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UNIVERSITY OF SOUTHAMPTON

FACULTY OF BUSINESS, LAW AND ART

Southampton Business School

**A study of auditing professionalization, standards and oversight in Egypt: Closure,
Capture and Spectacle**

by

Peter Ghattas

Thesis for the degree of Doctor of Philosophy

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This research aims to examine the influence of transnational and national organizations on auditing in a developing economy (Egypt) by considering three main pillars of audit practice—audit professionalization, standards and oversight. This thesis draws upon the burgeoning literature analysing the increasing influence of transnational regulatory arrangements and the promotion of Anglo-American audit reforms on a global scale. Such reforms are notionally intended to enhance audit quality by aligning these three audit practices (APPs) with 'best' international practice. These three APPs are interrelated, whereby the 'product' of the professionalization project (i.e. the auditor) is tasked with implementing audit techniques and procedures (i.e. auditing standards), with a consequence that his/her professional judgement is reviewed by the national Public Oversight Board (POB). These audit practices emerged and developed locally at different times, starting with a contemporary history of the local professionalization project, followed by the switch from national standards to International Standards on Auditing (ISA) and, lately, the rise of Public Oversight Boards (POBs) as a new powerful regulator, namely the Auditor's Oversight Unit (AOU). This work contributes to the previous literature which has in the main examined the two latest key audit practices, ISA adoption and POBs, by focusing on developed countries. Furthermore, whilst the auditing literature has addressed the emergence of the accounting and audit profession in developing countries, it is, however, argued that there has been an insufficient examination of the interaction between the global profession and the local profession.

Informed by the above, this thesis consists of three papers that examine the link between audit practices and the global context. The first paper examines the developments of the Egyptian professionalization project since 1946, focusing on the dynamics of the State-profession axis in regulating who can be a registered auditor. The second paper addresses the regulatory space of the ISA adoption process in developing countries by examining the interplay between National

Standards Setters (NSS) and other local actors, with an emphasis on the role of local Big Four affiliates in adapting ISAs as national auditing standards. The third paper is concerned with the establishment of POBs as the latest transnational regulatory arrangement and portrayed as an essential component in enhancing audit practice. Drawing on Debord's (1967, 1988) concept of the "spectacle", the third paper examines how the formation and operation of POBs are shaped by, and integrated into, the global audit arena. Guided by an interpretive paradigm, the three papers have adopted a qualitative approach, using semi-structured interviews with 32 auditors and stakeholders representing regulators, professional associations, and local and international audit firms within the Egyptian audit arena. Overall, the study reveals that the change in APPs is a result of the different dynamics of institutional interplay between the transnational forces and local representatives of the Anglo-American profession with the State, regulators, and the local profession. These dynamics include: 1) Professional closure strategies between the State and the profession conditioned by the politico-economic context; 2) Regulatory space dynamics governed by the technical and financial resources of local actors (e.g. NSS & Big Four); 3) Replicated regulatory oversight mechanisms applied by local POB amid institutional weaknesses, with little understanding about their effect on practical changes in audit practice. Overall, this thesis offers contextually-informed empirical and theoretical contributions to the external auditing literature, by providing a multi-faceted understanding of the effect of global, as well as national forces on the change in three APPs in a developing country (i.e. Egypt).

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DECLARATION OF AUTHORSHIP

I, Peter Ghattas, declare that this thesis and the work presented in it are my own and has been generated by me as the result of my own original research.

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I confirm that:

1. This work was done wholly or mainly while in candidature for a research degree at this University;
2. Where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;
3. Where I have consulted the published work of others, this is always clearly attributed;
4. Where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;
5. I have acknowledged all main sources of help;
6. Where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;
7. None of this work has been published before submission:

Signed:

Date: 8th June 2017

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Definitions and Abbreviations

AOU	Audit Oversight Unit
APP	Audit Practice Pillars
CAO	Central Accounting Organization
CBE	Central Bank of Egypt
CMA	Capital Market Authority
EAS	Egyptian Accounting Standards
EC	European Commission
EFSA	Egyptian Financial Supervisory Authority
EIAA	Egyptian Institute of Accountants and Auditors
ESA	Egyptian Standards on Auditing
ESSA	Egyptian Society of Accountants and Auditors
FSB	Financial Stability Board
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
NSS	National Standards Setters
PCAOB	Public Company Accounting Oversight Board
POB	Public Oversight Board
SCP	Syndicate for commercial professions
UAS	Uniform Accounting System

USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organization

Chapter 1: Introduction

1.1 Overview

This study aims to examine three main aspects of audit practice in an Egyptian context. Three papers are presented (see chapters 3, 4 and 5) to address how the change in three local audit practices, audit professionalization, standards, and oversight, is heavily influenced by the global context. The underlying argument is that these three audit practice pillars are interconnected. Audit oversight is a monitoring mechanism of the auditor's professional application of auditing standards, with a view to enhance audit practices (Dowling et al., 2015); whereas international standards for auditing (ISA) represent an attempt to codify audit processes according to 'best' international audit practices (Cooper and Robson, 2006; Maroun and Atkins, 2014). ISAs are developed by the International Federation of Accountants (IFAC), a transnational organization that lies within a complex network of global forces, including international audit firms (Humphrey et al., 2014). Reciprocally, the effectiveness of ISAs is contingent on the professional application by the local auditor (Martinow et al., 2016), who, in turn, is a 'product' of the local professionalization project. In each of the three papers, the focus is on areas of convergence and bifurcation between local and global audit practice. They demonstrate how transnational organizations seek to change each of these three Audit Practice Pillars (APP) in developing countries; principally with the aim enhancing audit quality.

Two central aspects affecting contemporary audit practices in developing countries motivate this thesis. Firstly, there is the increasing move towards transnational regulatory arrangements and the global promotion of Anglo-American audit reforms as best international practices necessary for global financial stability (Cooper and Robson, 2006; Humphrey et al., 2009; Gillis et al., 2014; Maroun and Atkins, 2014; Hopper et al., 2016). Sponsored by the G20, IMF and the WB, a 'standards-surveillance-compliance' system has been developed through a coordinated network of transnational organizations (e.g. IFAC, IOSCO, & IFIAR), setting comprehensive institutional reforms for countries to implement, whereby certain regulatory oversight mechanisms and international standards (e.g. ISAs) could operate (Loft et al., 2006; Humphrey et al., 2009). Although, little is known about the impact of these reforms on changes in audit practice in developed countries, they are often portrayed as a plan for developing nations to better integrate into the global market (Wade, 2007; Power, 2009; Arnold, 2012; Holm and Zaman, 2012;

Humphrey et al., 2014). For some developing countries, foreign loans and aid are often made conditional on the implementation of such reforms under the assumption that adopting an Anglo-American professionalization model, advancing ISAs as national auditing standards and enacting a POB, would help contribute to foreign investment and a functioning and vibrant neo-liberal economic regime (Humphrey et al., 2009; Poullaos and Uche, 2012; Hopper et al., 2016).

Secondly, this thesis is motivated by the central role of the Big Four in the global audit regulatory arena, often acting as agents of change in developing countries (Cooper and Robson, 2006; Humphrey et al., 2009). At the global level, there is an interdependent relationship between transnational standards setters (IFAC) and the Big Four networks, where the latter act as an interpretational ‘testing ground’, an obligatory technical passage point linking principle-based standards to practice (Callon, 1986; Ramirez, 2012). The Big Four are indispensable key players within IFAC, through direct representation, proxy organizations, and/or the supply of knowledge-experts (Cooper and Robson, 2006; Loft and Humphrey, 2006). In return, the Big Four leverage their superior technical knowledge and extended network to embed IFAC’s standards into developing countries, thereby diffusing an Anglo-American professionalization model and marginalizing any (existing) local professional identity (Poullaos and Uche, 2012; Ramirez, 2012). Hopper et al. (2016) analysed how the Big Four are portrayed as global experts, often hired as technical advisors for developing nations when implementing financial reforms and seeking to align local audit practices with best international practices (Hopper et al., 2009; Hopper et al., 2016). The positioning of the Big Four as global experts is reflected in the perceived quality of their external audit engagements (Hanlon, 1994; DeFond and Lennox, 2011; Ramirez, 2012), which in return might influence the POBs of developing countries when conducting compliance reviews of the Big Four.

The implementation of these somewhat dictated reforms in developing countries often turns out to be unsuitable for the local context, operationally dysfunctional, or adopted only in a ceremonial fashion (Hopper et al., 2016). An oft-cited reason is that such “one size fits all” reforms are modelled on a developed country’s context, whereas the cultural, political and economic settings of developing countries do not share the same underlying assumptions (Schneider, 2003; Wade, 2007; Hopper et al., 2016). The successful implementation of such reforms is often hindered because of macro-economic reasons, such as political instability, variation in economic regimes and their stages of development, and weak legal frameworks. Micro reasons related to the auditing environment include weak regulatory and institutional infrastructure supporting the profession, inadequately qualified and/or experienced accountants and regulators, and limited financial resources (Needles Jr et al., 2002; Hegarty et al., 2004;

Boolaky and Soobaroyen, 2016). These global reforms typically attempt to alter existing national institutional and regulatory structures, which are reflected in these interconnected APPs: audit professionalization, standards, and oversight. Therefore, this thesis does not seek to address the contemporary changes in each of these aspects of audit practice in isolation from each other or their historical development but, rather, attempts to incorporate the influence of historical events. In doing so, this thesis presents an explorative diagnosis to the status of the Egyptian audit practices in relation to international practices, across three main pillars. Additionally, it attempts to fill a research gap by providing an in-depth analysis to the audit environment in Egypt as a whole. The next section explains the global influence on the three local APPs.

1.2 The three papers: Three pillars of audit practices

The underlying motivation of this thesis concerns the global influences on three interrelated local APPs. An additional argument is that such global influences should not be examined only from a contemporary viewpoint, but there is a need also to reflect on time variations in the emergence of these practices. For example, the history of the local professionalization project is much longer than contemporary audit practice, such as large-scale ISA adoption, or an emerging practice, such as the enactment of POBs. However, the historical context remains crucial, as it explains the accumulating elements which shaped the current local practice before globalization. This is particularly true of developing countries, as they are prone to politico-economic regime changes, often accompanied by a corresponding change in auditing practices (Hopper et al., 2016).

The influence of global forces on developing countries' audit practices is not new. In fact, the flow of capital from western countries to developing nations during the 20th century was often accompanied by a change in auditing practices (Richardson, 2017). This began with the export of the British idea of professionalization through varying forms, depending on the importer's (often a developing country)'s national context (Parker, 1989; Poullaos and Uche, 2012). During the 1970s, the growth of global trade and the commercialization of the profession was reflected in the rise of the transnational standards-setter, i.e. IFAC, in an attempt to produce standards that guide the auditor through the steps of the audit steps (Humphrey et al., 2014). It was the Asian financial crisis of 1997/1998 that further pushed the adoption and implementation of ISAs in developing countries (Schneider, 2003; Wade, 2007). Public Oversight Boards (POBs) were the product of the latest episode of transnational regulatory reform, responding to the inability of the self-regulated Anglo-American profession to prevent audit failures, such as Enron and WorldCom

Chapter 1

(Malsch and Gendron, 2011; Hazgui and Gendron, 2015). Inspired by the U.S. Public Company Accounting Oversight Board (PCAOB), POBs were introduced in different countries, as a new class of regulator tasked with monitoring audit practices (Caramanis et al., 2015; Dowling et al., 2015). In light of the above, this thesis incorporates the historical development of each of these pillars before addressing the global contemporary influence. (Appendix B.2 contains a timeline for the major milestones of the Egyptian professionalization project).

This thesis responds to calls (Cooper and Robson, 2006; Gillis et al., 2014; Maroun and Atkins, 2014; Samsonova-Taddei and Humphrey, 2014; Caramanis et al., 2015; Richardson, 2017) to fill in some research gaps regarding how these three APPs are practiced in developing countries. With regard to the first pillar, the professionalization literature is admittedly a fairly extensive one, with historical studies on how the Anglo-American professional model shaped professionalization projects in developing countries during colonization, and its extended influence after independence (Poullaos and Sian, 2010; Poullaos and Uche, 2012). However, there is an emerging research agenda on the “post-professional model” calling for an examination of the global lobbying efforts to establish a transnational profession transcending national borders, the link between the emerging transnational regulation and the corresponding local change, and the response of local actors to these changes (Suddaby et al., 2007; Humphrey et al., 2009; Gillis et al., 2014; Richardson, 2017). Therefore, this research attempts to fill the research gap within the professionalization literature by tracing the dynamic interplay between the Anglo-American (formally) and the emerging transnational forces (currently) with local actors, throughout the Egyptian professionalization project, at different socio-political regimes. Regarding the second APP, auditing standards, there is a limited amount of research on ISAs and their adoption in developing countries (Needles Jr et al., 2002; Humphrey et al., 2014; Boolaky and Soobaroyen, 2016). In light of the under-representation of developing nations within IFAC (Humphrey and Loft, 2009b), there is a need for further insight into the dynamics of ISA adoption, since the designation of national audit standards to (IFAC) represents a significant change in local audit practices, shifting the jurisdictional authority of issuing financial regulations to a transnational entity. As for the third pillar, there is scant research examining the establishment and operation of POBs and their effect on audit practices outside the U.S.A, particularly in developing countries (Gillis et al., 2014; Maroun and Atkins, 2014; Caramanis et al., 2015). This PhD thesis addresses each of the three above mentioned pillars in separate papers: the Egyptian professionalization project, the ISA adoption process in Egypt, and the establishment and operation of POB in Egypt, in chapters 3, 4 and 5, respectively. The next section explains why Egypt was chosen, as a

representative of developing countries, to study the influence of global forces on local audit practices.

