INTRODUCTION

The State of Jordan is a small Arab country. Officially it is called the Hashmite Kingdom of Jordan. Monarchy is the form of government and is headed by King Abdullah. The country is neighboured by Syria, Iraq, Saudi Arabia and the West Bank. It is spread over 89,342 sq. km. of area and inhabited by a population of 5.4 million people. Education infrastructure is developing fast in Jordan at all levels of primary, secondary and university. The literacy rate has gone up and stands at 86.2% at present. The country’s economic resource base centres on phosphate, potash and their fertilizers derivatives, tourism, overseas remittances and foreign aids. Jordan lacks in important resources of forests, coal, hydel power and oil. The country relies on natural gas for 10 percent of its domestic energy needs and largely depends on oil from neighbouring nations. Its economy comprises of two broad sectors, viz. Commodity Producing Sector, and Services Sector. Each of these two sectors consists of five sub-sectors. The contribution of the two main sectors to nation’s GDP is in the proportion of 1:2. The country has potential for growth and may develop into an important market in the region.

Banking in Jordan evolved into its present form governed by the national government in the latter half of the twentieth century. Earlier as the country had been under foreign occupations, the banking activity had been nominal. Moreover, it was governed by the foreign powers which established the extension counter or a branch of their own bank in Jordan. The branches mainly transacted the government business. Hardly ever the foreign rulers endeavoured to develop banking habits in people and to promote domestic banking activity in the country in a general way.
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The Ottomans were the first to introduce some sort of banking activity in Jordan when the country was under their domination. The Ottoman Bank of Turkey established its branch in the region in 1925. This marked the beginning of banking activity in Jordan. Turkish Lira circulated in Jordan as legal tender and the monetary as well as banking policies were fully linked to the banking system of Turkey.

Jordan came under British rule after the fall of the Ottoman Empire at the end of World War-I. The British established a branch of the British Bank in Jordan; replaced Lira by Pound Sterling as legal tender money; and governed the monetary and banking policies of Jordan from the British Bank’s headquarters in London. In 1927, however Palestine Pound was circulated and a separate Monetary Board for Jordan headed by a Britisher with its headquarters in London was established. British influence on banking, however, thus, continued in Jordan.

Independence from British rule dawned upon Jordan in 1946. Soon the national government launched plans to pull out the economy from colonial mess and started developing infrastructure for national economic development. Capital formation to provide finance for development was acute and foremost necessity. Financial institutions are obviously the economic apparatus for capital formation. The national government enacted banking laws and established Central Bank of Jordan (CBJ) in 1964 as an autonomous corporate body. The measures stimulated the domestic banking activity. Under the leadership of the CBJ, a full-fledged banking sector developed in due course of time. The banking sector at present comprises a number of domestic commercial banks, foreign banks, Islamic banks, and specialized development banks. The CBJ grants licence for the establishment of domestic banks and governs the banking sector by issuing guidelines, instructions and regulatory
orders as and when necessary. The progress of the banking sector is noteworthy in terms of number of banks, capital formation represented by aggregate saving deposits, volume of loans and advances made to different sectors of economy, increases in the size of net banking assets, soaring investments and foreign exchange reserves.

Banking institutions owe as their primary responsibility the mobilization of savings which lie idle and scattered in the economy. This banking activity; however, casts certain legal and special obligations upon the financial institutions. The obligations emerge from the very nature of the savings the banks mobilize. Institutionalized savings, in fact, undergo a characteristic change when in the custody of the financial institutions as compared to the state when they are in the custody of the savers. The saver holds the savings in proprietary capacity while the banks hold them in fiduciary capacity. This characteristic change casts upon the financial institutions, unlike on the savers, the obligation of utmost security of savings deposits since they are returnable to the savers on demand. Secondly, the savings may lie idle and unproductive with the savers. But when assigned to the custody of the bank, the saver expects some increment in the principal amount of the savings at the time of their return. This characteristic change imposes on financial institutions the obligation of managing a reasonable ‘return’ on the deposits of savers. Thirdly, the savings in individual hands are small and not investment worthy. But institutionalized savings collectively build a huge pool of funds and acquire the characteristic of ‘investment.’ Financial institutions can provide these huge funds to deficit units of economy (industry, government, etc.) to finance their mega projects for the development of national economy. In other words, this property of institutionalized savings confers upon the financial institutions the right of utilization of savers deposits with them.
However, this right requires to be exercised in the most prudential manner to fulfill the obligations cast upon the banking institutions by the other two characteristics.

Since the utilization for investment characteristic of banking funds shifts the right of decision making to the domain of persons other than the savers who are the real owners of these funds, there are glaring and real possibilities of misutilization, misappropriation and mismanagement of these funds. There is, therefore, the pressing necessity to protect the public interest involved in the utilization of savers’ funds and to ensure that the public funds in the hands of banks are invested properly and prudentially. This calls for a watchdog function and this is performed by ‘Audit’.

