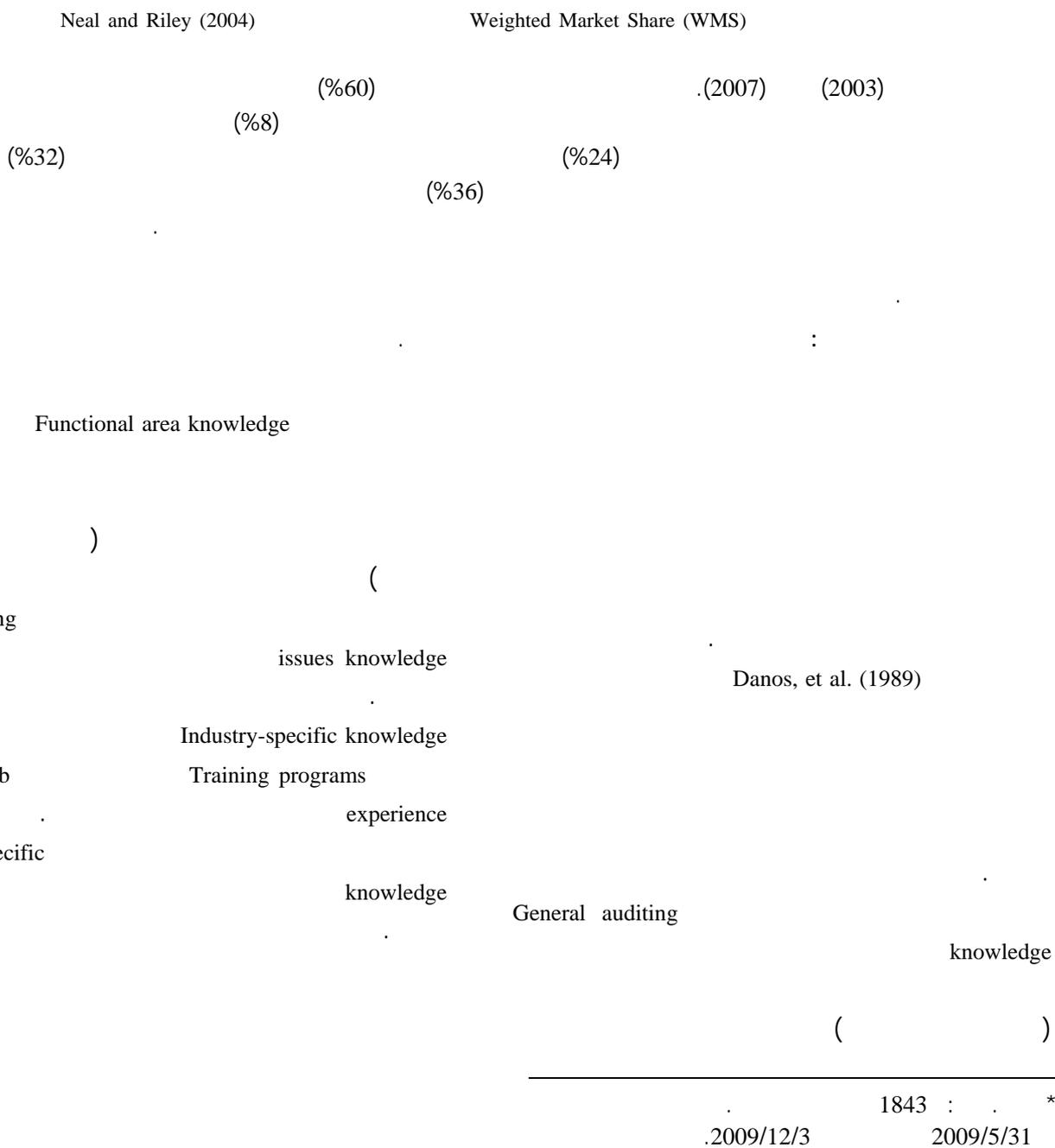


*



KPMG

: 2008

"

"

Deloitte and Touch

2008

.(Dunn and Mayhew, 2004)

