

# AN EMPIRICAL STUDY OF QUALIFICATION AND CRITERIA REQUIRED OF PUBLIC AUDITORS IN JORDAN

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## ABSTRACT

*This study examines the qualifications and criteria required of public auditors to facilitate effective and objective auditing results. A questionnaire was developed and distributed to a representative sample of chief control departments in the Jordan Audit Bureau (AB) and financial managers and accountants in governments whose activities are subject to the AB's audit. The aim was to solicit their opinions regarding these qualifications and criteria. The study concluded that the auditors must possess certain qualifications. Recommendations are provided for improving the audit profession in Jordan, such as amending audit laws, preparing comprehensive control and audit standards, and holding continuous courses and seminars in the field of computer and financial analysis in the audit process.*

**JEL:** M4, M41, M42

**KEYWORDS:** public auditors, qualifications, Jordan Audit Bureau, audit control standard, audit laws

## INTRODUCTION

The aims of an audit are to confirm that resources (public or private) are employed and invested in the appropriate manner without losing funds and to make sure that these funds are optimally used and quality level achieved. In addition, the audit aims to examine management of funds and to draw attention to aspects of shortcomings and failures in meeting financial laws and regulations. In light of increasing auditors' activities in Jordan's economy, the need for the need for trained auditors with specific qualifications has emerged. This research identifies the most critical qualifications and criteria required by the auditors to insure they are capable of perform their duties effectively. These capabilities correspond to developments in the auditing and accounting professions - e.g., such as computerization, statistics, and financial analysis in auditing - which will ultimately lead to the protection of public funds.

The auditing profession in Jordan is organized by Auditing Profession Law No. 32 enacted in 1985. This law specified the standard requirements of an auditor as follows: bachelor's degree in accounting with at least three years' experience or, master's degree in accounting with at least two years' experience, or PhD in accounting with at least one year's experience, or holding a professional certificate. The paper is organized into five sections as follows. Section 2 discusses the main contributions in the relevant literature. Section 3 presents the data and methodology of empirical research. Section 4 summarizes the analysis of the results and findings. Section 5 provides a summary of the research and the conclusions. The last section provides references and an appendix that containing the survey instruments.

## LITERATURE REVIEW

Issues related to qualifications required of public auditors have attracted the attention of a number of researchers. The staff assigned to conduct audits must possess adequate professional proficiency for the tasks required. Auditors must have the knowledge and skills necessary to conduct the audit International Registration Plan Inc. (IRP), Audit Committee, Ballot, 259 - Auditors Qualifications and Responsibilities, June1, 2002). The effectiveness of audit staff in performing assigned duties certainly is

dependent on the qualifications and skills of its members and the relationship of the members to the governmental body (Auditor Selection Guidelines, 2007).

The American Institute of Certified Public Accountants (AICPA) Toolkit (1995) suggests that at least one member of the audit staff should have financial experience and provide guidance as to attributes that comprise financial experience, including an understanding of relevant accounting principles and auditing standards, experience in preparing, auditing, analyzing, or evaluating financial statements; an understanding of internal controls and procedures for financial reporting; and a general understanding of the government environment. Others concentrate on the election of the auditor. In this regard, the Georgia Election Officials Association (GFOA) Recommended Practice-Audit Procurement (1996 and 2002) states that: The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. The criteria for audit firm qualifications listed by the GFOA include meeting applicable independence criteria, license to practice as a CPA, receipt of adequate continuing professional education by key personnel, completion of a quality control review within the past three years and a history of performing quality audits.

Nichols D. R. and Smith D. B. (1983) conducted a study of auditors and auditor changes. They hypothesized that different auditing firms provide auditing services which are perceived by investors to be different in quality; and in particular, that the Big Eight auditors are perceived as being more capable than non-Big Eight auditors. Beauty R. P. (1989) conducted a study about auditor reputation and the pricing of initial public offerings. The study hypothesized that an inverse relationship exists between the reputation of the auditor of an Initial Public Offering (IPO) and the initial return earned by an investor. The results indicated that clients that pay a premium for their registration audit exhibit lower initial returns for their investors. The results also provide support for the hypothesized inverse relationship between auditor reputation and the IPO initial return.