1.3 Why Egypt?

There are several reasons why Egypt is the focus of this study. Firstly, Egypt is the third largest African economy in terms of GDP following Nigeria and South Africa, and is the largest country in the Middle East and North Africa in terms of population (World Bank, 2015d). Secondly, audit practices in Egypt underwent fundamental changes in correspondence with politico-economic changes. Egypt has witnessed three revolutions in the last hundred years, and three different politico-economic regimes. In 1922, Egypt was declared a self-governed British protectorate. Although a constitutional monarchy was established, Egypt's independence was regarded as a nominal independence. This period was dominated by power struggles between monarchy, the British and the parliament and also involved multiple government reshuffles (Abdalla, 2008; Goldschmidt Jr, 2008). As a consequence of this turbulent era, in 1952 the army lead a revolution which declared Egypt a republic adopting a centrally planned economic model (Zohny, 2000). Despite the ambitious industrialization program and its initial progress, Egypt faced major setbacks due to the Suez war of 1956 and the Arab-Israeli conflict between 1967 and 1973 (Kayed, 1990; Farag, 2009). Following the 1973 war, the Egyptian government switched its political and economic compass to the West and adopted an "open door policy" which gradually (and arguably still) moved Egypt towards a market economy (Hassan, 2008a; Farag, 2009).

Thirdly, Egypt has played a critical geopolitical role in the Middle East and Africa, especially in leading the transformation towards a centrally planned economy in this region during the period between the 1950s and 1970s (Waterbury, 2014). Fourthly, Egypt has initiated consecutive economic and regulatory reform programs since the 1980s, predominantly financed by the IMF, with the latest IMF agreement in 2016 (IMF, 2016), yet these reforms did not yet contribute to the development of an independent and strong accounting and auditing profession, according to several official commentators (World Bank, 2002; Awadallah, 2006; World Bank, 2009b).

However, Egypt is one of the developing countries that the Committee of European Auditing Oversight Bodies (CEAOB) engaged with in respect to transnational oversight arrangements. The CEOAB assessed Egypt's oversight system as having been in a transitional phase since 2011, and it was granted an extension to a cross-regulatory recognition in 2016 (EC, 2011, 2016). During this

phase, Egyptian auditors are allowed to conduct audit engagements in the EU without EU oversight and are exempted from registering with the EU oversight body (EC, 2016).

1.4 Research aims and questions

This thesis has one overarching aim, with three sub-objectives. The main aim is to examine the global influence on three local APPs in Egypt: audit professionalization, standards, and oversight. Within this overarching aim, three sub-aims have been addressed in the three papers that form this thesis. The following table demonstrates these sub-aims and their corresponding research questions, paper title and chapter number:

Table 1-1: Thesis aims and research questions

Thesis sub-aims	Paper research questions	Paper title	Chapter No.
<p>1) Present a longitudinal analysis of the development of the Egyptian professionalization project over the period 1946 to 2016.</p> <p>2) Examine State-profession dynamics; the interplay between the Egyptian State and the profession.</p>	<p>1) <i>How did successive Egyptian governments rely on pre-independence closure tools to restrain and direct the development of the profession?</i></p> <p>2) <i>How did the subsequent politico-economic regimes affect State-profession dynamics?</i></p>	Charting the development of the Egyptian accounting profession (1946-2016): An analysis of the State-Profession dynamics	Ch. 3
<p>1) Explore the dynamics of the auditing standards-setting process in Egypt in relation to the IFAC's standards-setting process.</p> <p>2) Unearth the circumstances that enabled the audit profession, particularly the Big Four local affiliates, to occupy a dominant role in the local adaptation process of ISA.</p> <p>3) Demonstrate different tactics used by local Big Four affiliates to leverage their superior knowledge of ISAs.</p>	<p>1) <i>How are Egyptian Auditing Standards, which are nominally based on ISAs, issued in a local context?</i></p> <p>2) <i>Who are the main actors involved in the local Standards-setting process?</i></p> <p>3) <i>How do the Big Four local affiliates manage to occupy a central role in ISAs adaptation process?</i></p>	The role of the Big Four affiliates in ISA Adaptation in Developing Countries	Ch.4

<p>1) Examine the establishment of the Audit Oversight Unit (AOU) and its implemented oversight approach in an Egyptian context.</p> <p>2) Investigate how the formation and operation of POBs in developing countries are shaped by and integrated into the global audit arena/Spectacle.</p>	<p>1) <i>How did the AOU introduce and enforce its compliance reviews in the Egyptian context?</i></p> <p>2) <i>How did the local audit firms (affiliates of international firms and local firms) view and respond to the new regulator?</i></p>	<p>Auditing the Egyptian Auditors: An Analysis of Compliance Reviews by the Local Public Oversight Body</p>	<p>Ch.5</p>
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1.5 Research methodology

The interpretive stance is adopted in this thesis (Hopper and Powell, 1985). The selection of an interpretive paradigm is informed by philosophical assumptions, and corresponds to the research objectives and the existing literature on the phenomena under examination (i.e. the three pillars of audit practices)(Chua, 1986). Informed by this philosophical stance, reality is viewed as multiple, subjective, and constructed on the perceptions and interactions of social actors and, subsequently, knowledge is built through the continuous interpretation and evaluation of human interactions with, perceptions, and experience of, the phenomena under examination (Patton, 1990). In light of the research aims detailed in section 1.4, I (the inquirer)¹ assumed the role of 'passionate participant' in order to initiate the process of reconstructing and interpreting the multiple interactions, perceptions and experience of human actors (i.e. auditors, regulators, academics) with the three main audit practices within the Egyptian social and politico-economic context (Lincoln *et al.*, 2011, p.101). In doing so, I was able to present a multi-faceted understanding of the reality of the three pillars of audit practices, within the Egyptian context, and how it was affected by the global influence (Guba and Lincoln, 1994). Guided by the interpretive stance, the focus was placed on the intersection of the regulatory and subjectivity axes, which corresponds with the view that the three pillars of audit practices (audit professionalization, standards, and oversight) are socially constructed (Hopper and Powell, 1985).

¹ The researcher previously worked as an auditor in Egypt.

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This adopted stance enabled the researcher to emphasise the role of the institutional and politico-economic contexts shaping audit practices in Egypt.

In the light of the above discussion, I adopted a qualitative approach to address the research questions. Given the nature of the research questions, which predominantly question "how" audit practices emerged, were formulated, implemented and changed, a case design was deemed appropriate. Within the auditing literature, scholars have called for the need for qualitative research to explore and provide a rich understanding of what goes on inside the "black box" of auditing practices (Humphrey, 2001; Lee and Humphrey, 2006; Humphrey, 2008). Yin (2003) argued that case study research is the most suitable to provide answers to "what," "why," and "how" questions, particularly in examining a contemporary phenomenon taking place in a real life empirical context (Yin, 2003). Since the aim of this research was to study audit practices as a product of three contextually intertwined variant cases, a multiple case study was appropriate (Baxter and Jack (2008 p, 550). The primary data was gathered through 32 semi-structured interviews with auditors (partners, managers and junior auditors) representing local and international audit firms, as well as representatives of various stakeholders (e.g. regulators, professional association). Participants were chosen through purposive sampling, based on their direct involvement with some of the contemporary issues, their seniority in the profession, and/or the long history of their firms and, subsequently, by referral (Snowball sampling). Respondents were anonymous, with their answers being treated confidentially. They were encouraged to elaborate on their answers and to provide as much insight as they saw fit to present a coherent picture of the state of auditing practices in Egypt. The initial, and follow-up, interviews took place in Cairo, Egypt between December 2014 and June 2016, and their recorded time ranged between 30 minutes to 3 hours, depending on interviewees' experience, knowledge of the subject, and openness. In order to elicit the participants' views through a free-flowing discussion, the interviews included many open-ended questions and were conducted in Arabic. Table 2-3, in the next chapter, sets out the profiles of the interviewees. Secondary data was collected on the basis of prior academic work and official documentation (decrees, laws, newspaper articles, bylaws, and other publicly available documents). Notes taken during the interviews were used to guide the questions for the follow-up interview. Subsequently, the researcher translated and transcribed the interviews, then sorted them into codes/themes related to the three pillars' audit practice and further subthemes were developed for each audit practice under examination. Miles and Huberman (1994) suggested the use of an initial list of codes/themes to avoid a possible overload of data. Additionally, these themes were contrasted with the primary and secondary data to show similarities and differences and, subsequently, for use in follow-up interviews. This

systematic analysis approach allowed the main themes to emerge and to be examined in the context of prior literature and theoretical frameworks. Theoretical frameworks provide a lens for an analytic conception to enhance our view and understanding of a certain social phenomenon. Therefore, this thesis employs three different theoretical frameworks to examine each of the three audit practices. The theoretical framework of each pillar is explained and discussed in its corresponding chapter (see chapters 3, 4, and 5). Chapter two provides a detailed description of the philosophical and methodological choices and rationale of the research methodology adopted for this research.

1.6 Research contributions

This thesis contributes to the literature at both thesis level and paper level. At the thesis level, it presents a comprehensive analysis of audit practices in Egypt and their development. By highlighting the interaction between the global forces and audit practices in Egypt, this thesis pinpoints broader existing and potential threats to local audit practices in developing countries.

At the paper level, the first paper adds to the professionalization literature (Poullaos and Uche, 2012; Gillis *et al.*, 2014; Richardson, 2017) calling for the examination of the life cycle of professionalization projects, by providing a longitudinal analysis of the evolution of the Egyptian profession throughout different politico-economic regimes, with an emphasis on the changes in State-profession dynamics between 1946-2016. In this regard, I would like to acknowledge the importance of prior research addressing the Egyptian auditing environment in general² and the Egyptian profession in particular³. However, prior studies focusing on the Egyptian profession have varied in depth, and have been mainly short and descriptive in nature, with no focus on detailed professionalization processes. Additionally, the first paper contributes to the literature by suggesting a new theoretical variant of Weberian closure, i.e. selective exclusionary closure, whereby specific elements of the profession seek to monopolise more lucrative and prestigious segments of the accounting and audit market, by co-opting the State to adopt limited administrative, rather than broad, legislative, reforms.

² (Amer, 1969, Awadallah, 2006, Barsum and Abdel-Aziz, 1986, Briston and El-Ashker, 1984, Dahawy *et al.*, 2002, Dahawy, 2004, Zerban, 2002, Samaha and Stapleton, 2008, Samaha and Hegazy, 2010)

³ (Farag, 2009, Hassan, 2008a, Hassan, 2008b, Kayed, 1990, Wahdan, 2005)

The second paper contributes to the limited literature on ISAs (Humphrey et al., 2014) and their adoption in developing countries (Needles Jr et al., 2002; Humphrey et al., 2014; Samsonova-Taddei and Humphrey, 2014; Boolaky and Soobaroyen, 2016), by providing an empirical insight into the ‘backstage’ of the local ISA adaptation process in developing countries. Additionally, it reveals the role of local affiliates of the Big Four firms in shaping the auditing standards-setting agenda in developing countries and demonstrates their tactics and mechanisms in investing their “knowledge monopoly” over the ISA adoption process. Finally, the second paper singles out the use of professional associations in developing countries as surrogates of the Big Four firms, whose objective seems to achieve a domination of the local standards-setting process.

The third paper contributes to the literature on POBs in their purported role of improving audit practices (Gillis et al., 2014; Maroun and Atkins, 2014; Caramanis et al., 2015), particularly with regard to the emerging literature relating to transnational regulations and POBs in developing countries. The third paper reveals how POBs are presented to developing countries as an essential institution to improve audit quality and integrate their local practices into a form of global audit spectacle. The third paper also reveals the rationale behind POBs’ compliance approach, and the variations in the response of audit firms (international vs local audit firms). Finally, it examines a case of mutual oversight recognition between the POBs of developing and developed countries, by examining the design and implementation of oversight mechanisms in developing countries.

1.7 Thesis structure

The thesis consists of six chapters. The order and the details of each chapter are outlined in Table 1-2 below.

Table 1-2: Thesis structure

Chapter No.	Chapter Title	Description
Chapter 1	Introduction	This chapter provides an overview of the thesis, rationale for the three papers, research aims and questions, and an overview to the methodological approaches and thesis structure.

Chapter 2	Methodology	This provides a detailed account of the selected philosophical paradigm, research design, data collection and data analysis approaches and procedures and ethical considerations, as well as establishing the trustworthiness of the research.
Chapter 3	Charting the development of the Egyptian accounting profession (1946-2016): An analysis of the State-Profession dynamics	These chapters are the core of the thesis. Although they are produced through one overall project, they are stand-alone papers.
Chapter 4	The role of the Big Four affiliates in ISA Adaptation in Developing Countries	Each chapter represents a research paper that includes its own introduction, literature review, theoretical framework, findings, discussion and conclusions.
Chapter 5	Auditing the Egyptian Auditors: An Analysis of Compliance Reviews by the Local Public Oversight Body	
Chapter 6	Conclusions	This chapter provides the conclusions of the overall thesis. It summarises the overall research findings. It revisits the research aims and elucidates the findings, contributions and implications. It ends with a reflexive account of research limitations and directions for future research.

1.8 Chapter summary

This chapter provided an overview of the research, aims and approach of the thesis. Firstly, this chapter started with the motivation of the research as a whole and the underlying gaps it intends

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to address. This was followed by a discussion of the three main components of this thesis, the three APPs: professionalization, standards and oversight, and their interrelatedness to the thesis. Next, the chapter discussed the rationale for choosing Egypt as a research focus. This was followed by a presentation of the overarching aims of the thesis, as well as the research questions for each of the three papers. The following section discussed the adopted philosophical assumptions of the thesis, and the methodological approaches and design. Finally, this chapter presented a discussion of the key contributions of this thesis to the literature as a whole, and in terms of the three individual papers.

Chapter 2: Methodology

2.1 Introduction

This chapter provides a detailed account of the underlying philosophical and methodological approaches, techniques and procedures used in the thesis. In addressing the thesis' research aims, three papers were produced that follow an interpretive qualitative approach, and a multiple-case study research design, which draw upon a primary data pool of 32 semi-structured interviews, as well as numbers of official documents. Each of the three papers, representing a case-study, contains a theory and methods section to provide an insight into how the relevant data was analysed in the context of the corresponding APP. The generated data was enriched and triangulated using follow-up interviews with key stakeholders and those secondary sources that were mostly publicly available. Subsequently, the data was analysed and interpreted thematically, and the findings were reported in Chapters 3, 4 and 5.

This chapter is structured as follows: firstly, it discusses philosophical paradigms, particularly the interpretive paradigm, and the rationale for its use in the thesis. This is followed by a reflection on the interpretive qualitative approach adopted, and a detailed justification for choosing such approach in the context of the three papers. The chapter then presents a detailed description of the research approach, including the research design and unit of analysis. Next, the chapter presents an explanation and justification of the sampling and data collection procedures and data analysis approach used. Finally, this chapter addresses the ethical considerations and precautions that were undertaken during the research process, concluding with an evaluation of the research, its weaknesses, and how they were addressed.