‘Audit’ is an investigation for the verification of accounting data and determining the accuracy and reliability of accounting statements and reports. It is an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the financial transactions and that these transactions have been carried out in accordance with policies, rules and regulations of the banking business. It also makes an expression of opinion on the character of statement of accounts prepared from the accounting records so examined as to whether they present a true and fair view of the summarized transactions. Audit also reflects on the financial state of the organization. An effective watchful oversight is thus exercised by means of audit function on the decision-making prudence of the management as well as on the activities of the executive personnel in carrying out the banking business operations as per rules and regulations and in the best interest of the stakeholders.

The audit function is performed internally as well as externally. The internal audit is in-house activity and continuously conducted throughout the period. It is a
precautionary function established to ensure that financial transactions are genuine, backed by proper authority and approval; recorded correctly, accurately and completely; any errors, frauds and misappropriations are detected on time before any losses or damage take place. Internal audit also includes the activity of reporting valuable information to the management helpful in their decision making process. The ‘External’ audit is a periodic function and usually out-sourced. It is also statutory and mandatory for public institutions and corporations. But both the internal and external audits are conducted by independent, impartial, competent and qualified auditors. The commercial banks in Jordan conduct both types of audit.

With the advancement of information technology, computerization has now revolutionized the conduct of business activity world over. Banks are also making extensive use of information technology in their business operations. Multifarious banking functions have been computerized. E-banking enables to avail some specific banking services anywhere anytime without requiring the customers physical presence at the banks. Electronic technology has improved efficiency, extended reach, provided ease, offered all time access to bank and cash, and reduced time spent in availing banking services. However, the application of computerized systems in banks is also prone to intentional and malicious abuses. The costs of computer abuses can be high and seriously undermine the banks reputation as also its ability to survive. Notable serious hazards of information technology based conduct of banking operations are: corruption and destructions of data base, decision errors caused by poor quality information system, losses incurred due to computer malicious manipulations, loss of valuable computer software and hardware assets, high costs of computer errors, failure to maintain privacy of individual customers, and failure to control how computers are used in the bank. Information technology risks and hazards
have posed typical challenges and need to be simultaneously tackled along with computerized operations before long. Information technology audit has also now been devised and designed to check the abuses and risks involved in the computerized working environment. The IT audit consists of controls applied to ensure that the computerized systems are not tampered with, corrupted or destroyed intentionally and system errors are detected on time before they multiply enormous times and cause avoidable financial losses to the bank threatening its reputation and survival. Information Technology audit exercises General Controls and Application Controls over the computerized systems such that they ensure the accuracy, integrity and completeness of data-base, safeguard the IT assets; maintain privacy, system effectiveness and efficiency and ultimately help achieve the organizational goals.

The present study has been undertaken to make a review of the audit practices followed in the commercial banks of Jordan. It is contemplated to examine whether these practices are sound and effective, whether the procedure and standards of audit meet the international standards and the extent to which they are compatible to the guidelines set by the Basel Committee on Banking Supervision; whether the audit function creates a confidence in the stakeholders of the banks; whether it fosters trustful relations between the bank, employees and customers; and whether the auditors realize their obligations in performing their responsibility to accomplish the objectives of audit.

Factual information will be collected from the commercial banks through primary and secondary sources. Banks policy documents and audit charters will be relied upon to derive information about audit procedure and discussions with the
responsible officials will provide information about actual audit practices followed in the banks. The research material thus collected will be discussed and analyzed to sift out the actual audit procedures and practices as obtaining in the commercial banks; their efficacy and ability to check, errors, frauds and misappropriations will be examined; their impact on banks efficiency will be evaluated; their role in maintaining secrecy and safety of information and assets will be explored; and their contribution to create trust and confidence in stakeholders in banks will be assessed. The inferences drawn will also be helpful to comment on the auditor’s sense of realization of their responsibility towards the stakeholders to serve the watchdog function of audit on their behalf.

The study also contemplates to put the conclusions drawn through the academic analysis and discussion to further test of the people who are banking professionals and knowledgeable persons in the field of auditing. Their opinions will be elicited on various aspects of audit practices followed in commercial banks of Jordan as emerge from this study. The test will be accomplished by means of administering a well designed questionnaire having direct bearing on the subject matter of this study. The questionnaire shall be simple to understand and answer. Question will be put in each field of the hypotheses of this study. Against each question a scale of preference mentioning options will be given and the respondents shall answer the perception of their choice very conveniently by putting simply a tick. The primary data so collected will be analyzed and collected through application of statistical tools. The inferences drawn will have impact in so far as the hypothesis of this study will come out as void or valid.
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The work ahead, accordingly, proceeds in the aforesaid direction in a structured manner divided into chapters and unveils the results of the study in the end chapter of conclusion.
REFERENCES


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