Al-Hmoud T. (1991) conducted an inductive study about analytical auditing and its uses by auditors in Jordan. The study revealed that some problems may impede the use of analytical auditing such as weakness of the internal control system, the lack of analytical books, and difficulties in making comparisons within an industry. A study by Menon K. and Williams D. D. (1991) examined auditor credibility and initial public offerings. The results showed that companies with prestigious investment bankers are more likely to change from local auditors to more credible Certified Public Accountants (CPAs). The study also revealed that investment bankers and their clients have a preference for credible auditors for initial public offerings. A study about present and future rules and ethics of the auditing profession in Jordan was conducted by Al-Hmoud (1992). Al-Hmoud also conducted a study about the present and future rules and ethics of the auditing profession in Jordan. The study revealed that the present rules and ethics are unable to achieve the goals of the profession and recommends not adopting the ethics of other countries because of significant differences among the religious and ethical cultures of Jordanian people relative to those of other countries.

Ramadan S. S. (1997) researched the role of the Jordan Audit Bureau in preparing qualified accountants. The results of the study reveal that the Audit Bureau pays special attention to the selection and training of its employees which helps them carry out their duties properly. The study recommended that accountants at the Audit Bureau should hold a first university degree in accounting with experience in auditing and that, in accordance with the country's future economic plans, there is a need to hold continuous training programs for the accountants in order to improve their capabilities.

Khasharmeh H. A. (2001) conducted a study about auditor change in Jordanian public shareholding companies. The results indicated that factors relating to the company, the application of auditing standards and the audit office all lead to auditor change. The study recommended an increased role of the

Jordanian Association of Certified Public Accountants. Additionally, Khasharmeh H. A. (2003) examined factors affecting auditor selection by Jordanian public companies. The study found a consensus among the respondents regarding the role of the company boards of directors in selecting the auditor. In addition, there is a need to re-activate the role of the Jordanian Association of Certified Public Accountants in controlling audit offices.

Albring S. M. and Elder R. J. (2004) examined quality differences in an Initial Public Offering (IPO) setting for non-Big 5 firms based on firm size. Firm size was measured by whether the firm is a national firm, SEC experience, and whether the audit firm voluntarily participated in peer review. The results show little evidence of a relationship between the IPO underpricing and auditor reputation for non-national firms. The volunteer peer review variable was not associated with IPO under pricing or higher fees. However, most of the audit firms voluntarily participated in peer review, suggesting that these firms found peer review to be valuable. Securities and Exchange Commission (SEC) experience was associated with higher fees, suggesting companies are willing to pay more for an audit firm with SEC reporting experience.

Sori Z. M. and Karbhare Y. (2006) conducted a study regarding auditor reputation and auditor independence in an emerging market. The study examined the impact of auditor reputation (e.g., size of audit firm) on auditor independence. The results of the study indicated that the majority of auditors, loan officers and senior managers of public listed companies agreed that auditors in Big Four firms are superior to their counterparts in non-Big four firms in all reputation issues presented to them. The results also showed that Big Four auditors are more effective at detecting activities that will affect the continuity of client companies. Moreover, the study indicated that Big Four auditors were found to have more incentive to behave independently than the non-Big four auditors.

Most of the studies that examine the Jordan market fail to consider all the issues specifically related to the qualifications and criteria required by public auditors. The significance of the current study lies in its attempt to examine the required qualifications and criteria of public auditors in Jordan.

## **RESEARCH METHODOLOGY**

The research relied on both primary and secondary sources to collect data. A questionnaire was designed and distributed to the respondents. The questionnaire is presented in Appendix 1. The questionnaire collects personal data related to respondents such as age, sex, qualifications and specializations, experience, as well as data related to qualifications and criteria of the individual. The researcher interviewed some experts at selected government organizations subject to Audit Bureau Control. The questionnaire utilized a number of Likert quintuple standard of 1 – 5 questions, with a response of 1 indicating strong disagreement and a response of 5 indicating strong agreement.