2.2 An Overview on Research methodology

A research paradigm is viewed as a "*comprehensive belief system, world view, or framework that guides research and practice in the field*" (Willis et al., 2007, p.8), Creswell et al. (2003) argue that the researcher's orientation towards the world, his/her worldview, is what guides the methodology and methods of the research. These methodological discussions, and justifications of the methods used, are essential at the commencement of any research project (Boyatzis, 1998; Crotty, 1998). Strauss and Corbin (1990) differentiate between methodology and methods by describing the latter as the practical procedures used for conducting the research. On the other hand, outlining the research methodology addresses the logic and theories used, the criteria and relevance of chosen theories to the research objectives, and the implementation of the research

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methods (Blaikie, 2000). Therefore, how the papers were designed and how the data was collected and analysed are a reflection of my adopted philosophical stance (Creswell, 2013).

As a starting point in justifying the research methodology and methods adopted, a clarification of the research objectives and questions is needed. This study aims to provide an overarching understanding to the notion of audit practice in Egypt and its change. It is particularly concerned with three interconnected pillars representing core elements of the auditing practice. The researcher seeks to present a coherent analysis to following sets of research questions;

- 1. How did successive Egyptian governments rely on a pre-independence closure tool to restrain and direct the development of the profession? And how did subsequent politico-economic regimes affect State-profession dynamics?***
- 2. How are Egyptian Auditing Standards, which are nominally based on ISAs, issued in a local context? Who are the main actors involved in the local standards-setting process? How do the Big Four local affiliates manage to occupy a central role in the ISAs' adaptation process?***
- 3. How did the AOU introduce and enforce its compliance reviews in the Egyptian context? How did the local audit firms (affiliates of international firms and local firms) view and respond to the new regulator?***

There may be different approaches to tackle these questions. However, it is the researcher's role to adopt a research design that constitutes a blueprint to answer the research questions dealing with at least three additional issues. These include what data is relevant; what data to collect, and; how to analyse the results (Yin, 2013). The research methodology for this thesis is illustrated in Figure 2.1:

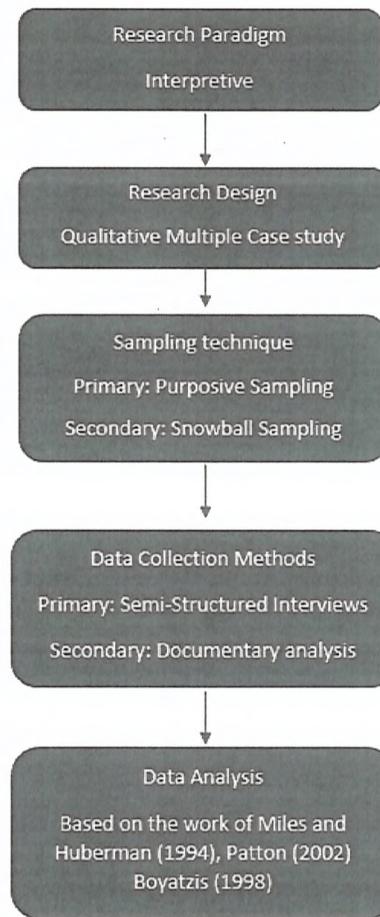


Figure 2-1: Research methodology illustration.

2.2.1 Research paradigms and the rationale for using an interpretive paradigm

The choice of research paradigm not only guides how the research is conducted but also reveals the set of beliefs that define the researcher's views on the nature of the "world" (Guba and Lincoln, 1994; Johnson and Duberley, 2000). The researcher adopts a research paradigm that reflects his own perspective on four interconnected assumptions with regard to: ontology, epistemology, axiological assumptions and human nature (Burrell and Morgan, 1979; Bryman and Bell, 2015). These issues are interconnected, in which the choice of one assumption guides the remaining two (Guba and Lincoln, 1994). Clarifying such ontological, epistemological, and axiological assumptions allows the researcher to clarify how and why the research was conducted, and also the implications on the findings (Patton, 2002). In brief, ontological assumptions refers to the object of knowledge, the researcher's view on the nature of reality under investigation (Guba and Lincoln, 1994). Epistemological assumptions address the theory of knowledge, how to acquire knowledge, and how can this knowledge be validated and accepted (Burrell and Morgan, 1979;

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Bryman and Bell, 2015). Finally, axiological assumptions reflects the researcher's values and how it is reflected in conducting the research in question (Patton, 1990).

Two main paradigms commonly prevail in social science research and are often referred to in multiple terms: positivism versus constructivism (Guba and Lincoln, 1994), positivism versus interpretivism (Morrison, 2002), and quantitative versus qualitative (Scott and Usher, 2010). Burrell and Morgan (1979) introduced a prominent categorization of social theory into four paradigms "which can be analysed in terms of two key dimensions" (Figure 2.2). The subjective-objective dimension is concerned with assumptions concerning the nature of social sciences, reality (ontology), knowledge (epistemology) and subsequently the methodology (Burrell and Morgan, 1979). They also highlighted a new dimension that was previously overlooked in the sociological debate. The radical change-regulation spectrum is the second dimension that is concerned with nature of society. Burrell and Morgan (1979) presented four distinct paradigms, however they noted that "*each of the paradigms shares a common set of features with its neighbours on the horizontal and vertical axes in terms of one of the two dimensions but is differentiated on the other dimension*" (Burrell and Morgan, 1979, p.23)

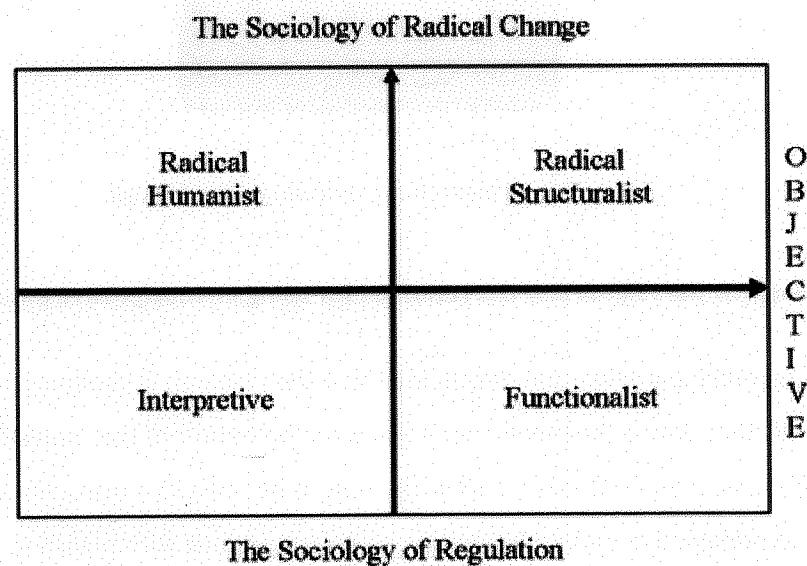


Figure 2-2: Four paradigms for the analysis of social theory
(Burrell and Morgan, 1979, p.22)

The nature of the research problem determined the choice of the philosophical assumptions. Since the overarching aim of this thesis is to examine the audit practices within the Egyptian politico-economic regime, the Interpretivist paradigm was deemed to be an appropriate lens to enable an enriching understanding of the change in audit practice, as understood by the relevant human actors (e.g. auditors and regulators). Within the objective-subjective dimension, assumptions related to ontology, epistemology, and axiology directly affect the research

methodology. The Interpretivist ontological assumption views reality as multiple, subjective and constructed based on the perceptions and interactions of social actors (Guba and Lincoln, 1994). The interpretive epistemological assumption argues that knowledge is built through human practices, the natural interactions between the actors and the phenomenon under investigation. Knowledge is deemed valid when the researcher gains his/her understanding by evaluating multiple realities constructed by the different perceptions of the participant, as well as his own (Patton, 1990). The Interpretivist researcher's axiological assumption is that research is value-laden, and therefore sees himself/herself as an integral part of the research. Regarding the radical change-regulation dimension, Burrell and Morgan (1979) distinguished between the regulations (interpretive and functionalist) and radical change paradigms (radical humanist and radical structuralist), because of their distinctive views on the nature of society. The interpretive paradigm falls within the regulation dimension, which views society as stable, ordered, and concerned with questions of pursuing and maintaining social harmony and cohesion (Masztalerz, 2013).

In light of the above, the interpretive approach aligns well with the three papers because of the nature of audit practice, and also because the aim of the three papers is to seek an understanding of change in human practice (Audit Practice Pillars (APP)— audit professionalization, standards, and oversight) within a wider social and politico-economic context. The interpretive approach is placed at the intersection of the regulatory and subjective axis, consistent with the view that recognizes the audit practice as a socially-constructed concept (Hopper and Powell, 1985; Power, 2003; Sikka et al., 2009). Several scholars have called for interpretive research to investigate how audit practices are constructed by the surrounding institutional and societal forces (Humphrey, 2001; Power, 2003). In this regard, Humphrey (2008, p.192-193) called for interpretive studies on audit practices:

"What is certainly needed are studies and approaches that seek to understand what is, or has been done, in the name and development of audit practice. The problem with so much audit research is that it does not explore audit practice per se, but rather fabricates such practice, studying around the edges of the 'black box' of auditor decision-making or constructing experiments that cannot ever really be expected to replicate either the real pressures and career challenging or threatening scenarios that some auditors can encounter in their actual working environment."

Additionally, Sikka et al. (2009) rejected the view which equated audit practices to machine-like compliance procedures, and called for an examination of the political, social and organisational contexts which are deeply embedded in auditing practices. The focus on the social and politico-economic context can be attributed to the work of Michael Power on the Audit Society, which highlights the obsession of today's society *"with checking and monitoring rather than 'doing'"* *"captures a sentiment that resonates with many of our day-to-day experiences"* and views auditing

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practices as rituals of verification (Power, 1999, p.186; Humphrey, 2008). Additionally, the wider global context is important because audit practices are becoming increasingly commercially driven by international audit firms, and placed within an increasingly transnational regulatory setting (Cooper and Robson, 2006). Furthermore, the commitment towards convergence of auditing standards and oversight arrangements inspired by the Anglo-American model calls for an examination of the change in audit practices in other countries (Cooper and Robson, 2006; Humphrey, 2008).

2.2.2 The interpretive paradigms in the three papers

Creswell (2013) argued that the nature of research questions is key in determining the appropriate philosophical lens and research methods. In each of the three papers I adopt an interpretive lens that acknowledges that the subjective multiple realities stance and the importance of the different perceptions of the social actors within the wider social and politico-economic context are necessary to interpret their views on the phenomenon under investigation.

With regards to audit professionalization, Holm and Zaman (2012) argue that the legitimacy of the audit practice is contingent on the claim by the audit profession that its professionalization processes produce auditors with a unique knowledge-set. The certification of an auditor by the Anglo-American's self-regulatory franchise is a declaration of competence to the wider society that signals his/her ability to exercise professional judgement (Maroun and Atkins, 2014). The legitimacy of the audit profession rests on claims of "professionalism", which is essentially the exercise of a subjective professional judgment. The role of professional associations had developed beyond that of being "agents of auditors' reproduction", as they gradually gained social and economic power enabling them to influence regulatory and institutional arrangements in society (Greenwood et al., 2002, p. 73). However, the increasing commercialisation of audit practice and the series of audit failures within a politically complex world of practice cast doubts on the credibility and integrity of the Anglo-American professionalization project (Humphrey, 2008). In response, the audit profession, represented by international audit firms and the Anglo-American profession launched reforms to restore confidence in the audit practice (Sikka et al., 2009; Holm and Zaman, 2012). In light of the growing transnational regulatory structure, and the bargaining between the Anglo-American audit profession and global public financiers (i.e. IMF and WB), it is important to examine the changes to the notion of "professionalism", and how it is socially constructed in different countries (Humphrey, 2008).

In relation to the second paper, the interpretive approach is deemed appropriate since the ISA adoption process can be regarded as a social institutional exercise conducted at a global and

national level. The importance of auditing standards seems to be diverted from their use as a benchmark for professional competence. Humphrey et al. (2014, p.162) argued that:

“Modern ISA are process standards in the sense that they provide guidance on how to carry out various steps in the audit process with implicit expectation that following such steps should enable an auditor to provide a high-quality service” (Humphrey et al., 2014)

Consequently, Martinow et al. (2016) argue that the standards are as effective as the auditor responsible for implementing them. International audit firms are increasingly advocating principles-based audit standards, in order to “encourage thinking auditors” (Holm and Zaman, 2012, p.57).

However, ISAs were developed by a transnational organization (i.e. IFAC), placed “*within is a complex result of the interaction between political interests and power of governments, large audit firms, and important stakeholders*” (Maroun and Atkins, 2014, p.249). Within the global regulatory arrangement, the implementation of ISAs can be seen as a tool used by transnational auditing standard setting bodies to legitimize their social power and increase their influence (Humphrey, 2008). Therefore, the over-reliance on ISAs by international audit firms in an changing business environment, without an appropriate consideration of the local national needs can pose a threat to the credibility of audit practice (Holm and Zaman, 2012). Thus, the adaptation of ISAs has significant social and professional implications on the local profession and consequently local audit practices. In theory, NSS adapt ISAs to address the needs of their business environment, conforming to their local institutional and regulatory settings. Humphrey (2008) calls for an examination of the technical, economic and philosophical drivers of change in audit practice to what technically, economically or philosophically drives processes of audit change in different countries, given the spread of ISAs and the emergence of transnational regulatory arrangements.

The interpretive approach is also suitable for the third paper since POBs conduct their compliance reviews through monitoring the implementation of auditing standards, which also involves a considerable amount of professional judgement. Sikka et al. (2009, p.145) criticized the POBs regulatory approach of relying on reports that measure the quality of audit practices which “*list the failure of auditing firms to use prescribed techniques or adopt commonsensical steps*”. The regulatory nature of POBs essentially involves a certain degree of subjectivity in the regulator’s interpretation of compliance, attempting to improve audit practices in audit firms. Social relations, power and politics are among the main factors which influence audit regulation and subsequently audit practice (Power, 1999; Power, 2003; Humphrey, 2008; Sikka et al., 2009).

