REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) 
Hashemite Kingdom of Jordan (Jordan) 

ACCOUNTING AND AUDITING 

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EXECUTIVE SUMMARY 

Jordan is committed to aligning its national corporate financial reporting requirements with the International Accounting Standards and International Standards on Auditing, and it has achieved significant improvements, including issuance of a new Accountancy Profession Law. Although this law is a significant step toward regulating the profession, ROSC team discussions with professionals and various other stakeholders in Jordan helped point out a need to revisit some articles of the law and their content. Also, considerable steps have been taken to narrow the “compliance gap” in both accounting and auditing practices; however closing the gap completely will be challenging and demanding. Educating new auditors and reeducating practitioners and regulators requires focusing on a different style and philosophy of accounting requirements. In addition, to fully implement International Accounting Standards, a culture shift is required to reduce the influence of tax accounting on general-purpose financial statements. 

The risk exists for undetected accounting manipulation, misrepresentation of financial statements, and departures from established accounting and auditing procedures. Recent highly publicized corporate financial irregularities have resulted in serious focus on consistency of audit quality, auditors’ independence, low audit fees, inadequate procedures, and the need for an effective regulatory framework of the auditing profession to enforce compliance with standards. 

Fragmented responsibility for monitoring compliance with corporate financial reporting standards is at risk when the function is not adequately coordinated, as it is in Jordan among the Controller of Companies in the Ministry of Trade and Industry (companies law), Central Bank of Jordan (banking law and central bank regulations), Jordan Securities Commission (transparency and disclosure regulations for public shareholding companies) and Insurance Commission (insurance laws). 

The ROSC report draws upon recent international experience in developed economies and success stories in the Middle East and North Africa Region and provides policy recommendations specifically focused on strengthening enforcement mechanisms for ensuring compliance with established accounting and auditing requirements. 

This report was based on findings from a diagnostic review carried out in Jordan between December 2003 and April 2004. It was prepared by a team from the World Bank comprising M. Zubairur Rahman (OPCFM) and Hisham Ahmed Waly (MNACS). The review was conducted through a participatory process involving various stakeholders and led by the country authorities.
I. INTRODUCTION

1. This report was based on a review of accounting and auditing standards and practices in Jordan. It forms part of the World Bank and International Monetary Fund (IMF) joint initiatives on Reports on the Observance of Standards and Codes (ROSC). The review process involved an assessment of accounting and auditing standards as designed and as practiced, and analysis of the effectiveness of the mechanism for ensuring compliance with formal standards. The review used a diagnostic template developed by the World Bank to facilitate data gathering by national specialists. This was complemented by a due diligence exercise conducted by World Bank staff. The policy recommendations of this report are expected to provide inputs for developing and implementing a comprehensive action plan for strengthening institutional capacity to support high-quality corporate financial reporting in Jordan. A strong financial reporting regime and transparent financial reporting by the corporate entities in both private and public sectors will benefit Jordanian economy in various ways including strengthening the country’s financial architecture, facilitating corporate sector’s access to international sources of financing, attracting foreign portfolio and strategic investors, facilitating tax collection from the corporate sector, and generating reliable corporate financial information for supporting various building blocks of a market economy.

2. Jordan relies primarily on its human resources as capital for development. Over the past decade, Jordan has focused on human resources investment, structural reforms, and fiscal discipline to enhance opportunities for growth and stability. Performance trends over the past two years, despite adverse external factors, have produced positive and promising results.\(^1\) Real gross domestic product grew by 3.9 percent, 4.6 percent, and 4.9 percent in 2000, 2001, and 2002, respectively. Exports jumped 21 percent in 2001 after five years of hardly any growth, while inflation has been less than 2 percent.

3. Significant steps have been taken to integrate Jordan into the global economy. Recent actions moving Jordan closer toward a global economy include an association agreement with the European Union in 1999, which was enforced on May 1, 2002; membership in the World Trade Organization in 2000; and a free-trade agreement with the United States in 2001. Taken together, these steps make Jordan’s economic reform agenda one of the leaders in the Middle East and North Africa Region.

4. Jordan’s privatization program, which started in 1998, is continuing; and the financial sector is growing. The privatization program has already generated the equivalent of US$1 billion in revenues over five years. In the beginning of 2002, the Government launched a program toward an integration of the privatization process into a broader structural reform agenda. The Jordanian financial sector is dominated by banks. There are nine local commercial banks, eight branches of foreign banks, five investment banks, and two Islamic banks.\(^2\) In addition, there are five long-established specialized credit institutions dealing with agricultural credit, housing, and rural and urban development and industry. Also, 76 authorized moneychangers operate in Jordan. There are

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\(^1\) Jordan–Country Assistance Strategy (CAS), World Bank, 2002

\(^2\) One of the nine commercial banks dominates the sector, with around 30% percent of all assets in the industry
also 26 insurance companies in Jordan: 1 foreign branch (life insurance), 7 local general insurance, and 18 local composite companies.