This research aims to identify the qualifications and criteria required of public auditors in Jordan. Based on the literature review and theoretical background, this research aims to provide answers to the following questions: 1) what are the qualifications and criteria that are required by the public auditor? and 2) What are the factors that may improve performance of the public auditor?

The sample covered all chief auditors and financial managers and accountants in government organizations and departments audited and supervised by the Audit Bureau. The sample included 120 individuals. These individuals were selected randomly and administered the survey. Questionnaires from 93 participants were completed and collected (77.5 percent of the sample size).

## ANALYSIS OF THE RESULTS AND FINDINGS

The distribution of respondents according to personal data is presented in Table (1) below.

Table 1: Respondents Distributed According to Personal Data

	Number	Rate (%)
<b>Age</b>		
20-30 years	30	32.3
31-40 years	42	45.2
41-50 years	16	17.2
Over 50 years	5	5.3
Total	93	100%
<b>Sex</b>		
Male	70	75.3
Female	23	24.7
Total	93	100%
<b>Specialization</b>		
Accounting	52	55.9
Administration	15	16.1
Economics	14	15.1
Law and Others	12	12.9
Total	93	100%
<b>Qualification</b>		
Secondary and less	2	2.2
Diploma	31	33.3
Bachelor Degree (BA)	54	58.1
Master and Doctorate	6	6.4
Total	93	100%
<b>Number of Years of Experience</b>		
1-5 years	23	24.7
6-10 years	26	28
11-15 years	21	22.6
16 years and above	23	24.7
Total	93	100%

*The Table shows that 67.7 percent of the respondents are over 30 years of age, 75.3 percent are male, 55.9 percent possess an accounting specialization, 31.2 percent of specializations are related to administration and economics, 64.5 percent of the sample hold a BA degree or higher, 75.3 percent of respondents have 6 years or more of experience.*

Table 2 presents the arithmetic mean, standard deviation and frequency distribution of all qualifications and criteria required by public auditors covered in the questionnaire distributed to the sample. The qualifications and criteria which have arithmetic means above 3.5 were considered as significant; while those below 3.5, insignificant.

### Analysis of the Results

A review of Table 1 indicates that the low percentage of female respondents may be attributed to two reasons. First, the unwillingness of females to complete the questionnaire. Second, the nature of auditing functions requires freedom to move in order to complete field work, which the female may be unable to accommodate due to family and/or cultural concerns. The result confirm reliability issues in data collection. We concluded that the respondents are highly experienced, which enables them to provide correct and reliable information

A review of Table (2) indicates that clarity, honesty and neutrality at work are located at the top among other criteria, where the mean was (4.90) and the standard deviation 0.30. The small standard deviation indicates that views are not diffused on this point. All respondents agree that this criterion is essential in the audit process. Managing public funding properly as well as controlling operations with honesty and neutrality are important elements of an auditor's job. These factors allow work to be completed with no influence from officials, professionals, personal and financial relations on audit processes and have no

effect of party or political membership on the auditor’s duty. It also prevents any alliance and absence of any direct or indirect relationship with the employees of the authority subject to control.