In summary, an interpretive approach in examining the change in audit practice can provide an insight on how these practices influence, and are influenced by, the broader social and politic-

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economic context. In advocating for an qualitative approach in audit research, Humphrey (2008, p.187) stated:

"The importance and value of this type of research focus is evident nowadays, with auditing practice and regulatory developments increasingly international in their construction. International and cross-national trade statistics and capital flows are repeatedly used to emphasise that our focus has to be global, and closely linked to the demands and requirements of global capital markets. The overwhelming desire for international convergence in practice, however, is rather ironic in that the initial driver in the field of international accounting and auditing was a desire to recognise and learn from different practices and traditions."

In summary, the subject of the this thesis, Audit Practice Pillars (APP) are better examined not as neutral technical procedures but as a socially-constructed practices, heavily situated in the broader social and politic-economic context.

2.2.3 Why not use other paradigms?

The positivist research approach was deemed inappropriate for the research questions outlined in this thesis. Positivist/functionalist research, which regarded accounting as objective, measurable and value free, dominated accounting/auditing research before the 1970s' (Hopwood, 1983; Baker and Bettner, 1997; Ryan *et al.*, 2002). This type of research relies on primarily statistical tools to test hypothesized relationships. Positivist researchers regarded accounting/auditing as a mere technical process, which can be studied through developing models in order to generalize findings. Arguably, it would be difficult for such a research approach to offer multi-faceted insights on the drivers and motives for change in audit practice. Burchell *et al.* (1980, p.6) wrote about the developments in auditing research:

"Accounting problems have seemingly got ever more detailed, precise and interdependent, resulting not only in the need to articulate new practice but also to formally explicate what previously had been implicit in practice. As a result of such developments accounting has gained its current organizational and social significance. No longer seen as a mere assembly of calculative routines, it now functions as a cohesive and influential mechanism for economic and social management."

Laughlin (1995) highlighted a shift in accounting research that advocated studying accounting as a social process constructed through the interaction and perception of auditors with their external environment. In this regard, Humphrey (2008, p.179) criticized the dominance of quantitative-based audit research, particularly in the U.S., and stated:

"The danger with this tendency is that it means that much audit research is not really studying audit practice per se; rather, it is very often studying correlations between independent (market variables) and proxy measures of a dependent audit variable (such as audit quality), or focusing on a fabricated form of audit practice that has been generated through a series of audit experiments".

The concept of audit practice and the nature of the three APP are socially constructed and cannot be easily quantified. Each of the three APPs — the local professionalization project and its developments, ISA adoption and its adaptation into national auditing standards, and the POB and their oversight approach—are practices which are highly dependent on the perception of human actors and their interaction with their external environment. These practices seek to understand the auditor's behaviour and the exercise of professional judgment in carrying audit practices. Therefore, in-depth research on audit practice should not depend on using predictive models, correlations and variables to understand socially-constructed audit practices (Humphrey, 2008).

In addition to the positivist (mainstream) and interpretive approaches, accounting and auditing researchers can adopt a critical stance (Hopper and Powell, 1985). The critical accounting research views empirical reality as objective where the actor's intentions and rationality must be critically analysed. They view actors/humans as having "*inner potentialities which are alienated (prevented from full emergence) through restrictive mechanism*" (Chua, 1986, p.622). There is an ongoing debate between accounting and auditing researchers on the classification between interpretive and critical research. Baker and Bettner (1997, p.293) argued that "*critical research can also be interpretive, but critical research adopts a particular point of view regarding the research question, whereas interpretive research purports to take a 'neutral' stance*". While the critical stance does partly conform with my ontological beliefs on the subjectivity of audit practice, my aim in the thesis is to seek an understanding of how the reality of audit practice is constructed. Hopper and Powell (1985, p.449) argued, "*It is important to consider not only when and how people's perceptions change, or are desired to be changed, but also why common perceptions exist and remain unchanged*". Therefore, given the research aims and the existing literature, I assumed an interpretive neutral stance in conducting this three-paper research. However, a challenge in conducting a three-paper thesis is the possible variation in findings between the three papers. For example, in the context of the third paper a critical analysis was deemed appropriate to present in light of its findings. Finally, as a researcher I acknowledge that I am value-laden, and affected by my own perspectives and background (Burrell and Morgan, 1979).

2.3 Research Design: Multiple Case Study

(Creswell, 2013, p.3) defines research design as "*plans and the procedures for the research that span the steps from broad assumptions to detailed methods of data collection, analysis and interpretation*". The research design adopted in this study is a qualitative multiple case design. The use of case studies in qualitative research provides the researcher with the opportunity to "*explore in depth a program, an event, an activity, a process, or one or more individuals. The*

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case(s) are bounded by time and activity, and researchers collect detailed information using a variety of data collection procedures over a sustained period of time" (Stake, 1995) cited in (Creswell, 2013, p.14). In the context of this study, a multiple case research design permits the researcher to interpret a social phenomenon, i.e. APP, by providing an overarching interpretation and cross-case analysis for each of the three individual cases (audit professionalization, ISA adoption, POB's oversight) within the Egyptian context. In doing so, this analysis contributes towards enriching our knowledge on APP in developing countries. The case study design provides a number of benefits to research in business/management discipline (Cepeda and Martin, 2005). Firstly, it provides the researcher with the opportunity to examine the phenomenon in its "natural setting" (Cepeda and Martin, 2005). Secondly, Yin (2003) argues that case study research is most suitable to provide answers to "what," "why," and "how" questions, especially "*when the focus is on contemporary phenomenon within some real life [empirical] context*" (Yin, 2003, p.1). Thirdly, the multiple-case research design is useful, as it provides a holistic consideration of multiple units of a program (Patton, 2002). Finally, case study research design helps refining existing theoretical frameworks through an in-depth examination of the literature review before the data collection phase (Stake, 1998; Yin, 2003). This thesis employs three different theoretical frameworks for each of the three APP. The theoretical framework of each dimension is explained and discussed in its corresponding chapter. Finally, a case study approach "*is an appropriate way to explore areas where research studies are scarce*" (Cepeda and Martin, 2005, p.853), as in the case of audit practice in Egypt.

2.3.1 The Multiple Case Design/ Unit of Analysis

The unit of analysis and the type of case study conducted is dependent on the research questions (Yin, 2003). Since the aim of this research is to study one phenomenon, i.e. APP as a product of three contextually intertwined variant cases, a multiple case study is appropriate. Baxter and Jack (2008 p, 550) argue that choosing between multiple case and single case design as stated in (Yin, 2003) and (Stake, 1995) is dependent on whether "*the context is different for each of the cases. A multiple or collective case study will allow the researcher to analyze within each setting and across settings*". By adopting a multiple case study approach, each of the three pillars can be better investigated by applying an appropriate conceptual framework and tailored research questions for each case (Miles and Huberman, 1994). This approach in turn will be allow a refined linking to the data and interpretation to the findings (Baxter and Jack, 2008). The first contextually bounded unit of analysis/case is the auditing profession in Egypt and its development. The first pillar is concerned with the factors affecting the development of the profession over a 70-year period, from 1946 to 2016. The study examines the social, legal and political factors which affected the

Egyptian professionalization project, with an emphasis on State-profession dynamics. The local professionalization project directly influences, and is influenced, by professional association and the State. These two entities, along with the product of the professionalization process, i.e. the auditor, directly affect the second pillar of APP, ISA adoption process in Egypt. After all, auditing standards are guidelines drafted by auditors, often representing professional associations, and applied professionally by auditors. The focus of this study is geared towards understanding the dynamics of ISA adoption and the role of audit firms and professional associations involved in the process in Egypt. Finally, the last paper is concerned with the third APP, the POB and its oversight approach. It focuses on the establishment and the operation of POBs and how they monitor the compliance of auditors and audit firms in applying ISAs. The three APPs are interconnect through mutual elements, such as the auditor's professional judgments, whether in the context of the professionalization process, the drafting and application of ISA, and the oversight on audit practice, and also through entities such as professional associations, regulators and international audit firms. Therefore, a multiple-case design is deemed appropriate for the study of the change in audit practices, by considering three interrelated APPs.

2.3.2 Sampling Parameters

Unlike quantitative studies, qualitative research focuses on a smaller in-depth administrated sample to produce valuable insights into the phenomenon under investigation (Patton, 2002). A non-probabilistic sampling technique was used to generate the relevant data, which is 'illuminative' and 'information rich' (Patton, 2002). Purposive sampling techniques are used in order to obtain an ample relevant sample that is sufficient to generate in-depth insight regarding the three APP (Patton, 2002). The major focus was the degree of proximity and knowledge of the interviewees in each case. The sampling parameters for this research follow Miles and Huberman (1994), as shown Table 2.1:

Table 2-1: Sampling parameters

Sampling Parameters	APP 1 (Professionalization)	APP 2 (Auditing standards)	APP 3 (Public oversight board)
Settings	Business offices of local and international audit firms, regulatory bodies, professional associations (e.g. EFSA, Ministry of Finance, ESAA, etc.)		
Events	Development and changes in the Egyptian professionalization process.	Setting the national auditing standards by adapting ISAs to the Egyptian context.	The establishment of POB and its approach in conducting compliance

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			reviews on Egyptian audit firms.
Participants	EFSA, professional associations (e.g. ESAA), and the Syndicate for Commercial Professions (SCP).	EFSA, ESAA, standards-setting committee members.	EFSA, offices of international firms operating in Egypt. International and local audit firms.
Processes	Drafting, discussing the development of the professionalization process and the proposed changes to accounting profession laws.	ISA adaptation process.	Compliance review mechanism by EFSA, and the response of audit firms (local and International).

As stated earlier, the focus in defining the sampling parameters is the selection of informants who are able to provide valuable (insider) insights to answer the research questions. For example, the focus of the first paper was on senior participants who directly participated and witnessed the development of the professionalization project over the last thirty years. The researcher targeted partners/officials at high-level positions that granted them access to the potential changes to the Egyptian professionalization project. This included current and previous partners/managers at Big Four, international and local audit firms, and key officials in local professional associations and governmental agencies who have had direct involvement. The same applies for the second APP, where emphasis was placed on participants who were actively involved in the ISA adoption process. In the context of the third paper the main focus was on the regulator (POB), but also included international and local audit firms to solicit their views on POB's oversight. Additionally, mid-level and junior staff were also included and interviewed in all three papers. Their insights proved to be very valuable in relation to the third APP compared to the first two. On one hand, some of the mid-level and junior staff were happy to provide more information about the reality of the audit practice. On the other hand, other junior auditors preferred to concur with their managers. This is due to the fact that junior and mid-level staff become more involved with the compliance dimension rather than standards-setting or the policies governing the Egyptian professionalization project.

2.4 Data Collection

A qualitative case study approach utilizes data derived from words, phrases and narrations to construct a more detailed picture of the phenomena compared to numbers. The three main types of data used in qualitative case studies are interviews, direct observation and documentary analysis (Patton, 2002). Two sources of data, semi-structured interviews and documentary analysis, were used in this work to minimise bias. This was done by combining semi-structured interviews as a primary data collection tool with documentary analysis as a complementary secondary method.

2.4.1 Primary Data (Semi-Structured Interviews)

Primary data for this study was collected through semi-structured interviews. Semi-structured interviews provide the researcher with the flexibility needed to solicit answers to why, what, and how questions covering specific themes (Creswell et al., 2003). Consistent with the interpretive purpose of the study, semi-structured interviews allow the researcher to change the order of the questions and to ask interviewees follow-up questions that focus on certain desired sub-themes. This allows the researcher to develop an understanding of the participants' view regarding a certain theme and to establish a cross-case comparability (Yin, 2013). For example, the researcher would ask a general question such as, "*What do you think are the challenges to auditing quality in Egypt?*". The interviewee's answer could focus on the theme of professionalization and laws governing the profession, or could identify auditing standards and compliance mechanisms as challenges to audit quality. The interviews questions were carefully articulated to avoid any pre-assumption or leading questions in order to extract a natural unbiased perception/view from participants. Appendix A.1 presents the initial interview guide.

The total number of interviewees for the whole research project was 32, conducted during the period between December 2014 and August 2016. Several participants were interviewed in the follow-up stage, up to the point of data saturation (Patton, 2002). As noted, targeted participants included senior auditors, officials and academics holding/held key positions within the Egyptian Financial Supervisory Authority (EFSA), the Egyptian Society of Accountants and Auditors (ESAA), other professional associations and international and local firms operating in Egypt. The participants were contacted initially by phone or email. Participants included partners, managers, seniors and juniors at Big four firms, second tier international auditing firms, local firms with international affiliation and large and small auditing firms in Egypt. Academics, governmental and professional association board members were also targeted. The snowball sampling technique was also used as participants often referred to others who were able to provide more insightful

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views. This included referrals across aforementioned firms. I also used my professional network to get access to critical informants with direct knowledge of the subject. Diversity among interviewees was pursued to present different and sometimes conflicting perspectives and views regarding the three APP. A formal introductory email was sent to potential participants informing them of the purpose of the study and why they were chosen. The email explained how the collected data would be used and assured confidentiality and anonymity to participants. All interviews were conducted in a face-to-face setting where participants were asked to sign a consent form, with the exception of one telephone interview. The recorded time of interviews ranged between 30 minutes to 3 hours depending on how comfortable the respondents felt discussing the mentioned themes. The reason for the short duration of some interviews is that some interviewees cited their firm's manual and argued that the audit practice in their firm abides by the applicable laws and standards. Additionally, in many cases the interviewees preferred to elaborate on controversial issues before the voice recording was initiated. Permission was granted to tape-record 27 interviews. The remaining five interviewees preferred that the researcher took handwritten notes, citing confidentiality agreements with their employees, or due to the sensitivity of their quotes. Interviewees also preferred the interview to be conducted in Arabic in order to allow smooth and free discussion. Field notes were used in refining questions for the following interview. The interview notes and recordings were later translated and transcribed by the researcher (greater elaboration on translation and transcription follows in the data analysis section). The focus was to gain a deep understanding of or each participant's view rather than the number of interviews. The initial round of interviews ended when new interviewees provided redundant information or their involvement was limited. Furthermore, a follow-up round of face-to-face interviews was carried out later with some participants for more clarification. In qualitative research there is no rule for the number of interviews and informants, but the focus is on informative richness and the validity and insight which the data brings (Patton, 1990). Lincoln and Guba (1985) argue that the sample size is determined by the occurrence of redundancy. This research also benefited from the fact that many participants wore multiple hats, i.e. had more than one role in different entities. For example, some partners and academics served in different positions in professional association. Table 2.2 represents a general breakdown of interviewees⁴.