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

5. A new Accountancy Profession Law 73/2003 was issued provisionally on June 16, 2003, after lengthy delays.³ Important features of the Accountancy Profession Law include establishment of a “High Council for Accounting and Auditing” headed by the Minister of Industries and Trade, and the creation of an improved Jordanian Association of Certified Public Accountants (JACPA). Although the Law’s issuance is a significant step toward regulating the profession, there is a need to upgrade its contents in line with new global developments. Moreover, some provisions of the current law need further clarification and refinement. Specifically, the term “practicing professional” needs to be better defined; the provision on auditor rotation gives rise to ambiguity about rotation of partners or firms; and it appears to be impractical to implement the provision on composition of the Board of High Council having ministers without the same right of proxy as members of the High Council Board. While the Law focuses primarily and in great depth on JACPA regulations and bylaws,⁴ it overlooks important elements that could strengthen the auditing regulatory framework in Jordan, particularly auditors’ independence. It does not include provisions specifically focusing on monitoring and enforcement mechanisms for ensuring compliance with the applicable auditing standards and code of ethics, not only in appearance but also in substance.

6. There is a need to repeal the specific provision of the Accountancy Profession Law requiring that the finance manager of a public interest entity must be a member of JACPA. This requirement gives more emphasis to certification than to quality, since JACPA membership does not necessarily ensure high-quality financial management skills. The requirement would institute a monopoly. From a practical point of view, this proposal could adversely impact the business environment and foreign direct investment. For example, a foreign invested enterprise may not be allowed to appoint a foreign chief financial officer unless he or she is a member of JACPA.

7. Composition of the High Council’s management board may constrain its effectiveness. The High Council, created under the new Accountancy Profession Law, would be mainly charged with the oversight of the auditing profession, and the approval of applicable accounting and auditing standards. It will not be responsible for monitoring and enforcement of accounting and auditing standards. Seven of the Council’s twelve members are named in the Law, and the High Council would appoint the remaining five members: three public accountants, one professor from a reputable business school/faculty, and one

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³ Provisional laws have the same force as enacted laws provided the provisional law is placed before the parliament for ratification in the following session. Provisional laws may be amended or rejected by the parliament.

⁴ Forty-three out of fifty articles in the Accountancy Profession Law JACPA matters while the remaining seven cover the creation of higher council and definitions.
experienced person from the business community. The composition of the High Council’s board still has its critics some of whom think that it will be hard to have five ministers attend regular meetings, especially since the new law does not allow them the same right of proxy as a regular JACPA Board member.

8. **The Companies Law 22/1997 requires public shareholding companies, general partnerships, limited partnerships, limited liability companies, private shareholding companies, and foreign companies operating in Jordan to prepare annual audited financial statements.** All companies registered under the Companies Law should maintain sound accounting records and present annual audited financial statements in accordance with “internationally recognized accounting and auditing principles.” Auditors are elected for one year with the possibility of renewal. An auditor’s performance is evaluated by company shareholders, who at their annual general meeting decide whether to appoint a new auditor or renew the appointment of the existing auditor. The Companies Law also requires the auditor’s report to address the following at the annual general meeting:

- All data and explanations for satisfactory fulfillment of duties have been obtained.
- The company maintains satisfactory accounting records and documents.
- The company’s financial statements (balance sheet, income statement, and statement of cash flows) are prepared in accordance with internationally recognized accounting and auditing principles.
- Audit procedures have been sufficiently followed.
- Financial statements, which are included in the Board of Director’s report addressed to the General Assembly, comply with the company’s records.
- All relevant legal requirements have been reflected in the accounts.

9. **According to the Jordanian Securities Commission (JSC) Law (23/1997) and Directives of disclosures, auditing, and accounting standards (1/1998), all entities subject to JSC’s supervision are required to apply International Financial Reporting Standards (IFRS).** However, the explanation included in the directives states that if there is a conflict between international standards and local legislation, the latter shall supersede. The entity should then disclose this decision along with its impact on the financial statements (balance sheet, income statement, statement of cash flows, changes in shareholders equity, and notes to financial statements). The JSC requires all listed companies to file annual audited financial statements (within 90 days from fiscal year-end) and mid-year reviewed financial statements (within 30 days from mid-year-end). The JSC

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5 General partnerships whose capital or sales is 100,000 Jordan Dinars (JOD) or more should appoint a licensed auditor (selected by majority vote of the partners). As at May 15, 2004, the exchange rate was US$ 1 = JOD 0.71.

6 Within this report, IFRS refers to all International Accounting Standards (IAS) and related interpretations issued by the former International Accounting Standards Committee (IASC), and the International Financial Reporting Standards (IFRS) and related interpretations issued by IASC’s successor body, International Accounting Standards Board (IASB).
Law also requires entities under its jurisdiction to form an audit committee of three non-executive members. The committee should meet at least four times a year to examine and discuss matters arising from work of external and/or internal auditors. The JSC Directives also require listed companies to publish their financial statements in Arabic in a widely circulated newspaper. This requirement could be counterproductive to users of financial information if only undetailed financial statement summaries are published.