Table 2: Qualifications and Criteria Required of the AB Auditor

Clause	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Arithmetic Mean	Standard Deviation
1- Holding bachelor degree in accounting.	37 39.8%	38 40.9%	7 7.5%	11 11.8%		4.16	0.91
2- Experience in the field of government audit.	33 35.5%	43 46.2%	10 10.8%	7 7.5%		4.05	0.85
3- Holding Audit License.	10 10.8%	20 21.5%	40 43%	18 19.3%	5 5.4%	3.25	1.05
4- Comprehensive with the financial rules and regulations.	68 73%	21 22.6%		2 2.2%	2 2.2%	4.67	0.80
5- Comprehensive with rules and regulations of government departments.	68 73%	21 22.6%		2 2.2%	2 2.2%	4.66	0.71
6- Follow up development made on audit and accounting profession.	40 43%	47 50.5%	6 6.8%			4.45	0.55
7- Independent in practicing audit profession.	49 52.7%	39 41.9%	3 3.2%	1.5		4.48	0.65
8- Perfect in communication with responsables and employees of government departments.	43 46.2%	38 40.9%	7 7.5%	4.6		4.30	0.80
9- Respect confidentiality of obtained information.	67 72%	24 25.8%		1.5		4.71	0.50
10-Compliance with the common audit standards.	44 47.3%	45 48.4%	4 4.3%			4.49	0.50
11-Clarity, honesty, and neutrality at work.	86 92.5%	7 7.5%				4.90	0.30
12-Capability to use computer in auditing.	14 15.1%	53 57%	23 24.7%	3 3.2%		3.87	0.73
13-Capability to use statistical samples.	25 26.9%	54 58.1%	11 11.8%	3 3.2%		4.10	0.65
14-Capability to use financial analysis of financial lists and statements.	40 43%	48 51.6%	5 5.4%			4.16	0.67
15-Capability to examine and review control systems.	37 39.8%	47 50.5%	7 7.5%	2 2.2%		4.35	0.66
16-Capability to use evidence in the financial audit process.	44 47.3%	47 50.5%	2 2.2%			4.50	0.48
17-Capability to prepare a comprehensive audit plan.	34 36.6%	48 51.6%	9 9.6%	2 2.2%		4.29	0.59
18-Capability to arrange feasibility studies for the government projects and economic and financial plans.	20 21.5%	50 53.8%	18 19.3%	4 4.3%	11.1%	3.80	0.90

*All the respondents agreed with upon all the qualifications and criteria mentioned in the questionnaire. The mean is ranged between 4.90 and 3.25, where as the deviation is ranged between 1.05 and 0.55. These results indicate that the views of the respondents are not diffused in their answers.*

In second position in the table, the respect of confidentiality of information criterion possessed by the auditor, showed strong agreement of respondents (97.8 percent), with a mean of (4.71), and a standard deviation of 0.50. This again indicates no diffusion of views. In addition, another criterion fundamental to the auditor, is listed under the standard of ‘paying professional required care’. The auditor is also required to respect confidentiality of information obtained, unless he is legally required to disclose such information. The third place item is comprehensive of financial rules and regulations, with a mean of 4.67, and standard deviation of 0.80. The results show that 95.6 percent of respondents agreed this criterion is significant to the auditor.

Most respondents in the sample (95.6 percent) regard the fourth-placed criterion, that the auditor should be acquainted with rules and regulations and instructions of government departments subject to auditing,

as significant, with a mean of 4.66 and standard deviation of 0.71. The auditor's acquaintance with rules and regulations of government departments is essential since it is essential to know the procedures of work in such departments, to be capable of auditing its operations, and to discover and handle the defaults properly without violation of the departmental regulations.

The table illustrates a high agreement (96.9 percent) for the independent criterion; the mean was (4.48), and standard deviation 0.65. Auditor independence is essential to allow expression of the technical view of fair financial and government lists, which eliminates the practice of some executive acts hampering independence and neutrality of the profession. With regard to the capability criterion, 97.8 percent of the respondents indicated their agreement. The arithmetic mean was 4.50, and the standard deviation was 0.48, which is very low, indicating non-distortion of the respondents' views.

The criterion, compliance with common audit standard, was significant. The mean of 4.49 and standard deviation of 0.50 is very low and indicate non-distortion of views of respondents. This criterion is listed under the 'required professional care standard' which states that the auditor shall comply with the common audit standards and shall not compromise until an alternative recent standard is provided. Regarding the criterion, the auditor follows up developments and renewals on audit and accounting professions, the respondents indicated agreement (93.5 percent) with this criterion's significance. The mean reported was 4.45, and the standard deviation 0.55, which is very low and indicates, again, the non-distortion of views of respondents. To keep auditors acquainted with modern developments of computer usage in accounting, auditing and control, they must have the necessary information through seminars and continuous and condensed courses.

When reviewing the criterion, perfect communication with responsible employees of government departments subject to audit process, it is observed that respondents agreed on this criterion (87.1 percent) with a mean of 4.30, and a standard deviation of 0.80. This demonstrates the importance of such capabilities able toward carrying out continuous work without any difficulties or disturbances.