⁴ "Each paper contains an appendix, which lists the participants and their position relevant to the paper

Table 2-2: Interviewee breakdown

Interviewee Description	No. of interviewees
Senior level auditors (partners and managers) who held in the past or the present a position at professional associations	4
Senior and junior auditors	10
Officials at governmental and regulatory entities	2
Academics who are partners at their firms (international and local) who held in the past or the present a position at professional associations	2
Total	32

Table 2-3: Interviewee list

Inter No.	Position	Duration of the interview (hours)
1	A Partner at one of the Big Four firms & a current/previous ESAA board member	1 Hours, 5 Mins
2	A managing partner at an international audit firm, a current/previous ESAA board member	1 Hours, 4 Mins
3	An audit partner at one of the Big Four firms & a current/previous ESAA board member	1 Hour, 20 Mins
4	A managing partner at a local firm & a current/previous ESAA board member	54 Mins
5	EFSA senior official	2 hours 40 Mins
6	A managing partner at an international audit firm & a current/previous ESAA board member	3 Hours
7	An audit partner at one of the Big Four firms & a current/previous ESAA board member	32 Mins
8	An audit partner at one of the Big Four firms	35 Mins

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9	An academic and a partner at a local audit firm	1 Hour, 35 Mins
10	A managing partner at a large local audit firm	54 Mins
11	An audit partner at an international audit firm	47 Mins
12	Previous senior auditor at an international audit firm	48 Mins
13	An audit manager at an international audit firm	1 Hour
14	An audit partner at an international audit firm	40 Mins
15	An academic and a managing partner at a local audit firm	50 Mins
16	An audit manager at a local audit firm	39 Mins
17	A senior auditor at an international audit firm	41 Mins
18	An audit manager at an international audit firm	35 Mins
19	A senior auditor at an local audit firm	34 Mins
20	A senior auditor at an international audit firm	46 Mins
21	A senior auditor at an international audit firm	33 Mins
22	An audit manager at a local audit firm	33 Mins
23	An audit manager at one of the Big Four firms	30 Mins
24	A junior auditor at one of the Big Four firms.	32 Mins
25	A previous senior auditor at two of the Big Four firms	34 Mins
26	A previous manager at one of the Big Four firms	56 Mins
27	An audit partner at one of the Big Four firms	43 Mins
28	A managing partner at a large local audit firm	30 Mins
29	A director of the EU- Egypt twinning program	1 Hour 2 Mins
30	A senior auditor at one of the Big Four firms	35 Mins
31	A senior auditor at an international audit firm	32 Mins
32	A senior auditor at an international audit firm	30 Mins

2.4.2 Secondary Data (Documentary Analysis)

In addition to primary data, secondary data was obtained through publicly available documents, but also included a number of proposed laws and administrative memos, which were provided subject to confidentiality. Initially, some of these documents were used first to provide a

background about the topic and to stimulate some themes for the interviews. These documents included more than 40 documents such as current, expired and proposed laws Egyptian laws, Governmental decrees, EFSA's pronouncements and forms, ESAA bylaws, archival documents and forms, IFAC's documents, press releases, and Statements of Members Obligations (SMOs), the European Commission's (EC) official documents, newspaper articles, and reports from the IMF, World Bank and others. Such data sources were curtail to this thesis, given its embeddedness within a particular social politico-economic context. These data sources contribute not only by providing initial valuable insights, but also serve as a basis to triangulate with primary data findings. For instance, the use of IFAC's SMO as secondary data for the second paper provided insights on the ISA adoption process from a different angle. Yin (2013) recommended the use of multiple data sources in case studies in order to reduce bias and establish triangulation. The use of secondary data in this research is essential to gather more evidence and to enhance the validity of primary data.

2.5 Data Analysis

This section outlines the general steps which guided the data analysis for the three papers. The data analysis techniques used were guided by the by Miles and Huberman's (1994) book- Qualitative date analysis: A sourcebook. The process of identifying and verifying themes is a continuing and recurring cycle and often begins as early as the data collection phase. Miles and Huberman (1994) suggested the use of an initial list of codes/themes based on the theoretical frameworks and prior literature to avoid a possible overload of data. The first step in analysing the data was to translate the interviews recordings from Arabic to English. In order to reduce any distortion of the meaning I did not use any outside help in terms of translation and transcribing for several reasons. First, the interviewees not only used Egyptian slang in describing some terms, but they also used some professional terminology in Egyptian slang, such as "bury" as the equivalent of "hiding the numbers", which is challenging for non-Egyptian auditors to translate. Additionally, qualitative data analysis software, such as Nvivo, does not support the Arabic language. This course of action was necessary to reduce data distortion but it was time consuming. The second step was to re-read, multiple times, the collected data— interview transcripts, field notes and secondary data—to improve my understanding and comprehension of the data.

The next step in data analysis is to search for identify and develop themes (Patton, 2002; Corbin and Strauss, 2008). Although the researcher starts with pre-determined themes based on prior literature, he/she should be open and flexible in discovering new themes arising from the data

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(Strauss and Corbin, 1990). Given the interpretive stance, the next step started with a few initial codes that reflected the overall research questions, such as “factors affecting audit practice in Egypt”. Theoretical frameworks provide a lens for an analytic conception to enhance our view and understanding of a social phenomenon (three separate theoretical frameworks are presented for the three APP). During this step, the data was assigned to the relevant codes, and when the data generated new perspectives or insights a new code was created. Thus, this research relies on codes generated inductively and deductively. For example, the investigation of “due process” as a theme within the second paper was informed by the literature, but subsequently led to the creation of “exposure drafts” as a sub-theme. On the other hand, new themes emerged during initial interviews at the data collection stage, such as “the rejection of the auditing profession proposed law”. The researcher’s past experience as a practising auditor helped in refining themes and codes. Patton (2002) describes coding as the process labelling keywords, phrases, or paragraphs into codes and sub-codes, in order to organise them into meaningful relevant themes. Drawing on Boyatzis (1998), a rigorous thematic coding of the data included giving each theme a label, a definition, and an indicator of occurrence was implemented. Interrelated sub-themes emerged, presenting broader conceptual themes and forming a higher level of abstraction (Corbin and Strauss, 2008). For instance, in analysing the first dimension of APP, the sub-themes of “examination requirements”, “experience requirements” and “experience requirements” were clustered together in one broader theme of “professionalization requirement under the new law”. In summary, the data analysis process followed what Miles and Huberman (1994, p.224) described as an “the abstraction ladder”, going back and forth, revisiting and cross-examining the raw data, the created codes, and the literature. This systematic analysis allowed conceptual themes to emerge and to be explained and examined against prior literature and theoretical frameworks.

2.6 Ethical considerations

Qualitative research which revolves around human actors is inherently associated with ethical concerns, which need to be addressed (Patton, 2002). At the start of this research, ethical considerations were discussed with the supervisory team and were dealt with according to the University of Southampton’s ethical compliance procedures. First, a proposal, including the details of this research project, was granted ethical approval by the Ethics Committee via the ERGO system (Ethics and Research Governance Online). This proposal required different types of details and documents, such as the main ethics application form, interview questions, participant information, sheet consent form, debriefing statement, and the risk assessment form. In conducting my research, these ethical considerations were maintained by stressing the voluntary

nature of participation and consent of the participants, the avoidance of any pressure, and respecting and ensuring participants' anonymity and confidentiality (see appendix A.2). This step was done through explaining the benefits and aims of the research to the participants in the initial contact, by sending them the participants' information document, which details information about the researcher, the aims and benefits of the research, why they were chosen, and their rights if they wish to participate. During the interviews, the participants were given a consent form to sign and the voluntary nature of participation and rights to confidentiality were ensured again in accordance to the Data Protection Act and the Data Protection Policy of University of Southampton, (see appendix A). This step was an important one in the context of this research due to the sensitivity of the information provided, and the wish of many participants to remain anonymous. For instance, at multiple times, participants asked either to stop recording when they were giving "off record" information, or asked that this information should not be used. The participants' identities and personal information were kept confidential by assigning a code and non-detailed description of their position. At the end of the interview, the participants were given a debriefing form, which contained information about the researcher and the research, as well as contact information for the university if they have any concerns.

2.7 Establishing 'trustworthiness' in qualitative studies

Lincoln and Guba (1986) identified four criteria as essential indicators of the trustworthiness and quality of qualitative research: credibility, transferability, dependability and confirmability, which will each be addressed in the following paragraphs.

The credibility of the finding is concerned with how consistent the findings are with reality (Lincoln and Guba, 1986). Miles and Huberman (1994) proposed some tactics to address the credibility criteria, such as checking for representativeness, evaluating the evidence, investigating rival explanations, and comparing, contrasting and replicating the findings. These criteria were followed through interviewing various participants representing different points of the view. The quality of the data is enhanced by the articulation of informed participants (Miles and Huberman, 1994). However, any new insights given by the participants were not taken at face-value. For instance, when some claims were made about the rationale for a certain policy or lobbying efforts, contained information that was sensitive or hard to confirm, this information was not regarded unless confirmed by other interviewees. Additionally, the credibility of this study was attained through triangulation, using different data sources to check consistency (Lincoln and Guba, 1986). As mentioned before, interviews and secondary data, particularly for international organization such as IFAC documents, proved useful in the triangulation phase. Additionally, credibility was ensured through the "member-check" technique, where the participants were

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often asked to provide examples and further elaboration in order to accurately convey their views (Lincoln and Guba, 1986).

Transferability, is concerned with the extent that the thesis findings are applicable in other contexts (Lincoln and Guba, 1986). In the context of qualitative research, the aim is to provide rich insights about the social phenomenon, i.e. APP, under investigation (Lincoln and Guba, 1986). Despite the nature of qualitative research, which does not depend on the generalization of the findings beyond the special setting of the study, some findings of this research could be applicable to similar developing countries (Patton, 2002). Yin (2003) differentiated between statistical and analytic generalization by arguing that analytic generalization in qualitative research reflects on the theory of the examined phenomenon, while it makes no claim to statistical representation (Maxwell, 2007). In each of the three papers, I provide a detailed explanation of the corresponding APP, including the theoretical framework, findings and conclusion, which may bear some resemblance to other countries. For example, on one hand, it would be challenging to find resemblance to the first APP, the local professionalization project, due to the accumulation of different politico-economic factors that shaped the profession since its inception. On the other hand, there is a greater probability of finding countries which share the same settings with regard to ISA adoption due to the presence of the same transnational forces, i.e. the Big Four and IFAC. Therefore, it is left up to the reader to decide if the findings are transferable to his/her context. Dependability and confirmability are concerned with achieving the same results if the same investigation process were to be repeated (Lincoln and Guba, 1986). These criteria are attained by, first, providing a detailed explanation of the methodology of the overall thesis, as well as for the individual papers. Secondly, they are achieved through triangulation techniques by using secondary sources, such as IMF reports, which can provide the reader with checks for overall confirmability and consistency. Additionally, the research design, detailed in this chapter, and the supervisory-checks, contribute to meeting the dependability and confirmability criteria.

2.8 Chapter summary

This chapter presented a discussion of the methodology and research design, and provided a detailed explanation of the research procedures. This thesis adopts an interpretive stance, and all three papers follow a qualitative multiple case design (Lincoln and Guba, 1985; Patton, 2002; Yin, 2003). Primary data was collected using 32 semi-structured interviews and secondary data consisted of more than 40 documents from various organizations and entities. This data was analysed using a thematic approach guided by the work of (Miles and Huberman, 1994). Finally, this thesis carefully adopted a rigorous qualitative methodological design and employed research methods which were ethical and trustworthy (Lincoln and Guba, 1986).

Chapter 3: Charting the development of the Egyptian accounting profession (1946-2016): An analysis of the State-Profession dynamics

3.1 Abstract

This paper aims to examine the development of the Egyptian professionalization project, by focusing on the state-profession axis in a context where the Anglo-American professionalization model continues to have a lingering influence on the audit profession in developing countries. Utilizing a theoretical lens that draws upon Weberian closure theory and a political economy theoretical framework, this paper presents a longitudinal analysis of the development of the Egyptian professionalization project over the period 1946 to 2016.

The paper relies on primary data gathered from 11 semi-structured interviews with previous and current board members of the Egyptian Society of Accountants and Auditors (ESAA), Egyptian government officials, senior auditors at international and local audit firms, and local academics (See Appendix 1: List of interviewees). This is complemented by secondary data drawn from documentation of current and historical legislation, regulations and press articles. The historical analysis covers the accounting and auditing profession, starting with the royal decree, which created the Egyptian Society of Accountants and Auditors (ESAA) in 1946. Furthermore, in 1951, Law No. 133 was the first and main tool used to regulate the auditing profession throughout Egypt's modern history, which involved a monarchy, a socialist republic and a transformation to a market-economy system, and which, notably, restricted membership to Egyptian nationals. The study reveals how the interplay between the global context and the consecutive politico-economic regimes shaped the profession's laws and regulations. The fundamental changes in the Egyptian politico-economic compass should have been followed by serious steps towards the reform of an outdated accounting profession, but the Egyptian government failed to monitor the continued validity of the current profession's laws for its market economy model. Furthermore, the State's dependency on amending minor administrative aspects of the law and postponing necessary core reforms, such as the certification requirements, led to the profession being crippled by the same law (law 133/1951) which was paradoxically intended to improve the profession.

The paper contributes to the professionalization literature by enhancing our understanding of the lingering and varying influence of the Anglo-American professional model on local

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professionalization models. Additionally, this research suggests a new theoretical variant of Weberian closure i.e. selective exclusionary closure, whereby regulators in developing countries employ closure strategies to retain an advantaged status for big audit firms, by issuing administrative decisions as a substitute for broad legislative reforms.