(Goff, 2004)

:

"

(Mayhew and Wilkins, 2003)

"

Hogan and Jeter (1999)

Eight-Big audit firms

Four-Big audit firms

Coopers and

Price Waterhouse

Lybrand's

AICPA

2007

.(Castrella, et al., 2004)

.(Bell, et al., 1999; Eilifsen, et al., 2001)

Sarbanes-Oxley Act
2002

(Cairney and Young, 2006)
2007

(Solmon and Shield, 1999)

: *

KPMG Peat Marwick LLP

AICPA

Sarbanes-Oxley Act

(Hogan and Jeter, 1999)
(Solomon and Shields, 1999)

: *

Libby (1985)

(Danos, et al., 1989 and

Hogan and Jeter, 1999)

Carson and Fargher (2007)

Tacit

Knowledge

.Economies of Scale

Codified Knowledge

.(Hogan and Jeter, 1999)

Cairney and Young (2006)

)
(

Cairney and Young (2006)

"Just In Time"

Automated Companies

Less

automated Companies

.(Craswell and Taylor, 1991; Balsam, et al, 2003)

Online Orders

.(Owhoso, et al., 2002)

Different Operating Characteristics

(Office- / : City/level)

Defond, et al., 2000; Ferguson, et al., 2003;
(Francis, et al., 2005)
: (National-level)

.(Ferguson, et al.,
2003; Francis, et al., 2005)
(Global-level) :

Ettredge, et al. (2006)

.(Carson and Fargher, 2007) :
Carson and Fargher (2007) (level- : Specific/Client)

) :

:(
: (Industry-level) :

) :

(
(Country-level) :

) :

.(

Ad Economic reasons .
 . hoc assumptions
 Neal and Riley (2004)

Product : (Stein and Cadman, 2005)
 :
 Differentiation Strategy

Market Share :
 Approach (MS)

Market-level measure *or* Industry-level
 measure .

()
 (Fee Premium)

.High Quality Auditors (HQ)
 Low :
 Cost Producer Strategy

Economies of scale .

()
 (Discount Fee)

Palmrose (1986)
 %20
 .Low Cost Auditors (LC)

(Palmrose, 1986)
 (%20)

(%25 = (4/1))

(1,2*(%25)) ()
 () (%30 =
 Sensitivity Test
 Stein and Cadman (2005)

) ()
 ((%25)
)
 ()
 :
 *
 (1,2*(/1)) =
 Portfolio Share :
 Auditor-level measure Approach (PS)

46

(%2,17 =(46/1))

(Krishnan, 2001; Cairney and Young, 2006)

Neal and Riley = *
 (2004) (/1)
 Neal and Riley (2004)

Weighted
 Market Share (WMS)

=(%2,17 * %30)

%0,651

:
Weighted Market Share (WMS)

:

.(Krishnan, 2003; Ettredge, et al., 2006)

(Palmrose, 1986; Defond, et al., 2000;

Ferguson and Stokes, 2002; Ferguson, et al., 2003)

(Neal and Riley,

2004)

/1) * (1,2*(

/1))

(

()

()

()

()

()

()

Neal and Riley

%20

Hogan and Jeter (1999)

)

(
)
(
)
Solmon and Shields (1999)
(Roberts, et al., 1990; Deis and Giroux,
1996)
(Goff, 2004)
(
:
Effectiveness
(Doing the right thing)
Economy
(Doing things cheap)
Efficiency
(Doing things right)
(Arens et al., 2006)
Dunn and Mayhew
(2004) O'Keefe, et al. (1994)
Joseph and Nagy (2004)
Price Waterhouse Coopers (PWC)
Securities and Exchange Commission (SEC)
(Behn and
Krishnan (2003) Carcello, 1997)
Dunn and Mayhew (2004)

Dunn and Mayhew (2004)

Solomon and Shields (1999)

Green (2008)

Bedard and Biggs (1991); Wright and Wright
(1997)

(Owhoso, et al., 2002)

Winograd, et al. (2000)

(Audit (Senior auditor)
manager)