About 90 percent of respondents identified two criteria as very important to a good auditor; they were capable of completing financial analysis and capability of examining and reviewing control systems. Means of 4.16 and 4.35 and standard deviations of .67 and .66 respectively were reported, respectively. The criterion, preparing of comprehensive audit plan, was well accepted; with a mean value of 4.29 thereby confirming its importance. This illustrates that the auditor is responsible for setting an audit plan to accomplish the audit process efficiently and in the shortest time. It contains, for example, the objective and extent of auditing, schedule for auditing and the required tests and procedures, auditor responsibilities and other items.

The table indicate an arithmetic mean (4.16) and standard deviation of 0.91 which are relatively high for auditors to hold a bachelor's degree in accounting. All respondents confirmed that no less than a bachelor's degree in accounting should be held to insure auditor understands accounting, auditing, and continuous development methods. They all confirmed that there is little opportunity for those holding degrees in accounting at less than the bachelor level.

The criterion, experience in the field of government audit, with a mean of 4.05 and a standard deviation of 0.85, confirms the significance of this criterion. During the formal interviews, some governmental department interviewees confirmed that some auditors had no experience in government work and audit, which created some problems and mistakes. Regarding the criterion, the auditor is required to obtain an audit license to be allowed to work, the arithmetic mean was low (3.25) indicating that the majority of respondents were neutral regarding this issue. A license is supposed to be held by those working in the private sector.

The majority of the respondents (85 percent) confirmed the importance of using the statistical samples in audit processes. The mean was 4.10 and standard deviation was 0.65. They develop their cadres to utilize such modern audit methods, and hold courses and continuous seminars to enable the auditor to follow up on recent developments in accounting. The criterion, capability to arrange feasibility studies for government projects and economic and financial plans, has a mean of (3.80) and standard deviation of 0.90. This issue is studied by auditors because it is believed that it will help them make decisions and implementing the projects and plans efficiently. Therefore, it is necessary to develop and train auditors in the feasibility study processes. Additionally, the respondents suggested some factors they believe will enhance the performance of auditors. To test the acceptance of the qualifications and criteria that are required by the public auditor in Jordan, a Z test was run. Table 3 shows the results of the Z test.

Table 3: Z Test Results of Z of All Items of the Qualifications and Criteria that Are Required by the Public Auditor in Jordan.

Value of tabulated Z	Value of Compued Z	Standard Deviation	Mean	Questions
- 1.645	67.4	0.1531	4.07	All 18 items together

*The results in Table 3 indicated that respondents accept that all qualifications and criteris specified in table 6 are required to be possessed by public auditors in Jordan.*

## **SUMMARY AND CONCLUSIONS**

This research aims to identify the qualifications and criteria required by the public auditors. In order to achieve this goal, the research relied on both primary and secondary sources to collect data. Regarding primary sources, a questionnaire was designed and distributed to the respondents in order to provide answers to the following research questions. What are the qualifications and criteria that are required by the public auditor? and, What are the factors that may improve performance of the public auditor?

The sample covered all chief auditors and financial managers and accountants in government organizations and departments audited and supervised by the Audit Bureau in Jordan. The sample included 120 individuals, selected randomly, to whom questionnaires were distributed. Questionnaires from 93 participants were completed and collected (77.5 percent of the sample size). Descriptive statistics were used in the analysis of this study. These statistics resulted in the conclusion that auditors must possess certain qualifications and criteria. These characteristics include autonomy at personal and governmental levels, appropriate academic and professional qualifications, personnel ethics in managing and preparing audit reports, computer-related skills to evaluate internal control systems, data analysis and audits, strong communication skills and secure the cooperation of chief controls and employees of governmental departments.

A few limitations surround this study. Some auditors refused to answer the questionnaire because of the sensitivity of the subject or they belived that this information was confidential and should not be disclosed to outside parties. Secondly, this study is applied to public auditors working in government institutions only and not to auditors in private companies in the market. The results of this reseach are expected to help investors in taking decisions and implementing the projects and plans efficiently and effectively. Similarly, countries in the Middle East reagon region may benefit from the results of this study.