Keywords: Professionalization, audit, global audit profession, Egypt, developing countries

3.2 Introduction

Over the last three decades, the accounting literature has witnessed a proliferation of studies investigating the development of the public accounting profession, (Laughlin, 1999; Cooper and Robson, 2006; Gillis *et al.*, 2014). In the last decade, increasing attention has been placed on the profession in developing countries, in terms of analysing its development and the challenges faced by audit or accounting professionals (Poullaos and Uche, 2012; Mihret *et al.*, 2017). Several studies have addressed the issue from a contemporary viewpoint, focusing on the consequences of global neo-liberalist policies by transnational financers (Hopper *et al.*, 2016), the hegemony of international audit firms (Cooper and Robson, 2006), and the mass commercialization of the profession by Anglo-American professional associations (Samsonova-Taddei and Humphrey, 2014). Other studies have emphasized the impact of the colonial legacy on limiting the capacity of professionalization projects in developing countries (Uche, 2002; Sian, 2006; Getie Mihret *et al.*, 2012). The critical school has positioned its analysis around the various stages of the profession's development and its interaction with the State, "*from commercial to professional and back to commercial over the last 150 years*" (Richardson, 2017, p.15). Recently, there has been a call towards a "post-professional" model research agenda, addressing the transnational nature of the profession (Suddaby *et al.*, 2007; Gillis *et al.*, 2014; Richardson, 2017). The new research agenda aims to explain the link between the development of transnational and local regulation, the role of key historical actors within the profession (i.e. Big Four and professional associations) in this new era and, more importantly, to explore areas of bifurcation and convergence between the local and the global profession (Gillis *et al.*, 2014; Richardson, 2017).

A central aspect in examining a national professionalization project is to realize the complex linkage between accounting and auditing, the flow of capital, the economy, the society and the state. The professionalization project is primarily geared towards the service of capital and, hence, professional closure strategies in developing countries have often followed the financier's professionalization model (Chua and Poullaos, 2002; Richardson, 2017). In between the flow of British capital at the beginning of the 20th century and the arrival of the multinational and global capital near its end, many developing countries initiated their professionalization project by

applying closure mechanisms favouring its citizens to service its national capital and its politico-economic regime (Chua and Poullaos, 2002; Poullaos and Sian, 2010). Thus, examining the developments of the accounting and auditing professions in emerging economies is rather complex. Their professionalization projects represent an accumulation of closure practices, starting with colonial closure favoring the Anglo-American model, followed by post-colonial closure legislation repealing the former (Sian, 2006; Getie Mihret *et al.*, 2012) and, lately, a pursuit of transnational regulatory arrangements favoring the Anglo-American profession (Suddaby *et al.*, 2007; Samsonova-Taddei and Humphrey, 2014).

Thus, the historical context of professionalization projects in developing countries remains vital, as it exerts its influence on how the profession diffuses or expands itself into the new post-professional model (Richardson, 2017). Poullaos and Uche (2012) argue that professionalization projects in developing countries represent a hybrid product of an interaction between two sides. On the one hand, there is an internal dynamic between the State and the profession within the national political and socio-economic, while on the other, the Anglo-American capital, with its lingering historical and contemporary links, is seeking to embed its model into developing countries. Responding to the above calls to study accounting professionalization from the viewpoint of a transnational “post-professional” model (Suddaby *et al.*, 2007; Gillis *et al.*, 2014; Richardson, 2017), and the need to examine the state-profession dynamics throughout the different stage of the professional project (Chua and Poullaos, 1998; Poullaos and Uche, 2012), this longitudinal research analyses the interplay between the Egyptian State and the profession, i.e. the Egyptian Society of Accountants and Auditors (ESAA), over the period 1946 to 2016. The ESAA, initially modelled on its British counterparts and in effect currently dominated by the Big Four-affiliated firms, can be considered as the local representative of the Anglo-American model.

A central axis of this research is the Egyptian Accounting practice's Law 133/1951, issued by the nationalist liberal government⁵, as a revolutionary professionalization closure tool to end the British domination by establishing three different routes to practice, which that are only available to Egyptians. This legal provision has remained in force during the three distinct contemporary periods of Egyptian politics and economy from 1951 until this day. This research aims to understand the current status of the Egyptian profession, and persistent obstacles to its reform, by analysing the influence of a pre-colonial closure tool (Law 133) for over 70 years. In doing so, this research aims to address two central research questions: 1. “How did successive Egyptian governments rely on the pre-independence closure tool to restrain and direct the development of

⁵ El Wafd latest government (1950-1952) enacted the accounting profession law (law 133) in a short lived period of parliamentary democracy in Egypt, amid British dominance (Ginat, 2003)

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the profession?", and, 2. "How did the subsequent politico-economic regimes affect the state-profession dynamics?"

This qualitative study contributes to professionalization literature (Chua and Poullaos, 2002; Poullaos and Uche, 2012; Richardson, 2017) by: 1) Enhancing an understanding of the lingering and varying influence of the Anglo-American model on different professionalization models in developing economies., and, 2) Exploring the role of the ESAA, a local professional association modelled on an Anglo-American model, through the transition between different political and economic regimes. This research employs a theoretical lens that relies on Weberian closure theory and political economy framework. In doing so, the paper also extends an understanding of the notion of Weberian closure theory by articulating the 'heavy hand of the State' in regulating the profession throughout the different political and economic regimes. This paper addresses the research questions by relying on a combination of primary and secondary data. Primary data was collected through 11 semi-structured interviews with previous and current board members of the Egyptian Society of Accountants and Auditors (ESAA), Egyptian government officials, senior auditors from international and local audit firms, and local academics. The participants were chosen because of their direct involvement in some of the contemporary reforms, their seniority in the profession, and/or due to their long-standing association to key firms in the country. Additionally, a snowballing sampling technique was used, as participants often referred to others who were able to provide more insightful views. The initial interview guide was focused on capturing participants' views on the current state of the audit profession in Egypt. During the initial interviews, a main theme that focused on the outdated Law 133 and its implications on the profession emerged. As the primary legislation governing audit practice in Egypt, much of the discussion was directed to the accumulation of factors (in consecutive political and economic regimes) that hindered its update. This theme was further developed into sub-themes, which addressed the role of the main players (the State, international and local audit firms and the ESAA) within the Egyptian professionalization project. All interviews were conducted in a face-to-face setting where participants were asked to sign a consent form, with the exception of one telephone interview. The recorded time of interviews ranged between 30 minutes to 3 hours depending on how comfortable the respondents felt discussing the mentioned themes.. Secondary data was collected on the basis of prior academic work⁶ and official documentation (decrees, laws, newspaper articles and other publications).

⁶ I would like to acknowledge the importance of prior research addressing the Egyptian auditing environment in general (Amer, 1969, Awadallah, 2006, Barsum and Abdel-Aziz, 1986, Briston and El-Ashker, 1984, Dahawy et al., 2002, Dahawy, 2004, Zerban, 2002, Samaha and Stapleton, 2008, Samaha and Hegazy, 2010), and the Egyptian profession in particular (Farag, 2009, Hassan, 2008a, Hassan, 2008b, Kayed, 1990,

The remainder of the paper is structured as follows: the next section examines the neo-Weberian theory of professional closure, the State-Profession axis and how this relates to a broader political economic framework. This is followed by a literature review of various forms of professionalization projects around the world, highlighting the influence of the Anglo-American model and the continental European model on the interactions between the State and the accounting profession. The next section sets the development of the local accounting profession within the political and economic models faced by Egypt from 1946 to 2016. This paper then examines the controversies related to the failure to issue new legislation governing the profession and recent limited reforms by the State. Finally, the overall conclusions and implications are discussed.

3.3 Theoretical Framework and literature review

3.3.1 Neo-Weberian closure theory in accounting professionalism

Drawing upon the sociological perspective, the professionalization of accounting literature has evolved over time in its understanding of the development of the profession, in an attempt to analyse the processes by which societies 'acknowledge' a profession (Birkett and Evans, 2005). Contrastingly, earlier functionalist views considered professionals to be a group of people who acquired certain technical skills through complicated training (Uche, 2002), which generally gave a noble perception of professional groups. They were viewed as a unit motivated by normative ideals, seeking to maintain high standards in the practice of the profession and serving societal needs (Carr-Saunders, 1928; Willmott, 1986). Subsequently, the interactionist perspective arguably provided more realistic insights of professional associations as pragmatic interest groups. Interactionists, such as Bucher and Strauss (1961) and Timperley and Osbaldeston (1975), viewed the interaction between the surrounding society and the professionals as an essential part of the professionalization process (West, 1996). Professional groups promote their interests by portraying themselves to the public as the most capable group to serve the society in a given occupation and, in this respect, the accounting literature progressed towards using a more critical approach to understanding the process of the professionalizing of accounting (Burchell et al., 1980; Saks, 1983; Willmott, 1986).

Within this perspective, the accounting literature has relied heavily on the neo-Weberian theory of social closure as a theoretical framework (Chua and Poullaos, 1993, 1998; Uche, 2002; Sian,

Wahdan, 2005). However, prior studies addressing the Egyptian profession have been mainly descriptive in nature, with no specific focus on professionalization process.

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2006; Dyball *et al.*, 2007; Getie Mihret *et al.*, 2012; Agrizzi and Sian, 2015). Weber (1946) introduced the term 'closure' in order to explain the monopolization practices of occupational groups in Germany's late nineteenth century capitalist society to secure economic opportunities and, consequently, to prevent subordinate groups from competing in the market (Weber, 1946, 2002). Parkin (1979) developed the neo-Weberian theory by presenting a more cohesive model for closure in the professionalization literature, founded on two main components: exclusion practices and strategies to achieve closure (Harrits, 2014). He further developed two main types of closure, namely, *exclusionary closure*, where a dominant group attempts to further restrict access to their privileged status in the face of inferior groups, and *usurpationary closure*, where an inferior group attempts to jostle a higher status group to share the benefits (Saks, 1983). Usurpationary closure can be further divided into two categories, *inclusionary usurpationary closure*, where the aim of the inferior group is to access the same circle as the superior group based on their proportional numbers, and *revolutionary usurpationary* variant, where the 'inferior' group attempts to change the current status of the profession by altering the arrangements within the profession's circle (Witz, 2013).

The success of early accounting professionalization projects depended heavily on the tactics of accounting professional groups and their abilities to demonstrate their vocation, rather than purely on technical knowledge (West, 1996). A successful closure strategy requires three main components; firstly there must be specific criteria that define the occupational group's unique knowledge (whether taught and/or experienced). Saks (2012) argued that the neo-Weberian approach tends to define professionalism within the context of a profession's tactics to achieve closure in its wider social-economic environment, not only in terms of knowledge and expertise. Secondly, the group must be able to demonstrate to the wider society that 'their' unique knowledge is the most appropriate one to address a social or economic need. The formation of a professional association, with its membership requirements based on education and certification, thus remains a major step in the professionalization process (Carnegie and Edwards, 2001). However, this was not always the case, particularly during the early stages of many professionalization projects, where exclusionary measures were practiced, unrelated to knowledge or credentials, such as race, religion and nationality (Sian, 2006). Thirdly, the professionalization process can be regarded as being completed by legitimating and enforcing closure through the issuance of laws and regulations i.e. a form of State-led or powerful third-party sanctification (Willmott, 1986; Uche, 2002). According to neo-Weberian closure theory, occupational groups lobby and pressure the state to issue legislation and/or regulations that would grant them exclusive practicing rights (Yapa, 1999; Uche, 2002; Saks, 2012). This step suggests that closure cannot be attained without the State's blessing and it reflects the influence

governments hold within the professionalization equation. However, the degree of influence, and motivations thereof, underpinning the State influence appears to significantly vary. Therefore, Weber's notion of closure and its components can provide a theoretical lens to analyse various milestones in the development (and sometimes lack thereof) of Egypt's professionalization project since its inception in 1946, thereby linking these milestones to changes in state-profession dynamics at different times. This is an implication, which is teased-out in more detail in the following section.

3.3.2 The State-Profession axis

The accounting literature has relied on neo-Weberian theory to explain certain closure practices at a certain time, within different national contexts. In the continental European context, the focus was on different closure strategies, reflecting the role of the state, bureaucracy and credentials (Coenenberg *et al.*, 2000; Ramirez, 2001). De Beelde (2002, p. 465) demonstrated the use of academic credentials with the Belgian professionalization process to serve as a normative reference, thereby "*adding to the prestige of the profession*". In developing countries, the emphasis has been on the state's role in adopting closure mechanisms to overcome the consequences of colonization (Sian, 2006; Dyball *et al.*, 2007; Poullaos and Uche, 2012). Since neo-Weberian theory provides a general framework for the study of professional groups within a certain macro political environment (Chua and Poullaos, 1993), it follows that a careful mapping of the characteristics of the surrounding political system is critical to a better understanding of the profession-state axis. A closer analysis of the state-profession axis within its historical environment is crucial to better theorize the drivers of professionalization projects (Macdonald, 1985; Willmott, 1986; Chua and Poullaos, 1993). Bearing in mind the uniqueness of each country, the national context and the colonial heritage significantly affect the starting position of local professionalization projects. For example, professionalization projects influenced by the Anglo-American model, in general, have executed their intended feats by successfully lobbying for the approval of the state (Chua and Poullaos, 1993, 1998, 2002). On the one hand, in the Anglo-American context, the State was viewed in terms of being either a friend or a foe, whose final ratification marks the success or the failure of the professionalization project (Dyball *et al.*, 2007). Chua and Poullaos (1998) highlighted the degree of autonomy in emerging professionalization projects in self-governing colonies and their pursuit of the empire's ratification, such as in Australia and Canada. On the other hand, in the continental European model, the state was involved throughout the accounting professionalization projects, to varying degrees (Ballas, 1998; Ramirez, 2001; De Beelde, 2002). For instance, the Greek state revived a professionalization project in the early 1950s to serve as a tool for social management, in addition to its basic

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function as a tool of financial control (Ballas, 1998). In Germany, the professionalization project relied heavily on the integration and co-operation between the state, the profession and the education system (McClelland, 1990; Coenenberg *et al.*, 2000). In France, the state assumed an architectural role for the accounting position; it did not directly intervene with the profession but, rather, “*constructed a formal ring fence around it and placed the professional institution in the centre of it*” (Ramirez, 2001, p.415).