10. The requirement that listed companies should file with the JSC preliminary unaudited financial statements within 45 days from fiscal year-end, may give rise to significant problems. There are two potential issues to be noted. This practice might have a negative impact on the audit process: international experience has shown that if earnings are released prior to the completion of the audit, auditors undergo increased pressure from the companies not to make such adjustments that would result in a profit number lower than the one earlier reported in unaudited financial statements. Also, a significant issue may be the material differences between net profit reported in preliminary financial statements and net profit reported in audited financial statement approved by the shareholders, which may mislead investors and shareholders.

11. The Banking Law 28/2000 requires all banks to keep records, maintain books of account, and prepare financial statements in accordance with “recognized accounting principles.” The Law requires that bank’s financial statements be prepared in accordance with the instructions issued by the Central Bank of Jordan (CBJ). These instructions have mandated the use of all IAS/IFRS through IAS 39. The auditors of banks’ annual financial statements are required to be pre-approved by the CBJ. Each year the CBJ issues a list of acceptable auditors. Audited financial statements are first approved by the CBJ and then published in two local newspapers within six months of fiscal year-end.

12. The insurance industry regulatory framework is new in Jordan. The Insurance Commission was established under the Insurance Supervision Act 33 in 1999. The Commission is an independent entity in terms of finance and management. The Insurance Commission issued instructions that regulate the financial reporting and the implementation of the IAS/IFRS in the insurance sector. It requires insurance companies to submit quarterly unaudited/unreviewed financial statements one month from the end of the first and third quarters (compiled by external auditors). In the second quarter, however, the financial statements for the insurance company are required to be reviewed. This is in addition to the filing of annual audited financial statements.

13. Licensed auditors in Jordan are required to submit to the Income Tax Department the names and addresses of all clients for whom they have maintained or audited books of account. Such lists need to be submitted not later than March 31 of the following year. Failure to submit these lists is punishable by imprisonment or fine; for a repeat offense, the auditor’s license may be revoked.

14. Audit firms cannot be appointed statutory auditors of companies. According to Jordan’s current legislative framework, only licensed individuals can act as statutory

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7 In accordance with Article (63a) of the current Banking Law.
auditors. In practice, companies appoint individual partners of audit firms; as a result of this, in the case of a bad audit, the audit firm cannot be held responsible. Also, the new Accountancy Profession Law requires the rotation of auditors every four years.

B. The Profession

15. **The Jordanian Authority for Certified Public Accountants has 539 registered members, of which 350 are in public practice.** Many JACPA members reside outside of Jordan. Members earn JACPA admission when they meet the educational requirements: (a) university degree with a major in accountancy, (b) diploma in accountancy, (c) a related university degree, not majoring in accountancy, but with accounting courses meeting the minimum threshold, and (d) membership in an acceptable foreign professional body. These requirements are in addition to passing the licensing examination administered by the licensing committee.

16. **Previously JACPA was under direct control of the country’s supreme audit institution; it has changed under the new Accountancy Profession Law.** The Accountancy Profession Law gives new powers to JACPA, such as responsibility to draft its own bylaws, disciplinary authority over its own members, and the right to inspect its members’ working papers. JACPA’s Board of Directors consists of eight members in addition to the president (elected for three years for a maximum of two terms) and is financially and administratively independent. Founded in 1988 (under Law 42/1987), JACPA had been attached to the Public Auditing Profession Board and chaired by the president of the Audit Bureau (the supreme audit institution) in Jordan. The Public Auditing Profession Board formerly set all JACPA rules and regulations and was responsible for the classification of auditor’s licensing.

17. **Even with the new Accountancy Profession Law, JACPA has issues to resolve.** Lack of resources could be the overriding factor for many outstanding issues, including JACPA’s operational difficulties.

- JACPA lacks resources to properly function as an effective professional accountancy body in compliance with IFAC membership obligations.
- JACPA has no effective measures to ensure that its members maintain current professional standards through continuous professional development.
- There are no legal provisions specifying the statutory auditor’s liability (contractual, civil, and/or criminal) for certain types of behavior as they discharge their professional responsibility.\(^9\)
- Without a quality assurance mechanism, JACPA cannot ensure that its members comply with international standards.
- JACPA examination system appears not to meet IFAC educational standards. The capable college/university graduates show little interest in taking the JACPA examination.

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\(^8\) The Public Auditing Profession Board was replaced by the High Council in the new Accountancy Profession Law 73/2003.

\(^9\) In Jordan it is rare to take statutory auditors to court for professional offenses. However, one recent case resulted in the imprisonment of the auditor; the auditor is now out of prison and is practicing in his own audit firm.
examination. And for those who do take it, the passing rate has averaged 3 percent historically. There is no clear syllabus for pre-examination training.

- Many professionals in Jordan perceive JACPA as an “elite club,” a “closed society,” and an “irrelevant body” of accounting and auditing professionals

18. **There is no mechanism for ensuring that the accountants and auditors in public practice follow an internationally comparable professional code of ethics.** JACPA takes little action to discipline errant members. There is no explicit or implicit requirement for JACPA members to follow international best practices on a professional code of ethics. Professional accountants and auditors often claim that they follow auditing standards and a code of ethics issued by IFAC; in the absence of any monitoring and enforcement mechanisms, it is difficult to agree that in practice this is the case.