(Conceptual or Judgmental errors)

(Mechanical errors)

Bamber and Ramasy (2000)

(Owhoso, et al., 2002)

management

Taylor (1998)

Healy and Wahlen (1999)

(Low, 2004)

Financial distress

Earning quality

(Balsam, et al., 2003; Krishnan, 2003; Al

(Hofer, 1980)

Mutairi, 2008)

) Gramling, et al. (2001)

((Mayhew and Wilknis, 2003)

Krishnan (2003)

Behn, et al. (2008)

(Johnson, et al., 1991)

(2004) Joseph and Nagy

Krishnan (2003)

(Balsam, et al., 2003; Krishnan, 2003)

Earning

(Simunic, 1980; O'keefe, et al., 1994)

(Ettredge, et al., 2006)

Stein and Cadman (2005)

Hogan and Jeter (1999)

Non-audit services

Accounting and Compilation

Services

Management Consultations and Financial Planning

SEC

(Dunn and Mayhew, 2004)

(Craswell, et al., 1995; Cullinan, 1998;

Mayhew and Wilkins, 2003)

)

(

(Cullinan, 1998;

Mayhew and Wilkins, 2003)

(Dunn and Mayhew, 2004)

Danos, et al. (1989)

()

()

O'keefe, et al. (1994)

Carson and Fargher (2007)

:

Economies of scale

Hogan and Jeter (1999)

Knowledge spillovers

Arthur Ernst and Whinney

Ernst and Young 1989 Young

Pepsi

Pepsi Coca Cola

(Dunn and Mayhew, 2004) 1980

Hogan and Jeter (1999)

(Kwon, 1996)

Simunic and

Stein (1990)

Earning management

Dunn and Mayhew (2004)

2007 2003

(25)



(2)

-

:

)

Neal and Riley

(

(2004)

(3)

:

=

*

/1)) =

(

/1) * (1,2*(

(3)

(1,2(25/1)) =

0,0120 = (4/1)

(%24)

:

-

(4)

:

(

)

(1)

2007

2003

(

)

.2007

-

(7) (

(5)

(7)

(%60)

(5)

(8)

(%100)

(7 5 2)

(6)

(6)

(5)

(Neal

.and Riley, 2004)

-

(7)

(9)

Neal and Riley

(%12)

(%20)

(%4)

(%16)

(%72)

()

)

())
())

.4

.3

(1)

(4)	(3)	(2)	(1)	
91	111	29	15	
455	555	145	75	*
8	3	0	7	**
12	16	1	1	***
23	114	10	0	****
428	428	134	81	

(5*)*

**

(2)

8	4	4	0	0	-	1
17	9	4	4	0		2
6	2	4	0	0		3
16	5	11	0	0		4
10	10	0	0	0		5
5	5	0	0	0		6
140	44	51	41	4		7
15	5	5	5	0		8
3	0	3	0	0		9
229	51	109	30	39	-	10
138	61	20	19	38	-	11
17	14	0	3	0		12
19	12	5	2	0		13

6	0	6	0	0	-	14
2	0	2	0	0		15
206	118	80	8	0		16
114	47	65	2	0		17
5	0	5	0	0		18
18	4	14	0	0	KPMG	19
54	15	24	15	0		20
8	5	3	0	0		21
3	0	3	0	0		22
3	0	3	0	0		23
9	9	0	0	0		24
5	0	0	5	0		25
1056	416	421	134	81		
15	8	7	0	0		
1071	428	428	134	81		

(3)

					*					
				**						
				,0480	0,0093	0,0093	0	0	-	1
				,0480	0,0210	0,0093	0,0298	0		2
				,0480	0,0046	0,0093	0	0		3
				,0480	0,0116	0,0257	0	0		4
				,0480	0,0233	0	0	0		5
				,0480	0,0116	0	0	0		6
*	*	*	*	,0480	0,1028	0,1191	0,3059	0,0494		7
				,0480	0,0116	0,0116	0,0373	0		8
				,0480	0	0,0070	0	0		9

