% ‘Disagree’; while 26.2% remain ‘neutral’.

6. The internal audit function helps the top level management in decision making process. The Internal Audit Department has been constantly and regularly examining, evaluating and analyzing the financial operations and reporting their results to the top level management. Respondents in ‘Agreement’ with this perception account for 62.7%; while 16.7% ‘Disagreed’ and 21.0% have shown ‘neutrality’.

7. There is an overlapping between the Department of Internal Auditing and Management of the banks regarding the privileges assigned to them. This causes avoidable conflicts and confusion in the smooth functioning and
performance of their ‘respective’ roles. At least 46.7% of the respondents ‘Agree’ with this perception, 28.4% ‘Disagree’; while 24.9% are ‘neutral’.

8. The audit procedures and practices instill confidence and foster trustful relationship between auditors, bank employees and customers. The majority of 66.5% of the respondents ‘Agree’ with this perception; 16.3% ‘Disagree’; while 17.2% maintain ‘neutrality.’

9. Auditors are committed to the principles of impartiality, objectivity, independence and confidentiality. and understand their obligations. An overwhelming majority of respondents 71.2% ‘Agree’ (of whom 50.6% ‘Strongly Agree’) with the view, while 15.9% ‘Disagree’ while 12.9% are ‘neutral’ on this count.

10. The audit activity ensures the optimum use of available resources is the view of the respondents. The perception is shared by a majority of 58.8% of the respondents, who ‘Agree’; while 21.5% ‘Disagree’ and 19.7% remain ‘neutral’.

11. A significant finding that emerges from the observation made during the course of this study is that there is shortage of human resource well-qualified, skilled and trained to take up the audit and information technology based jobs of Information System function and controls in Jordon.

12. Security for information technology based banking operations and I.T. control also comes out as a serious concern in the case of banking sector of Jordon. Risks and hazards of data corruption and destruction; unauthorized
access to important information, loss and damage to I.T. assets, etc. exist and need to be addressed.

13. Cyber laws are inadequate to deal with the crimes which are now increased and assuming new dimension and trends in terms of technological burglary.

14. Updating of knowledge and skill of the existing staff of the information technology related jobs is yet another gasping vacuum impacting the competence of audit personnel.

15. Performance appraisal of the audit staff is another area which needs to be looked into. Periodic monitoring of the ability, efficiency and quality of work of the audit personnel is very much indicated.

Suggestions

From the overall discussion and analysis of the audit procedures and practices and the IT audit function and controls prevalent in the banking sector of Jordan, there emerge certain areas where further improvement is called for. The study, therefore, recommends the following broad approaches to enhance the process of auditing in the Jordan banks:

1. Well-trained auditing personnel, in particular for information technology related auditing, is in acute short-supply in Jordan. It is recommended that special courses be conducted which are IT audit specific and specialized in computerized banking services. This would develop human resource for competently taking up the information technology based jobs in the banking sector of Jordan.
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2. There is absence of any insurance for hardware and software hazards and happenings. There is a need for providing insurance for hardware appliances, software, information networks and employees of the information technology department against damage, error, cheating, fraudulent acts, etc.

3. Cyber laws require being elaborate, comprehensive and deter-effective. The existing cyber laws of the country are unable to cope with the emerging nature of fraudulent activities in the absence of any provisions to deal with them. Updating and improving cyber laws and legislations is called for and recommended to be undertaken sooner than later.

4. Monitoring the progress of work and quality of performance in order to determine that the existing auditing assistants possess the necessary skills and competence to carry out their assigned tasks is very much required. It is suggested that the management arranges most frequent checks for monitoring the progress of work and examine the competence of audit personnel. In addition, the professional competence must be assessed taking into account the auditor’s capacity to collect, to examine, to evaluate and to communicate the conclusions.

5. Audit standards and software techniques are constantly undergoing upgradation and are becoming more and more complex. Adherence to them is essential and keeping abreast with knowledge of technological advancements is inevitable for audit staff. This stresses the need for provision of knowledge and skill upgradation facilities for audit personnel. Training programs, both internal and external, for updating knowledge and skill of audit staff are strongly recommended.
6. “There is overlapping between the department of internal auditing and management of the banks regarding the privileges assigned to them. This leads to conflicts and confusion in decision making and performance of responsibilities effectively. Suggestion is made that the management retain all the privileges of decision making while the internal audit department keeps the privilege of information reporting and rendering advice to the management for decision making.

7. Security of Information Technology needs to be further tightened and improved in the banks. Security measures require to conduct a security programme which is a series of ongoing regular, periodic reviews conducted to ensure that ‘assets associated with the IS functions are safeguarded adequately. Suggestion is made that it could be achieved through an Information Security Administrator made responsible for ensuring that Information Technology assets are secure. Assets are secure when the expected losses that will occur over sometime are at an acceptable level.

8. Staff rotation within the audit department is also recommended. Although it can be argued that this may conflict with the need for specialization, but in case of financial institution like banks, staff rotation contributes to an automatic check on the intentional malicious errors and frauds committed by staff.

9. Information Technology development, installation and maintenance costs should also be properly audited. It is purposeful to evaluate economy, efficiency and effectiveness of IT development, installation and maintenance.
10. Any issues related to the audit function and information technology should be resolved on priority basis and before they impact the important audit function.

No significant audit measures should remain unresolved.

The above measures are expected to go a long way in strengthening the effectiveness, efficiency and security of the internal audit function and IT controls in the banking sector of Jordan.