In summary, although the colonial heritage has affected the state-profession axis, especially at early stages, the degree of State intervention, whether through initiation of the project or setting the operating parameters for the profession, has varied across Europe, as well as some colonies and centrally planned countries (De Beelde, 2002; Poullaos and Sian, 2010; Agrizzi and Sian, 2015). However, this central role of the State in the professionalization project is now increasingly challenged by the rising influence of transnational regulatory arrangements favouring the Anglo-American professional model.

3.3.3 Cultural Political Economy Framework and the profession in developing countries

Richardson (2017, p.10) argued that the underlying motive in the interdependent dynamic between the state and the profession is a reciprocal one; a relationship that can be described as “corporatism”. On the one hand, the profession enhances its status through the State’s ratification of its closure strategy, while on the other hand, the state distances itself from problematic issues related to accounting by delegating them to the designated experts (i.e. the profession) (Dedoulis and Caramanis, 2007; Richardson, 2017). Nonetheless, this view is modeled on the concept of a “modernist” state, which is “*interdependent with but separate from the institutions of the community, market, and the accounting profession*” (Puxty *et al.*, 1987; Dyball *et al.*, 2007, p.419). This notion assumes the presence of a stable political and economic environment, a strong profession and well-established institutions (e.g. educational and regulatory), thus allowing varying degrees of functional interdependence between the state and the profession (with a greater autonomy in the Anglo-American model).

The above assumption about the state-profession dynamics might hold true in the context of developed countries, but it is challenging to assume a similar situation in a developing country’s context. Most developing countries are prone to stages of political instability, regime change and economic crisis, consequently affecting national accounting policies and accounting professionalization projects (Hopper *et al.*, 2016). At each politico-economic stage, the state-profession dynamic is adjusted to reflect shifts in the State’s political agenda, sources of capital

and, consequently, in the professionalization process, by instigating new closure strategies. The profession is now expected to qualify accountants/auditors reflecting certain characteristics, which serve the State's new agenda (for example, in terms of numbers, natives, technical knowledge, and type: financial accountants, auditors, cost accountants). In developing countries, the role of the state apparatus is central, prominent (Uche, 2002), and can be deeply fused with the fabric of the profession. Chua and Poullaos (1998, p.157) advocated an examination of the embeddedness of the professionalization process as an "*ongoing struggle in the economic, social and political sphere*". Particularly in the case of developing countries, the politico- economic regime may not be the same.

3.3.3.1 Cultural political economy framework

Taking all of the above factors into account, this paper incorporates the cultural political economy framework devised by Hopper *et al.* (2009) to examine the transitions in the state-profession axis in Egypt from 1946 to 2016. The cultural political economy framework identifies three main regimes, colonialism, state capitalism, and market capitalism, in developing countries and presents a dialectic explanation to how a pattern social, economic, and political factors shape management accounting in developing countries (Hopper *et al.*, 2009). Although Hopper *et al.* (2009) modelled this framework to analyse changes in management accounting systems in developing countries, it sets out an analytical tool to analyse changes in the accounting profession through different regimes. Among the several contextual factors identified for each of the three main regimes, this research considers factors related to politics, international finance and capital markets, the state, regulation and law and, finally, ethnicity/nativism (Hopper *et al.*, 2009). The colonial regimes are characterized by imperialistic policies, dominance of colonial capital, minimal state regulation, and locals' marginalization (Hopper *et al.*, 2009). Relatedly, the professionalization literature has highlighted the influence of these colonial contextual factors on the local profession, for instance, in terms of nativism/race, (Sian, 2006), and capital (Annisette, 1999).

3.3.3.2 Patterns of Anglo-American influence

During the post- colonization and the globalization eras, accounting professionalization projects in developing countries, particularly former British colonies, have followed an almost similar pattern through their transition into different political-economy regimes: pre-independence/colonization, post-independence, often as state-capitalism first, followed by market capitalism (Poullaos and Uche, 2012). However, more recently, a new transnational regulatory regime has emerged (Hopper *et al.*, 2009; Gillis *et al.*, 2014). This overarching pattern starts with the movement of British capital, in settler and non-setters colonies, accompanied by a hegemony of the British

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accounting profession (Sian, 2006). The Anglo-American professional associations diffused their model by branding and designating their name (Parker, 2005), and their qualifications, and in doing so enabled their members to dominate the local profession (Getie Mihret *et al.*, 2012). At the time, members of the U.K. bodies were predominantly white males, due to some visible and invisible barriers related to race, language, education and culture (Poullaos and Uche, 2012). Few natives possessed the necessary level of education and financial means to obtain an accounting qualification from the U.K. (Poullaos and Sian, 2010).

During the 1950s' and 1960s' colonial regimes in developing countries were often replaced by state regimes. State regimes often adopt industrialization programs, establishing centrally-planned polices, enacting strong regulation, and focusing on nationalism, but often lack capital sources and strong capital markets (Hopper *et al.*, 2009; Hopper *et al.*, 2016). The post-independence period led to the birth of the indigenous professionalization project through the establishment of a national professional body, often state-sponsored, and relying on the inputs of the few natives that were members of Anglo-American professional bodies (Uche, 2002; Poullaos and Uche, 2012). This is followed by the issuing of legislation to repeal residual aspects of colonial closure on the profession, with the objective of qualifying more native accountants/auditors (Sian, 2006; Getie Mihret *et al.*, 2012). Macdonald (1995) suggested that the professionalization projects are initiated in societies governed by a "dominant" state lacked autonomy. Brazil serves as another example, where the heavy handed state employed accounting syndicates to serve its agenda (Agrizzi and Sian, 2015). Although, such regimes initially improved the economy in general, and the indigenous professionalization project in particular, their continuity seemed "utopian" (Hopper *et al.*, 2009; Hopper *et al.*, 2016). For various socio- and politico-economic reasons, this ideal state regime often evolved into a politicised state capitalist context, characterized by dominance of one party, dysfunctional state apparatus, disregard of existent legal structure and mechanisms, divisions heightened on the basis of political affiliation, and fiscal crisis, leading to dependency on external loans (Hopper *et al.*, 2009). Consequently, these institutional dysfunctions resulted in hindering the development of the indigenous profession (Uche, 2002; Poullaos and Uche, 2012). This regime preferred to have a significant power in the steering of professional occupations, through the control of professional syndicates/associations, and with lesser concern as to the functional benefits of a well-trained and structured professional accounting body. Poullaos and Uche (2012) highlighted a pattern of decline in the role of indigenous professions in favour of Anglo-American professional associations. This pattern has been identified across several developing countries, such as Kenya (Sian, 2006), Nigeria (Uche, 2002) Trinidad and Tobago (Annisette, 1999), and Ethiopia (Getie Mihret *et al.*, 2012), either at a

later stage of the centrally-planned regime or upon entering the market economy stage (Poullaos and Uche, 2012)

Given the weak state of the economy, many developing countries transform into the third regime: market capitalism. Developing countries under market capitalism are pressurised to adopt certain development polices and economic reform programs, dictated by international financers (IMF, World Bank & foreign aid agencies). Market capitalism is characterized by adopting privatization polices, limiting government control, and attracting foreign investment by restructuring capital markets (Hopper *et al.*, 2009; Hopper *et al.*, 2016). These changes, particularly the flow of foreign capital, led to the re-emergence of the Anglo-American profession in the financial markets of developing countries (Richardson, 2017), often through development and capacity-building programs (L. Catchpowle, 1998; Hopper *et al.*, 2016). These economic reforms and the accompanying accounting reforms necessitated the involvement of free market experts (the Big Four).

3.3.3.3 The Restabilising of the Anglo-American influence

The Anglo-American profession regained its influence in developing countries through several axes. Firstly, the Anglo-American profession (e.g. the Association of Chartered Certified Accountants (ACCA) sustained a central role in the certification process in Trinidad and Tobago (Annisette, 1999), Jamaica (Bakre, 2005), Ghana and Sierra Leone (Poullaos and Uche, 2012). Secondly, through capacity-building projects and partnership programs, typically financed by the World Bank (WB), the Anglo-American profession managed to extend its model, systems and values in developing countries (Hopper *et al.*, 2016). Thirdly, the increasing commercialization of the profession, led by the Big Four and the push towards “global credentials” by transnational organizations⁷, reveal the intent to harmonize the global profession based on the Anglo-American model (Cooper and Robson, 2006; Loft *et al.*, 2006; Siddiqui, 2012). Gillis *et al.* (2014) argued that the emergence of transnational regulations would bring further transitions to local professionalization projects, and they called for an examination of the mechanisms of such transitions and the role of the Anglo-American profession.

Finally, the Anglo-American profession regained its influence on the profession in developing countries through development programs, under the assumption of improving professional and economic capacity (Perera, 2012; Hopper *et al.*, 2016). However, these one-size-fits-all development reforms often face the internal dynamics of the local professionalization project,

⁷ i.e. The International Federation of Accountants (IFAC) & The World Trade Organization (WTO)

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which remain a unique product of their social-economic and political contexts (Chua and Poullaos, 1998; Ramirez, 2007). The local professionalization project responds to the state-profession dynamic, which, in turn, is affected by both internal and external politico-economic factors. In a colonial regime, the Anglo-American profession practices its dominance as a representative of the imperial capital. Under state capitalism, the indigenous profession emerges. The state fosters the local professionalization project, often assuming the role of the initiator in a closure strategy, if it serves its agenda. The proposed closure strategy could also benefit a selected class of professionals favoured by the state apparatus. This intervention negatively affects the ability of accounting firms, professionals and organisations to respond appropriately to contemporary changes in accounting and auditing practice. In turn, the priority of the newly favoured class would be to accommodate the needs of the state apparatus, while the development of the profession would come second. Consequently, neither the state nor the local profession are equipped to accommodate the requirements of the new market capitalism regime. Hence, the inexperience of local actors with the free market system facilitated the return of the Anglo-American profession to claim an important role in the local professionalization project. A further complication occurs when there are legal constraints, and conflict of interests between different state apparatus, which the Egyptian case seeks to illustrate, as detailed below. In the next sections, this paper presents a detailed account of the development of the Egyptian profession, by constantly comparing and contrasting the historical benchmarks regarding their implication for the state-profession dynamics.

3.4 The Egyptian professionalization project

3.4.1 Politico-economic background (pre-independence regime)

The British occupation of Egypt started in 1882, and in 1883, the Egyptian ruler Khedive Tewfiq issued a Commercial law which, governed the formation and operations of companies in Egypt and required the use of accounting records (Farag, 2009). The Alexandria and Cairo Stock exchanges were established in 1888, and 1903, respectively (Mecagni and Sourial, 1999). After the first World War, British and foreign businesses were flourishing, and foreign expatriates, mainly British nationals, followed the economic opportunities and settled in Egypt (Kayed, 1990). Following the revolution in 1919, Egypt was declared independent⁸ and established a

⁸ The 1922's independence declaration was in a nominal in a form, conditioned by "four reserved points" granting control to Britain on: 1) the Suez Canal 2) the Egyptian defence policy 3) the Sudanese territories 4) the protection of foreign interests and minorities in Egypt (Goldschmidt Jr, 2008). Amid the rise of tension

constitutional monarchy, yet, in reality, there was a sharing of power between the monarchy, the British, and the new parliament (Abdalla, 2008; Goldschmidt Jr, 2008). The British and the Egyptian monarchy continued to intervene and plot to offset confrontational nationalist governments (Brownlee, 2008), who regarded the independence as incomplete, and merely allowing "*Egyptian representatives a measure of power-sharing with the British authorities*" (Abdalla, 2008, p.1).

By the end of the second World War, the Egyptian economy was prosperous, even lending the British government £400 million pound by 1945 (Louis, 1984; Goldschmidt Jr, 2008, p.132). The Egyptian economy's private sector was of considerable size at that time and included competing foreign and emerging Egyptian companies (Ikram, 2007). During the 1930's and 1940's, Egyptian governments attempted to enact legislation limiting favourable treatment of foreign nationals and companies (McDougall, 1949; Davis, 2014). The Income tax law (no.14/1939) required companies to present their financial statements, which surged the need for accounting and auditing professionals (Dahawy, 2004). At that time of private ownership dominance, companies whose capital exceeded one thousand Egyptian pounds were required to audit their financial statements (Kayed, 1990). The financial statements of foreign companies operating in Egypt were prepared according to the accounting norms of their respective countries (Farag, 2009). In the case of public companies where the governments owns 25% or more, representatives from the State Audit Bureau were appointed to conduct the audit (Mohamed and Habib, 2013). The State Audit Bureau conducted its audit according to its own procedures on governmental entities, comparable to Exchequer and Audit Department in the U.K. (Mohamed and Habib, 2013). Overall, the British accounting system left its imprint on the accounting system in Egypt (Briston and El-Ashker, 1984). British expatriates continued to have a significant degree of domination of the profession in Egypt (Barsum and Abdel-Aziz, 1986). Interviewee No. 4, a managing partner at a long established firm and ex board member at ESAA added: "*In Egypt, The vast majority of our pioneer auditors and academics received their education in Great Britain*". The spark of local professionalization in Egypt came in 1946, with the creation of the Egyptian Society of Accountants and Auditors (ESAA), which appeared to be an attempt to overcome the British influence. It can be argued that, although the Egyptian profession pursued to establish its own model, the British model footprints remained clearly visible.

in Europe, the Anglo-Egyptian treaty was signed declaring Egypt independence in return for British military presence in the Suez Canal (Goldschmidt Jr, 2008).

3.4.2 The Egyptian Society of Accountants and Auditors (ESAA)

The ESAA was established by a royal decree in 1946, with the name of "*The Royal Egyptian Society for Accountants and Auditors*" (Royal Decree, 1946). The ESAA's mission, as stated in the establishing decree, is to regulate the accounting and auditing profession and to maintain its quality (Royal Decree, 1946, sec. 2). The ESAA was heavily influenced by the British model (Abd-Elsalam, 1999; Farag, 2009). Fourteen of the sixteen members of the ESAA's first board named in the royal decree, were also members of the Institute of Chartered Accountants of England and Wales (ICAEW). The society's bylaws required that, of its sixteen board members, at least nine had to be Egyptian nationals (Royal Decree, 1946, sec 7.). Furthermore, members of English institutes of chartered and incorporated institutes were accepted as ESAA members, if they resided in Egypt. Interviewee No. 6, an ESAA ex-board member commented on ESAA's admission requirements: "*ESAA tried to imitate their British counterpart as much as possible. They regarded it as the best model to follow*". Membership of the ESAA was open to business graduates, who had spent a three year training period at the audit firms of ESAA members, and passed the intermediate and final ESAA exams (Royal Decree, 1946). The mimicking of the ESAA certification process and the automatic admission of other British accountants demonstrate their attempts to align with the British model. However, the ESAA sought to establish a degree of local self-autonomy, while maintaining the standards of British professionalism. The ESAA sought to expand its base by waving the experience requirement for certain accountants, such as self-employed accountants or trainees at non-ESAA firms, if received prior to December 31, 1945⁹. The ESAA also allowed admission for accounting professors at Egyptian universities with ten years teaching experience¹⁰. At that time, the stated ESAA membership terms revealed exclusionary strategies to increase, in a selective manner, the number of Egyptians members, without compromising the perceived level of proficiency (All applicants are still required to pass the ESAA examinations).