C. Professional Education and Training

19. **The quality of public university education in accounting and auditing needs improvement.** Educational quality suffers from lack of modern curricula and too few teachers. Undergraduate-level accounting and auditing courses focus on elementary topics and do not include international standards and practices. Also, up-to-date textbooks are too expensive for most faculty and students. The educational backgrounds of faculty members are diverse: some received their education and training in America and Europe; and others were educated locally, in eastern-bloc countries, or in other Arab countries (e.g., Iraq and Syria). At the post-graduate level, however, the quality of accounting education is relatively better because the curriculum tends to include international standards and encourages empirical research.

20. **The quality of teaching accounting and auditing needs to be significantly improved.** The scarcity of qualified instructors contributes to the deteriorating quality of accounting education in Jordan. Many accounting instructors lack adequate knowledge of modern theories and practices. As a result, many important topics either are not taught or are poorly taught. Jordanian universities also lack capacity for teaching the practical application of accounting and auditing standards issued by International Accounting Standards Board (IASB) and IFAC.

21. **Knowledge of international accounting and auditing standards varies.** Many public practice accountants and auditors, corporate accountants, and regulators should update their technical skills and knowledge of International Accounting Standards and International Standards on Auditing. This is true of auditors and audit firms alike.

22. **Practicing auditors’ knowledge gap is increased by lack of requirements for continuing professional education.** Continuing professional education and development need to be strengthened, monitored, and enforced. The Accounting Practice Law does not require the holders of audit practice licenses to take regular training under any sort of continuing professional education. Although JACPA has established qualification examination requirements, it does not require its members to participate in any continuing education program; this is contrary to IFAC pronouncement and to generally accepted best practice internationally. In line with international best practice, practicing auditors should
complete at least 30 hours of continuing professional education per year to keep pace with new developments in auditing and accounting.

23. The JACPA qualifying exam, especially in accounting and auditing, used to be a translation of the U.S. Certified Public Accountant exam. The exam historically resulted in very low passing rates because of its unstructured nature, the lack of preparation courses, and the undefined syllabus. Because of recent discussions around the new Accounting Practice Law, JACPA did not organize its qualifying exam for two consecutive rounds (June 2003 and January 2004). Absence of a professional examination system that conforms with IFAC educational standards has contributed to the decline of JACPA’s credibility. Today’s trainee accountants do not seem to be interested in pursuing JACPA membership; many continue to try for foreign qualifications, as the U. S. Certified Public Accountant and the United Kingdom’s Association of Chartered Certified Accountants.

24. Adequate practical training should be required before qualified accountants can receive an audit practice certificate. The absence of practical experience requirements in line with IFAC pronouncements has contributed to the weakness of the new practicing auditors in Jordan. Before receiving an audit practice certificate, a new professional accountant needs to gain adequate practical experience under the direct supervision of an experienced audit practitioner. Arrangements do not exist for ensuring that the practical training providers possess adequate capacity to help trainees learn the practical aspects of applying International Standards on Auditing.

D. Setting Accounting and Auditing Standards

25. There is no legally established accounting and auditing standard setting body in Jordan. Under the various applicable acts, financial reporting requirements are set by such regulators as the JSC, IC and CBJ. The unregulated enterprises are under no legal obligation to follow any specific accounting standards. Although the regulators have mandated the use of International Accounting Standards, no national organization issues guidance on implementation. As a consequence, preparers and auditors implement accounting standards in ways dependent on their level of understanding. The absence of any local requirement on applicable auditing standards and of an auditor’s code of ethics has contributed to divergent audit practices.

E. Ensuring Compliance with Accounting and Auditing Standards

26. The JSC reviews the annual financial statements presented by the listed companies. The review is intended to monitor compliance with accounting and auditing requirements. A checklist, which includes some basic reporting and disclosure requirements, is used in the review process to determine noncompliance in the financial statements. The main purpose of the review seems to be basically to ensure timely filing of financial statements. With regard to compliance, the reviewers concentrate on the form of elementary disclosure requirements, rather than the substance of important accounting requirements. The review provides no useful information on compliance with standards because it does not reveal whether the standards relating to audit procedures have been
observed or not. Consequently, there is a need for improving the monitoring methodology and capacity of the team that carries out monitoring activities.

27. **Effective sanctions are needed to enforce accounting and auditing requirements.** In spite of the weakness of monitoring methodology, recent reviews by the JSC revealed that some listed companies did not comply with various disclosure requirements, and some audit reports were not in compliance with the required reporting format. In some of these cases, the JSC issued letters pointing out the instances of noncompliance to the errant companies and auditors. According to existing regulations, if a listed company violates accounting and disclosure requirements, the JSC is empowered to request it to make corrections and restate its financial statements. If a company refuses to comply, the JSC can order the company’s financial statements to be prepared and presented in a correct manner at the company’s cost. Also, the JSC has power to suspend or cancel the violator’s stock market listing.