This study has some implications for future research in the business environment. The study improves the understanding of the audit qualifications and criteria issues. The findings in this research suggest certain recommendations including: the amendment of audit law to achieve financial and administrative

autonomy, preparing comprehensive control and audit standards, and holding continuous courses and seminars in the field of computer and financial analysis in the audit process.

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**APPENDIX 1: QUESTIONNAIRE**

This questionnaire aims to collect information on the qualifications and criteria that must be possessed by public auditors. You are kindly requested to give your views on the clauses of this questionnaire. Please be assured that your responses will be treated confidentially and objectivity and used only to achieve the goals of this study. Thank you for your cooperation. This questionnaire contains two sections. The first is designed to collect personal information about the respondent, and the second is designed to collect information about the qualifications and criteria required by the public auditors.

**SECTION 1: Respondent Personal Information**

Please tick with an (√) on the appropriate line.

- 1- Sex: Male \_\_\_\_\_ Female \_\_\_\_\_
- 2- Age:
  - 20-30 \_\_\_\_\_ 41-50 \_\_\_\_\_
  - 31-40 \_\_\_\_\_ Above 50 \_\_\_\_\_
- 3- Specialization:
  - Accounting \_\_\_\_\_ Administration \_\_\_\_\_ Economics \_\_\_\_\_
  - Law \_\_\_\_\_ Other (please specify) \_\_\_\_\_
- 4- Educational Qualification
  - Ph.D. \_\_\_\_\_ Master \_\_\_\_\_ Bachelor \_\_\_\_\_
  - Diploma \_\_\_\_\_ Secondary education and below \_\_\_\_\_
- 5- Number of years of related work experience: \_\_\_\_\_ years

**SECTION 2: Qualifications and Criteria Required By Public Auditors**

Please tick with (x) in the box indicating your agreement that the qualification (criterion) identified is significant for public auditors to possess.

Clauses	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1 The auditor must hold a bachelor’s degree in accounting.					
2 The auditor must have experience in government audit.					
3 The auditor must hold an audit license.					
4 The auditor must be acquainted with AB law and the financial regulations and instructions.					
5 The auditor must be acquainted with rules and regulations of government departments whose activities are subject to audit.					
6 The auditor must continuously follow up developments on audit and accounting professions.					
7 The auditor must possess autonomy (independence) in his practice of audit profession.					
8 The auditor must possess communication skills with the managers and employees of the government departments.					
9 The auditor must respect confidentiality of acquired information.					
10 The auditor must comply with the common audit standards.					
11 The auditor must be clear, honest, and dedicated, and shall not allow his personal desires to affect his subjectivity.					
12 The auditor must be capable to use computer in the audit process.					
13 The auditor must be capable to use statistical samples in the audit process.					
14 The auditor must be capable of financial analysis of financial lists and					

	Clauses	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	statements.					
15	The auditor must be capable of examining and reviewing control systems.					
16	The auditor must be capable to use evidence in the financial audit process.					
17	The auditor must be capable of preparing a comprehensive audit plan.					
18	The auditor must be capable of arranging feasibility studies for government projects.					
19.	Please identify any additional factors which, in your opinion, you believe may improve the performance of the public auditor.					

## BIOGRAPHY

Hussein Khasharmeh obtained his PhD (Accounting) from Middlesex University- London, UK in 1995. He has taught at several universities, including Yarmouk University (Jordan), University of United Arab Emirates, The Arab Academy for Banking and Financial Sciences (Jordan) where he served as Director of Bachelor Programs, and is currently at the University of Bahrain. He has published more than 40 research papers in refereed journals. He has received various Awards for Research Excellence, appears in Who's Who in the World (25th Silver Anniversary Edition, Marquis, U.S.A, 2008), and is a Charter Fellow of the American Biographical Institute, Advisory Directorate International, 2008. His research interests include financial accounting, accounting profession, international accounting, tax accounting, auditing, governmental accounting, management accounting, and cost accounting.