				**	*					
x	x	x	x	,0480	0,1191	0,2546	0,2238	0,4815	-	10
x		x	x	,0480	0,1425	0,0467	0,1417	0,4691	-	11
				,0480	0,0327	0	0,0223	0		12
				,0480	0,0280	0,0116	0,0149	0		13
				,0480	0	0,0140	0	0	-	14
				,0480	0	0,0046	0	0		15
x	x	x		,0480	0,2757	0,1869	0,0597	0		16
x	x			,0480	0,1098	0,1518	0,0149	0		17
				,0480	0	0,0116	0	0		18
				,0480	0,0093	0,0327	0	0	KPMG	19
	x	x		,0480	0,0350	0,0560	0,1119	0		20
				,0480	0,0116	0,0070	0	0		21
				,0480	0	0,0070	0	0		22
				,0480	0	0,0070	0	0		23
				,0480	0,0210	0	0	0		24
				,0480	0	0	0,0373	0		25
					0,0186	0,0163	0	0		
					%100	%100	%100	%100		

(1,2*(/1)) = / = *

.00480 = (1,2 *(25 /1)) = **

(4)

17	2	4	2	
19		6		
%76		%24		

(5)

						*						
				*								
*	*			0,25	%100	0,500	0,500	0	0			1
*				0,25	%100	0,5294	0,2352	0,2352	0			2
*	*			0,25	%100	0,3333	0,6666	0	0			3
*	*			0,25	%100	0,3125	0,6875	0	0			4
*				0,25	%100	1,0000	0	0	0			5
*				0,25	%100	1,0000	0	0	0			6
*	*	*		0,25	%100	0,3142	0,3642	0,2928	0,0909			7
*	*	*		0,25	%100	0,3333	0,3333	0,3333	0			8
	*			0,25	%100	0	1,0000	0	0			9
	*			0,25	%100	0,2227	0,4759	0,1310	0,1703	-		10
*			*	0,25	%100	0,4420	0,1449	0,1376	0,2753	-		11
*				0,25	%100	0,8235	0	0,1764	0			12
*	*			0,25	%100	0,6315	0,2631	0,1052	0			13
	*			0,25	%100	0	1,0000	0	0			14
	*			0,25	%100	0	1,0000	0	0			15
*	*			0,25	%100	0,5728	0,3883	0,0388	0			16
*	*			0,25	%100	0,4122	0,5701	0,0175	0			17

				*		*						
	*			0,25	%100	0	1,000	0	0			18
	*			0,25	%100	0,2222	0,7777	0	0	KPMG		19
*	*	*		0,25	%100	0,2777	0,4444	0,2777	0			20
*	*			0,25	%100	0,6250	0,3750	0	0			21
	*			0,25	%100	0	1,000	0	0			22
	*			0,25	%100	0	1,000	0	0			23
*				0,25	%100	1,000	0	0	0			24
		*		0,25	%100	0	0	1,000	0			25

.(/1) =

(6)

0	0	21	4	
0		25		
0		%100		

(7)

				*	*					
				0,0120	0,0046	0,0046	0	0	-	1
				0,0120	0,0111	0,0021	0,0070	0		2
				0,0120	0,0015	0,0061	0	0		3
	*			0,0120	0,0036	0,0176	0	0		4

					*					
				*						
x				0,0120	0,0233	0	0	0		5
				0,0120	0,0116	0	0	0		6
x	x	x		0,0120	0,0322	0,0433	0,0895	0,0044		7
		x		0,0120	0,0038	0,0038	0,0124	0		8
				0,0120	0	0,0070	0	0		9
x	x	x	x	0,0120	0,0265	0,1211	0,0293	0,0819	-	10
x		x	x	0,0120	0,0629	0,0067	0,0194	0,1291	-	11
x				0,0120	0,0269	0	0,0039	0		12
x				0,0120	0,0176	0,0030	0,0015	0		13
	x			0,0120	0	0,0140	0	0		14
				0,0120	0	0,0046	0	0		15
x	x			0,0120	0,1579	0,0725	0,0023	0		16
x	x			0,0120	0,0452	0,0865	0,0002	0		17
				0,0120	0	0,0116	0	0		18
	x			0,0120	0,0020	0,0254	0	0	KPMG	19
	x	x		0,0120	0,0097	0,0248	0,0310	0		20
				0,0120	0,0072	0,0026	0	0		21
				0,0120	0	0,0070	0	0		22
				0,0120	0	0,0070	0	0		23
x				0,0120	0,0210	0	0	0		24
		x		0,0120	0	0	0,0373	0		25