28. **The CBJ is responsible for verifying whether bank financial statements are prepared in compliance with applicable accounting and reporting standards.** A small team of bank supervisors reviews the financial statements of banks; however, to ensure compliance with the accounting and disclosure requirements, the supervisors mostly rely on statutory auditors of the banks. If—while monitoring compliance with prudential regulations and rules—bank supervisors identify departures from established accounting requirements, corrective steps are usually taken. To ensure compliance with accounting and reporting requirements, the CBJ takes a number of steps, which include sharing with banks an approved list of auditors which the banks use for selection of external auditors; meetings between the auditor and bank supervisors before the audit begins; and subsequent meetings with bank supervisors, representatives of the bank’s management, and the external auditor. The external bank auditor is required to report to the banking supervision department any violations of established standards, rules, regulations, and laws. The CBJ does not impose any effective sanctions on auditors that do not comply with this requirement although it can always de-list an auditor from the approved list shared with banks. The Insurance Commission plays a similar role in the insurance sector.

### III. ACCOUNTING STANDARDS AS DESIGNED AND PRACTICED

29. The ROSC team reviewed annual audited financial statements of selected listed companies in order to understand the degree of compliance with the applicable financial reporting standards. For review purposes, the ROSC team selected a sample of 15 companies listed on the Amman Stock Exchange—7 enterprise sector companies, 5 banks, 2 insurance companies and 1 investment company—all of which prepared IFRS-based financial statements. Most of these financial statements were audited by audit firms affiliated with big-4 international firm networks.

30. **The IFRS-based consolidated financial statements prepared by enterprise-sector companies were generally adequate, except for a few instances of**

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10 The list of approved auditors is compiled in accordance with Article (61) of the Banking Law.
noncompliance. Noncompliance with IFRS in the sampled companies related to the following major areas:

- **Foreign currency losses.** Differences arising on long-term loans in foreign currencies have been capitalized and are being amortized over 25 years during the remaining useful life of the related assets. This policy does not comply with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The policy was, however, based on a “Prime Minister resolution.” The amount capitalized was substantial and the unamortized balance on December 31, 2002, was approximately 5 percent of total assets. The audit report is not qualified.

- **End-of-service indemnities.** It is unclear if these indemnities are defined benefit plans or defined contribution plans and, therefore, whether they are accounted for correctly in accordance with IAS 19, *Employee Benefits*. None of the disclosures are made in the sample statements as required by IAS 19 for defined benefit plans.

- **Appropriations of net income.** Most companies in the sample show provisions for Jordanian University fees, provisions for scientific research and professional training, and board of directors’ remunerations as appropriations of net income rather than as expenses. Remuneration paid to the board of directors should be classified as an expense under IFRS. Further clarification is needed on the other items.

- **Provisions and impairment losses.** Several sampled companies recognize substantial round sum provisions for either expenses or the impairment of assets. These provisions may not qualify as such under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or asset impairments under IAS 36, *Impairment of Assets*, or other relevant IFRS. Second, the use of round sum amounts probably does not comply with the measurement requirements in IFRS.

- **Nonconsolidation of subsidiaries.** A few sampled companies do not consolidate what appear to be subsidiaries, contrary to the requirements of IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*.

31. The IFRS-based consolidated financial statements prepared by banks were generally adequate, with some exceptions. According to CBJ, all banks recognize loan losses at the higher amounts required by the CBJ regulations rather than the lower amounts required by IAS 39. Most banks calculate provisions for nonperforming loans at the higher of the amount required by either IAS 39 or the CBJ regulations. Most banks make further general provisions in accordance with the CBJ regulations. Some banks disclose the extent of the differences between CBJ requirements and IAS 39. None of the audit reports of the sampled banks are qualified in cases of material departures. Noncompliance with IFRS in the sampled banks related to the following major areas:

- General provisions for direct and indirect loans are taken against unforeseeable future losses that are not identified by the date of the financial statements and in accordance with the prevailing CBJ regulatory rules.
• A sampled financial statement includes percentages showing the geographical
distribution of some major items. This disclosure suggests that geographical
segment information should be given (assuming that the bank is within the scope of
IAS 14, Segment Reporting).

A sampled major bank does not recognize the deferred tax asset on temporary differences
arising from the provisions for possible loan losses. This may not comply with IAS 12,
Income Taxes. It is worth noting that the audit disclosures in the bank’s annual reports
states the following: “the bank’s administration chose not to record deferred tax assets due
to uncertainty as to the possibility of making use of the assets within a given time period”.

• A sampled bank has issued convertible bonds under which the bondholder has the
right to fully or partially convert the bonds into shares during the specified period
and at a specified value. It appears that the bank has not accounted separately for
the liability and equity components of these bonds as required by IAS 32, Financial
Instruments: Disclosure and Presentation.

32. The IFRS-based consolidated financial statements prepared by insurance
companies were generally adequate, with a few exceptions. Noncompliance with IFRS
in the sampled insurance companies related to the following major areas:

• Deferral of bad debts. One sampled insurance company is spreading the
recognition of a bad debt over four years. This practice does not comply with IAS
39.

• Nonconsolidation of subsidiaries. One sampled insurance company does not
consolidate a subsidiary, which is contrary to the requirements of IAS 27.

• Disclosure of compliance with IFRS. Neither insurance company discloses that its
financial statements comply with IFRS. However, in both cases, the auditors state
that the financial statements are presented fairly in accordance with IFRS. Footnote:
Starting from financial year for 2003, the IC instructions stipulate that all insurance
companies are required to disclose compliance with IAS/IFRS.

33. The audits of the sampled IFRS-based consolidated financial statements were
described in the audit report as carried out in accordance with International
Standards on Auditing. All the audit opinions are unqualified, notwithstanding the
instances of noncompliance with IFRS. In particular, one audit firm has issued an
unqualified opinion notwithstanding the deferral and amortization of foreign exchange
losses. Another audit firm has used an “emphasis of matter” to deal with a disagreement
over accounting principles. Both these reports do not comply with the relevant
requirements of International Standards on Auditing.

IV. AUDITING STANDARDS AS DESIGNED AND PRACTICED

34. While many audit firms claim that they comply with International Standards
on Auditing (ISA), there are significant variations in the quality of audits. The quality
of some audits is materially affected by management attitudes in client companies, and severe competition between audit firms. It is observed that the quality of many audits is affected by management misconception about the value-added created by audit. Management attitude contributes to the low audit fees. Thus the degree of compliance with the applicable auditing standards varies between large and small firms. In general, large auditing firms are more capable in providing quality auditing services, but even in those firms compliance with standards is not always ensured.

35. **Applying ISA is mandatory for all auditors providing service to listed companies.** ISA are not widely available, and many audit practitioners do not have access to ISA-based practice manuals. Knowledge deficiencies constrain most auditors in ensuring sound auditing practice. Also, as ISA translations are not widely available, local firms suffer in interpreting the standards.

36. **All but one audit report of the 15 sets of financial statements reviewed by the World Bank ROSC team were unqualified.** In certain cases, notwithstanding material noncompliance with ISA, the auditors have issued unqualified opinions. In addition to reviewing financial statements, the ROSC team interviewed a cross-section of practicing auditors and representatives of various regulatory bodies and held a facilitated discussion with a group of audit partners representing seven of the biggest audit firms in Jordan.

37. **There is a need to close the gap between the applicable standards and actual auditing practices.** Not fully understanding the requirements of various ISA results in noncompliance or partial compliance, a problem of many auditors who are not part of the international accounting firm networks. Following are some of the major areas in which both large and small audit firms need improvements to ensuring ISA compliance:

- **Paying increased attention to auditor independence.** Some auditors are dependent on one major client, provide internal audit services to audit clients, or have close relationships with clients.
- **Sharing useful information between auditors who precede and succeed one another with the same client.** Mission members were told that because of severe competition, such communication almost never takes place.
- **Applying the appropriate audit procedures concerning client’s related parties.** Large businesses may have complicated relationships among the various legal entities operating under the control of respective families.
- **Obtaining external confirmations.** This is in regard to audited company’s receivables, bank balances, and lawyer’s opinions.
- **Properly using explanatory paragraphs in the audit reports.** An audit firm may use an “emphasis of a matter” to deal with disagreement over accounting principles.
- **Complying with all the requirements.** This is in regard to quality control for audit work.
Applying appropriate procedures for discovering frauds and errors that may result in a material misstatement. An audit firm commented that auditors have no responsibility “whatsoever” regarding discovering or reporting fraud.

Relying heavily on management representation without making efforts to obtain corroborative evidence.

VI. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

38. The general view is that enforcement mechanisms need to be strengthened to improve the quality of corporate financial reporting. Investors, lenders, and other users generally do not take decisions on the basis of information contained in the published corporate financial statements. Interviews and discussions with the representatives of various foreign and local bankers, analysts, financial advisers, investors, and university professors showed concerns about the quality of financial reporting. Many interviewees questioned the competence and integrity of some professional auditors. There was a widespread view that the low-level skills with regard to practical IFRS and ISA application contributed to noncompliance with the applicable accounting and auditing standards. The interviewees strongly expressed their belief that lack of a conducive regulatory regime, and the absence of effective enforcement mechanisms to ensure compliance with international standards, are the main impediments to high-quality financial reporting in Jordan. The interviewees generally considered that audited financial statements are not transparent and do not give the real financial conditions of the business enterprise concerned.

39. Some auditors feel that Bank audits are increasingly concentrated in the hands of a limited number of audit firms. This perception is a concern of many professionals who believe they have the capability and experience to carry out bank audits. This also could be due to the fact that the CBJ does not have an approved list of auditors compiled on a professional and objective basis. Also, given widespread uncertainty about the respective roles of auditors and bank supervisors, there is a concern that too much is expected of the auditors.

40. Interviewees believed that audit committees, when available, are not always effective. It is thought that many audit committee members are not knowledgeable enough to perform their functions and that they are there mostly for showing compliance in appearance rather than in substance.