*

(8)

9	1	12	3	
10		15		
%40		%60		

(9)

	*			*									-	1
	*													2
	*			*										3
	*		*	*										4
*	*													5
	*													6

x	x	x	x	x	x	x	x	x			x		7
	x			x		x	x						8
				x									9
x		x	x	x	x	x		x	x		x	-	10
x	x	x				x		x	x	x	x	-	11
x	x												12
x	x			x									13
			x	x								-	14
				x									15
x	x	x	x	x	x			x					16
x	x	x	x	x	x								17
				x									18
			x	x									19

												KPMG	
	*		*	*	*	*	*	*					20
	*			*									21
				*									22
				*									23
*	*						*						24
						*							25
9	16	5	8	18	5	6	4	5	2	1	3		

(10)

			(25)										
%72		25	18		%20	%20	%20	%12					
%156		25	*39		%64	%72	%16	%4					
%100		25	25		%36	%32	%24	%8					

*

- Brand Name Reputations and Industry Specializations. *Journal of Accounting and Economics*, 20(3), 297-322.
- Cullinan, C. P. 1998. Evidence of Non-Big 6 Market Specialization and Pricing Power in a Niche Assurance Service Market. *Auditing*, 17, 47-57.
- Danos, P., Eichenseher, J. W., and Holt, D. L. 1989. Specialized Knowledge and Its Communication in Auditing. *Contemporary Accounting Research*, 6(1), 91-109.
- DeFond, M. L., Francis, J. R., and Wong, T. J. 2000. Auditor Industry Specialization and Market Segmentation: Evidence from Hong Kong. *A Journal of Practice and Theory*, 19(1), 49-66.
- Deis, D. R., and Giroux, G. 1996. The Effect of Auditor Changes on Audit Fees, Audit Hours, and Audit Quality. *Journal of Accounting and Public Policy*, 15(1), 55-76.
- Deloitte. 2008. Industries. Retrieved from: http://www.deloitte.com/dtt/section_home/0,1041,sid%253D1008,00.html.
- Dunn, K. A., and Mayhew, B. W. 2004. Audit Firm Industry Specialization and Client Disclosure Quality. *Review of Accounting Studies*, 9, 35-58.
- Eilifsen, A., Knechel, W. R., and Waliage, P. 2001. Application of the Business Risk Audit Model: A Field Study. *Accounting Horizons*, 15(3), 193-207.
- Ettredge, M., Kwon, S. Y., and Lim, C. Y. 2006. Client, Industry, and Country Factors Affecting Choice of Industry Expert Auditors. Retrieved from: <http://ssrn.com/abstract=820404>.
- Ferguson, A., and Stokes, D. 2002. Brand Name Audit Pricing, Industry Specialization, and Leadership Premiums Post-Big 8 and Big 6 Mergers. *Contemporary Accounting Research*, 19(1), 77-110.
- Ferguson, A., Francis, J. R., and Stokes, D. J. 2003. The Effect of Firm-wide and Office-level Industry Expertise on Audit Pricing. *The Accounting Review*, 78(2), 429-488.