VII. POLICY RECOMMENDATIONS

41. The policy recommendations presented in this section are based on the findings of the ROSC review of accounting and auditing practices and include valuable inputs received from various stakeholders interviewed by World Bank staff during the due diligence exercise. It is expected that these policy recommendations will be used as inputs for preparing and implementing an action plan for accountancy reform in Jordan.
Amend the new Accountancy Profession Law to deal better with accounting, auditing, corporate financial reporting, and the accountancy profession in Jordan. Areas of modification should include the provisions for creation and operation of the High Council. The High Council should be empowered to monitor and enforce accounting and auditing requirements with respect to general-purpose financial statements.\(^{11}\) The High Council should be charged with oversight of the public-interest activities undertaken by practicing auditors and relevant professional bodies (e.g., JACPA). It should assess whether the auditing profession is appropriately serving the interests of users of audited financial statements and the wider public. The High Council should not be dominated by practicing accountants and auditors and should have a well-staffed secretariat. It may be housed in the JSC. The “Management Board of the High Council” should include high-level representatives of various public and private sector organizations (for example, JACPA JSC, CBJ, Insurance Commission, Tax Department, Audit Bureau, universities, and chamber of commerce). The committees of the High Council should include the following:

- **Accounting and Auditing Standards Committee.** The function of the Accounting and Auditing Standards Committee (AASC) should be the adoption of international accounting and auditing standards issued by the IASB and the IFAC, respectively, for application with respect to the public interest entities.\(^{12}\) In addition, the AASC should issue implementation guidance on the practical application of IFRS and ISA in Jordan. When an exposure draft on a new standard is issued by the IASB and the IFAC, the AASC should disseminate the exposure draft within the country, collect comments, and summarize the comments for transmitting to the IASB and IFAC at the end of the comment period. After the relevant international standard-setter issues an international standard, the AASC should adopt it and disseminate the final version of the international standard and national standard of Jordan. In addition, the AASC should be entrusted with the responsibility of issuing simplified accounting and financial reporting requirements for small- and medium-size enterprises. In regard to small- and medium-size enterprises, the IASB is currently working to issue standards, with an exposure draft expected in 2004.

- **Financial Reporting Monitoring Committee.** The purpose of the Financial Reporting Monitoring Committee (FRMC) should be to analyze and identify noncompliance with the applicable accounting and financial reporting requirements. The findings should be forwarded to the High Council’s Management Board along with recommendations on the nature of sanctions to be imposed on the preparers and auditors of the financial statements. The Management Board should make the final decision on sanctions and take the necessary steps to implement the sanctions.

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\(^{11}\) The activities related to general-purpose financial statements are different from the banking and insurance supervisors’ actions that deal with regulatory reporting in compliance with prudential regulations.

\(^{12}\) Public interest entities may be defined by the nature of their business, their size, and their number of employees; or by their corporate status by virtue of their range of stakeholders. Public interest entities might include banks, insurance companies, investment funds, pension funds, listed companies, and large enterprises. Large enterprises may be defined as individual enterprises and groups of enterprises that meet two of three following thresholds—(a) total number of employees exceeding [a number to be decided in consultation with various stakeholders]; (b) total assets on the balance sheet exceeding [amount to be decided in consultation with various stakeholders]; and (c) total turnover exceeding [amount to be decided in consultation with various stakeholders].
In this regard, the Board should establish an understanding with the CBJ, insurance commission, and securities commission for collaboration on monitoring and enforcing financial reporting requirements. The FRMC should develop strong capacity to conduct in-depth review of corporate financial statements in order to determine the extent of compliance with the standards and regulations, not only in appearance but also in substance. The analyst group that will be responsible for conducting the review may consist of a mixture of full-time and part-time experts engaged by the High Council. The policies and procedures for conducting monitoring activities should be developed by the FRMC and approved by the High Council’s Management Board. The monitoring of compliance with financial reporting requirements should follow clear and transparent procedures. Also, the conclusions of reviews, including any request for restatement of financial statements, should be made public to deter noncompliance by preparers and auditors of financial statements.

**Auditors’ Practice Review Committee.** The Auditors’ Practice Review Committee (APRC) should maintain a list of qualified auditors and audit firms that will have permission to audit the public interest entities. These auditors and audit firms should be subject to the APRC’s practice review and monitoring to analyze and identify noncompliance with the applicable auditing standards and code of professional ethics. Monitoring of practicing auditors’ performance should be carried out through (a) on-site inspection of audit firms with regard to compliance with auditing standards and other applicable auditing requirements, including a code of ethics; (b) preventive measures for ensuring that audit firms have adequate quality assurance arrangements; and (c) adequate investigation and disciplinary proceedings, along with imposition of appropriate sanctions.

43. **Strengthen the capacity of JACPA under the oversight of High Council.** JACPA should revamp its activities to function as a strong professional body in line with relevant IFAC pronouncements. To strengthen JACPA’s capacity, a twinning arrangement could be established with a developed professional accountancy body. For this purpose, a professional body should be identified in Europe, North America, or Australia. A long-term twinning arrangement would allow the twinning partner’s best practices to be transferred to JACPA. To strengthen its capacity, JACPA will require financial assistance for start-up functions in line with international best practices.