- Francis, J. R., Reichelt, K., and Wang, D. 2005. The Pricing of National and City-specific Reputations for Industry Expertise in the U.S. Audit Market. *The Accounting Review*, 80(1), 113-136.
- Goff, J. 2004. They Might be Giants. *Chief Financial Officer*, 20(1), 44-48.
- Gramling, A. A., Johnson, V. E., and Khurana, I. K. 2001. The association between audit firm industry experience and financial reporting quality. Working Paper, Georgia State University.
- American Institute of Certified Public Accountants (AICPA). 2007. The vision. National top five, Retrieved from: http://www.cpvision.org/final_report/page08.htm.
- Al Mutairi, A. 2008. Does Auditor Industry Specialization Matter? Evidence from the Bond Market. *ICFAI Journal of Audit Practice*, 5(3), 44-72.
- Balsam, S., Krishnan, J., and Yang, J. S. 2003. Auditor Industry Specialization and Earning Quality. *Journal of Practice and Theory*, 22 (2), 71-97.
- Bamber, E. M., and Ramsay, R. Jr. 2000. The Effect of Specialization in Audit Work-paper Review on Review Efficiency and Reviewers' Confidence. *Auditing*, 19(2), 147-156.
- Bedard, J., and Biggs, S. 1991. The Effect of Domain-specific Experience on Evaluation of Management Representation in Analytical Procedures. *A Journal of Practice and Theory*, 10, 77-90.
- Behn, B. K., and Carcello, J. V. 1997. The Determinants of Audit Clients Satisfaction among Clients of Big 6 firms. *Accounting Horizons*, 11(1), 7-24.
- Behn, B. k., Choi, J., and Kang, T. 2008. Audit Properties of Analysts Earnings Forecasts. *The Accounting Review*, 83(2), 327-349.
- Bell, T. B., Marrs, F. O., Solomon, I., and Thomas, H. 1999. Book Review: Auditing Organizations through a Strategic-systems Lens: The KPMG Business Measurement Process. *CPA Journal*, 69(7), 53-55.
- Cairney, T. D., and Young, G. R. 2006. Homogenous Industries and Auditor Specialization: An Indication of Production Economies. *A Journal of Practice and Theory*, 25(1), 49-67.
- Carson, E., and Fargher, N. 2007. Note on Audit Fee Premiums to Client Size and Industry Specialization. *Accounting and Finance*, 47(3), 423-446.
- Casterella, J. R., Francis, J. R., Barry, L. L., and Walker, P. L. 2004. Auditor Industry Specialization, Client Bargaining Power, and Audit Pricing. *A Journal of Practice and Theory*, 23(1), 123-140.
- Craswell, A. T., and Taylor, S. L. 1991. Discretionary Disclosure of Reserves by Oil and Gas Companies: An Economic Analysis. *Journal of Business Finance and Accounting*, 19(2), 295-308.
- Craswell, A. T., Francis, J. R., and Taylor, S. L. 1995. Auditor