44. **Amend relevant laws to make them compatible with the new Accountancy Profession Law.** The Companies Act, banking and insurance laws, and other relevant laws should be amended with respect to the provisions dealing with accounting, auditing, and financial reporting. Other laws should not contradict the requirements set by the Accountancy Profession Law. There should be legal provisions for a formal arrangement that will allow the CBJ, JSC, and Insurance Commission to use information produced by the High Council on Accounting and Auditing (for example, financial reporting monitoring and compliance) as inputs to their own decisionmaking concerning regulatory actions.

45. **Improve the capacity of the CBJ, JSC, and IC in the areas of IFRS and ISA.** The regulators need to strengthen their capacity to properly deal with accounting and
auditing issues concerning the regulated enterprises. For enforcement purposes, these regulators will collaborate with the High Council on Accounting and Auditing to ensure that relevant laws and related rules of these regulatory bodies give them comprehensive power to impose appropriate administrative sanctions on any or all parties—the company, the directors, and the auditors—found responsible for violation of the financial reporting requirements.

46. **Take preemptive actions to improve compliance with accounting and financial reporting requirements.** The regulatory bodies should sponsor consultative sessions to enlighten the chief executives or their representative of all listed joint-stock companies, banks, and insurance companies about the importance of complying with accounting and financial reporting requirements. Participants would be briefed on management responsibility for compliance with the established accounting and financial reporting standards and the related enforcement policies. The regulators should present cases demonstrating the strengths and weaknesses of financial reporting in Jordan. Efforts should be made to present international developments on improving the transparency of corporate financial reporting, new dimensions of regulatory regimes affecting accounting and auditing, and the role of transparent financial reporting in attracting both strategic and portfolio foreign investments. Also, JACPA should introduce an outreach program for financial executives and accounting staff to disseminate knowledge on current developments in accounting and financial reporting standards and practices.

47. **Upgrade the licensing procedure.** No one should be allowed to obtain an audit practice license without meeting the minimum practical experience in line with international best practice. The licensing system should be fundamentally changed in compliance with the IFAC pronouncements—a qualification examination based on the curriculum conforming to the IFAC standard and at least three years of practical experience with an authorized training provider under the supervision of a licensed auditor. To be an authorized training provider, an auditing firm should be involved in providing auditing services and should have sufficient capacity to enable the auditor-trainees to gain exposure to the practical aspects of all applicable standards and codes. JACPA, which will be responsible for issuing audit practice licenses, should maintain a list of authorized practical training providers and update it periodically on the basis of an assessment of the capabilities of existing and potential training providers.

48. **Improve curriculum and teaching in accounting programs of universities and colleges.** If future accountants and auditors are to have sufficient academic background in the field of accounting and auditing, the university and college curricula leading to the bachelor’s degree should be harmonized at national level. In that regard, the government agencies involved in the accreditation of university/college degree programs should establish guidelines consistent with recent IFAC-issued International Education Standards for Professional Accountants (IES). This applies especially to IES 1, *Entry Requirements to a Program of Professional Accounting Education,* and IES 2, *Content of Professional Accounting Education Programs.* The accounting curriculum should be reviewed and updated to incorporate international accounting and auditing standards and include practical-oriented teaching at the undergraduate level. The ethical dimensions of business...
management, corporate finance, accounting, and auditing should be taught with case studies in the undergraduate programs of business schools/commerce faculties. Particular attention needs to be given to increasing students’ critical thinking skills. To enhance the capacity of higher educational institutions for teaching accounting and auditing courses with international components, there is a need to organize a training-the-trainers program.

49. **Introduce continuing professional education as a mandatory requirement for accountants and auditors in public practice.** The requirements on continuing professional education and development for JACPA members should be made mandatory in line with the IFAC-issued standard, *Continuing Professional Education and Development*. JACPA should facilitate delivery of training programs on practical aspects of international accounting and auditing standards, including ethical challenges faced by accountants and auditors in public practice. It should also facilitate its members’ access to programs offered by universities and other training providers so that they can meet the requirements for continuing professional education and development. JACPA should develop a mechanism for monitoring and enforcing the requirements on continuing professional education of the practicing members.

### ABBREVIATIONS AND ACRONYMS

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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>CBJ</td>
<td>Central Bank of Jordan</td>
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<td>IAS</td>
<td>International Accounting Standards</td>
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<td>International Accounting Standards Board</td>
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<td>IASC</td>
<td>International Accounting Standards Committee</td>
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<td>International Federation of Accountants</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>ISA</td>
<td>International Standards on Auditing</td>
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<td>JACPA</td>
<td>Jordanian Association for Certified Public Accountants</td>
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<tr>
<td>JSC</td>
<td>Jordanian Securities Commission</td>
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<td>ROSC</td>
<td>Report on the Observance of Standards and Codes</td>
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