- 169-177.
- O'Keefe, T. B., King, R. D., and Gaver, K. M. 1994. Audit Fees, Industry Specialization, and Compliance with GAAS Reporting Standards. *A Journal of Practice and Theory*, 13(2), 41-55.
- Owhoso, V. E., Messier, Jr. W. F., and Lynch, J. G. 2002. Error Detection by Industry-specialized Teams during Sequential Audit Review. *Journal of Accounting Research*, 40 (3), 883-900.
- Palmrose, Z. V. 1986. Audit Fees and Auditor Size: Further Evidence. *Journal of Accounting Research*, 24(1), 97-110.
- Roberts, R. W., Glezen, G. W., and Jones, T. W. 1990. Determinants of Auditor Change in the Public Sector. *Journal of Accounting Research*, 28(1), 220-228.
- Sarbanes Oxley Act (2007), Retrieved from: http://www.sarbanes-oxley.com/displaysection.php?level=2andpub_id=SEC-Rulesandchap_id=SEC10andmessage_id=189.
- Simunic, D. A. 1980. The Pricing of Audit Services: Theory and Evidence. *Journal of Accounting Research*, 18(1), 161-190.
- Simunic, D. A., and Stein, M. T. 1990. Audit Risk in a Client Portfolio Context. *Contemporary Accounting Research*, 6(2), 329-343.
- Solomon, I., and Shields, M. D. 1999. What do Industry-specialist auditors know? *Journal of Accounting Research*, 37(1), 191-208.
- Stein M. and Cadman B. 2005. Industry specialization and auditor quality in U.S. markets. Retrieved from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=722203.
- Taylor, M. H. 2000. The Effect of Industry Specialization on Auditors' Inherent Risk Assessments and Confidence Judgments. *Contemporary Accounting Research*, 17(4), 693-712.
- Winograd, B. N., Gerson, J. S., and Berlin, B. L. 2000. Audit Practice of Price Waterhouse Coopers. *A Journal of Practice and Theory*, 19(2), 175-180.
- Wright, A., and Wright, S. 1997. An Examination of Factors Affecting the Decision to Waive Audit Adjustment. *Journal of Accounting, Auditing, and Finance*, 12(1), 15-36.
- Green, W. 2008. Are Industry Specialist more Efficient and Effective in Performing Analytical Procedures? A Multi-Stage Analysis. *International Journal of Auditing*, 12(3), 243-260.
- Healy, P., and Wahlen, J. 1999. A review of the Earning Management Literature and Its Implications for Standard Setting. *Accounting Horizons*, 13(4), 365-383.
- Hofer, C. W. 1980. Turnaround Strategies. *A Journal of Business Strategy*, 80(1), 19-31.
- Hogan, C. E., and Jeter, D. C. 1999. Industry specialization by auditors. *A Journal of Practice and Theory*, 18(1), 1-17.
- Johnson, P., Jamal, K., and Berryman, R. 1991. Effects of framing on auditor decisions. *Organization Behavior and Human Decision Processes*, 50(1), 75-105.
- Joseph, J. V., and Nagy, A. L. 2004. Client Size, Auditor Specialization and Fraudulent Financial Reporting. *Managerial Auditing Journal*, 19(5), 651-668.
- KPMG. 2008. Global industries. Retrieved from: <http://www.kpmg.com/Global/WhatWeDo/Pages/default.aspx>.
- Krishnan, G. 2001. Comparison of auditors' self-reported industry expertise and alternative measure of industry specialization. *Asia-Specific Journal of Accounting and Economic*, 8(2), 127-142.
- Krishnan, G. V. 2003. Does big 6 auditor industry expertise constrain earnings management? *Accounting Horizons*, 17, 1-16.
- Kwon, S. Y. 1996. The Impact of Competition within the Client's Industry on the Auditor Selection Decision. *Auditing*, 15 (1), 53-70.
- Libby, R. 1985. Availability and the Generation of Hypotheses in Analytical Review. *Journal of Accounting*, 23(2), 648-667.
- Low, K. Y. 2004. The Effects of Industry Specialization on Audit Risk Assessments and Audit Planning Decisions. *The Accounting Review*, 79(1), 201-219.
- Mayhew, B. W., and Wilkins, M. S. 2003. Audit Firm Industry Specialization as a Differentiation Strategy: Evidence from Fees Charged to Firms Going Public. *A Journal of Practice and Theory*, 22(2), 33-52.
- Neal, T. L., and Riley, R. R. 2004. Auditor Industry Specialist Research Design. *A Journal of Practice and Theory*, 23(2),

The Extant Of Specialization in Audit Firms in Jordan

*Doa'a K. Abu Issa**

ABSTRACT

This study aims at investigating the extent of specialization in auditing by audit firms which perform audit services for share-holding companies in Jordan during the period 2003-2007. To achieve the objective of the study; financial data have been collected about share-holding companies and analyzed using Weighted Market Share (WMS) or Neal and Realy (2004) model. The findings of the study showed that 60% of Jordanian audit firms are at least specialized in one sector.

The findings of the study show that 60% of Jordanian audit firms are specialized in one sector at least or more. It appears from the study that 8% of the audit firms are specialized in Banking sector, 24% are specialized in the Insurance sector, 32% are specialized in services sector, and 36% are specialized in industry sector.

The study concluded by many recommendations including encourage audit firms to be specialized to achieve benefits and affect audit quality.

Keywords: Specialization in Auditing, Audit Firms, Audit Quality.

* P.O Box 1843, Amman, Jordan. Received on 31/5/2009 and Accepted for Publication on 3/12/2009.