Since its inception, and throughout different politico-economic regimes, the ESAA maintained its same exclusionary measures. In 2015, the total number of ESAA members was around 2100. This is a small number relative to Egypt's ninety million population and the number of licensed public accountants (around 30,000 registered auditors) (World Bank, 2015a). Interviewee no. 16, a senior auditor at a local audit firms, commented on ESAA membership requirements:

⁹ A) Applicants with 3 years training experience at accounting firms prior to December 31, 1945. B) Applicants who practiced public accounting in their own firms for 5 years prior to December 31, 1945. C) Tax agents/inspectors with 5 years of experience prior to December 31, 1945. D) Accounting consultants at the ministry of justice with 5 years of experience prior to December 31, 1945.

¹⁰ The requirements for membership PhD currently is a 3 years' experience of public accounting experience.

"The requirements to join ESAA is quite challenging. Also the exams are hard. Their training courses are not enough. Their reply is that we are already auditors not students. They forget that I might have audited only small companies"

ESAA membership requirements were seen as barriers to entry by many local auditors,

Interviewee no. 4 an ex-member of the ESAA board replied to such claims:

"I don't think there are entry barriers to the ESAA. You just have to pass the exam. Currently even if you are a CPA or an ACCA, you still have to pass the Egyptian law and taxation examinations. We also changed the rules for PhD holders, requiring three years of practical experience".

In 2004, the ESAA updated its membership requirements. Members of selected international accounting bodies have to pass only two final examinations on Egyptian taxation and law to gain ESAA membership. These institutions were expanded to include non-British associations: The Institute of Chartered Accountants in England and Wales (ICAEW), The Association of Chartered Certified Accountants (ACCA), The American Institute of CPA's (AICPA), The Institute of Chartered Accountants of Scotland (ICAS), Chartered Accountants Ireland (ICAI), and The Canadian Institute Of Chartered Accountants (CICA). Interviewee No. 2, another ex-ESAA board member, also commented on relaxing ESAA membership requirements:

"The ESAA have taken step to widen its base... and there are plenty of motives to join the ESAA, the membership in itself is a form of differentiation. For example, since the inception of the ESAA and up until 2004, the ESAA only acknowledged training period spent at an ESAA's member firm. "

In 2004, the ESAA changed the required the conditions of the training period. Now, the training period can be supervised by a non-ESAA member, given that this firm is registered with the ESAA. The ESAA bylaws demonstrate an imitation of the Anglo-American professional model, which retained its British ties, similar to what (Chua and Poullaos, 2002) revealed in the professionalization project in self-governed colonies, such as Australia, Canada and South Africa. However, a significant difference in the ESAA professionalization process is the autonomy the ESAA enjoyed, which allowed more control and the inclusion of qualified Egyptians.

The final step in the closure strategy (i.e. accounting practice law) was issued five years after the ESAA's establishment. In 1951, while the Kingdom of Egypt was still under British influence, the King ratified law No.133, issued by the 1950's nationalist majority parliament, regulating the practice of accounting and auditing professions in Egypt. This law, which managed to survive different politico-economic regimes, is still valid to this day, thereby effectively making it the main tool used to steer the professionalization project in different directions depending on the State's politico-economic orientation.

3.4.3 The Accounting/Auditing practice Law 133/1951

In 1950, El Wafd, a nationalist liberal political party, won the majority in the first free election in eight years (Gordon, 1989). The Wafd government enacted a series of social and economic reforms, increased funding for education, passed a social security law, and campaigned to oust the remaining British troops in Suez Canal (Gordon, 1989). In 1951, amid such tensions, the accounting practice law 133/1951 was issued. Although the ESAA establishment was the first step in achieving professionalization closure, the subsequent legislation enforcing closure did not grant the ESAA exclusive rights. The issuance of the practice law represented a *revolutionary usurpationary* closure strategy, aiming to change the balance in favour of Egyptian nationals. Law 133/1951 attempted to break foreign dominance over the profession by restricting the practice only to Egyptian nationals. At firm level, the law restricted the replacement of a foreign auditor by another in Egyptian auditing firms¹¹. The law still permitted the practice of foreign expatriates, who were already working in Egypt, or an ESAA member at the time (Law 133, 1951, sec 3, p.1,2).

Law 133 was a clear statement to challenge the dominance of the British profession. For example, the law established a Registry of Accountants and Auditors at the Ministry of Finance, setting certain criteria to practice. The registration requirements appear to be mainly related to educational and practical experience. Law 133/1951 stated three alternative routes for Egyptians to obtain certification to practice and be included in the registry. The first route was through the ESAA. The law allowed ESAA members an automatic transfer to public accounting practice registry (Law 133, 1951, sec. 11). The second route was for accounting and auditor practitioners and was merely based on experience and training criteria. Following a three years training at an accounting firm, it is normally permitted that an accounting bachelor degree holder will be authorized to audit all types of business entities, except corporations. The right to audit corporations is granted after an additional five years of practice (Law 133, 1951, sec. 25). The third route was central to the Egyptian professionalization project, since its implications have had an extended effect on the number and quality of Egyptian practitioners. The law accepts in lieu of the previously stated professional training period (3+5 years), work experience in "*Equivalent occupations*"¹² (Law 133, 1951, sec 9). Based on this exemption, equivalent occupations' applicants, such as tax agents, can

¹¹ 1. The replacement auditor must be an ESAA member at the time of the law enactment. 2. The percentage of Egyptians members should be at least fifty percent. 3. The laws of the foreign auditor's country allows reciprocity in the registration of accountants and auditors.

¹² Equivalent occupations include: a) Central Auditing Organization's auditor, b) Tax authority agents, c) Accounting teachers at public educational institutes, d) Chief accountants at any public and governmental organizations (Law 133, 1951).

be registered and allowed to practice without practical experience or having passed an examination in public accounting (Law 133, 1951, sec. 10).

The accounting practice law 133/1951 demonstrates the power of the state in shaping the national professionalization project. Typically, in the Anglo-American model, issuing the accounting practice law is the final step towards closure for a professional association, who have lobbied for exclusive rights. However, law 133 steered the Egyptian professionalization process to produce three distinctive types of professional, all with the same rights and duties. They range from an ESAA practitioner, who is product of an Anglo-American model that depends on examinations and practical training, to a public accountant, licensed under the third route. The *"Equivalent occupations"* clause gave the privilege of practice to a vocation related to accounting, but many such practitioners have not been involved in any form of public accounting experience. By enacting this law, it can be argued that the government successfully achieved its aim of a *revolutionary usurpationary closure*.

In the early 1950s, the government believed that accounting experience from *"Equivalent occupations"* was sufficient to adequately perform the duties of an auditor and, effectively, the law managed to break foreign domination over the auditing profession. When asked about the rationale for the government to include *"Equivalent occupations"*, Interviewee No. 15, an accounting professor with over 30 years of experience, explained:

"After accumulating a few years of work experience at the Tax Authority, an agent can resign or retire and obtain the certification to become a Public accountant. The local priority was always for tax issues. They allowed alternative occupations to be certified to resolve tax conflicts with the Tax Authority. The auditing process was mainly conducted to serve compliance to regulations including tax laws".

Additionally, it could be argued that, at this period, the business transactions were simpler and did not require extensive auditing experience. By issuing law 133/1951, the government achieved two objectives. Firstly, it can be inferred that the primary objective of this law was to *Egyptianize* the auditing profession, through the Equivalent Occupations route. Secondly, the law also rewarded the Egyptian state's apparatus employees (tax officials) by providing a pensionable job as public accountants. The law also established some degree of governmental control, through enacting organizational bylaws and establishing registration procedures through the Ministry of Finance.

In summary, the issuance of law 133 was not a product of ESAA lobbying, as classically witnessed in the Anglo-American professionalization model. The law was a product of the wider nationalist political environment at that time, and served to change state-profession access in accordance with the government agenda at the time. The Egyptian professionalization project in the pre-independence regime involved two stages. At the start, the Anglo-American profession

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dominated the scene. By the late 1940's, the ESAA establishment had demonstrated an attempt to enact a professionalization project similar to the Anglo-American model in self-governing colonies. Law 133 was used by the Egyptian government of 1950 to counter ESAA's attempts, by applying *revolutionary usurpationary closure* to serve its nationalist agenda. However, the same clauses that worked in favour of the national professionalization project could also have had adverse effects on the state-profession axis in subsequent times. Interviewee no.5 commented on the consequences of the equivalent occupations: "*The market is now flooded with accountants certified through that clause*". This statement was also concurred with by interviewee no. 3. Currently, the Ministry of Finance registry comprises a total number of around 30,000 members (Wahdan, 2005; Samaha and Hegazy, 2010). In the next sections, the paper reveals the state-profession dynamics in two different politico-economic regimes, state capitalism (1952-1974) and market capitalism (1974-2004). Additionally the paper examines the recent developments within the newly emerged transnational regulatory regime (2004-2015). Each section starts by providing a politico-economy background, followed by a discussion of the state-profession axis, and the changes in the Egyptian professionalization project.

3.5 The Egyptian professionalization under State capitalism (1952-1974)

The 1952 revolution brought fundamental changes to the country's political and economic system, which reflected on the Egyptian professionalization project. In 1956, the government adopted a centrally planned economic approach, where the majority of the private sector, which accounted for 72%- 90% of the Egyptian economy's total investments, was nationalized (Kollaritsch, 1965; Amer, 1969; Zohny, 2000). The Egyptian state at this time executed major changes to all national institutions to reflect the new socialist approach. This was reflected by fundamental changes in the Egyptian accounting model. In 1964¹³, The Central Accounting Organization (CAO) was established to plan future budgets and control public funds (Hassan, 2008a; Mohamed and Habib, 2013). The CAO became the responsible entity for auditing all public entities, and governmental entities, which became the dominant economic sector in Egypt (Farag, 2009). The newly created CAO was given the privilege to issue the accounting and auditing standards that would fit the needs of a centrally planned nation (Kayed, 1990).

¹³ According to law no. 52 (1946), the State Audit Bureau was responsible for auditing public institutions, which is comparable to the UK's Exchequer and audit department (Mohamed and Habib, 2013). Following the nationalization of the private sector, the government established "Public Organizations" to manage nationalized companies. According to Kayed (1990), some chartered accountants accepted employment at the Public organization's Accounting Control Board as salaried employees.

In 1967, the CAO created the Uniform Accounting System (UAS), to be applied to all governmental and public organizations. It was created to serve the national planning objective by supplying accounting information in a comparable and uniform output. The UAS dictated a unified rigid chart of accounts that should be used in each economic unit across all industries and segments. The government considered any public company or government organization performing an economic activity to be an "economic unit". The aim was to tie the micro level economic units' accounts to the macro national accounts, using the same unified system. The rigid UAS served as an internal financial reporting machine to produce uniform accounting information. For example, regarding cost accounting, the UAS listed only five aggregate cost centres' accounts to be used in accounting systems, namely, production, production services, administration and finance, marketing, and capital transactions cost centres. The UAS had rigid definitions of what was to be included in each cost centre. Each economic entity had to tailor its cost system to fit the UAS boundaries and pre-determined coded accounts. Interviewee No. 15 commented on the effect of UAS on the Egyptian profession;

"The application of the UAS negatively affected the ability of Egyptian accountants to be creative and innovative. You had to stick with the five cost centres only. When the UAS was issued on 1966, it was supposed to be followed by a cost accounting system for each sector, but the war broke out in 1967".

The implementation of the centrally-planned regime consequently affected accounting education, switching the focus of teaching accounting at universities to UAS (Amer *et al.*, 1979; Hassan, 2008b). Consistent with other centrally planned economies, such as China, the Czech Republic and Ethiopia, the government became the biggest employer of accountants and auditors, according to its newly-tailored needs (Seal *et al.*, 1996; Ping Hao, 1999; Getie Mihret *et al.*, 2012). The new socialist regime attempted to control professional groups through the creation of professional syndicates (Youssef, 2003). In 1955, the Syndicate for accountants and auditors was established in an attempt to further regulate the profession. The state issued the Private Associations and Foundations Association law no 32/1964, which effectively placed civil society under governmental control and, consequently, disbanded the ESAA (Springborg, 1978; Farag, 2009). Moreover, in 1972, The Syndicate for Commercial Professions (SCP) was established and the Syndicate for Accountants and Auditors was subsumed within the new Syndicate. The membership of the SCP was open to any graduate business, management or economics graduates. Interviewee No. 10, a managing auditing partner at a large local firm, added:

"The current Syndicate was established to include all commercial professions. We were underrepresented with the Syndicate's current structure. We needed to have a separate syndicate for accountants and auditors to include of all our professionals".

For business degree graduates, syndicate membership is a matter of filling in some basic paperwork, an administrative process with no further examination or certification. During this

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period, most Syndicate members joined it for the pension they would receive after retirement, together with some social benefits (Springborg, 1978). In contrast, all accountants and auditors were organized through the SCP, in terms of administration, with no real involvement in professional matters. The SCP failed to position itself as a powerful interest group for the accountants and auditors for the following reasons. Firstly, the SCP includes a broad range of "commercial" professions, not only accountants and auditors, and has to take into consideration the concerns of other commercial professions. Secondly, the financial resources of the SCP allocated for professional matters were limited. Interviewee No. 3, an audit partner and an ex-official at the SCP, commented

"Accountants and auditors represented a small percentage of the commercial syndicate's members since its inception and until today. It [the SCP] consists of approximately at least 750,000 members now, Accountants and auditors are about 30,000 members."

Interviewee No. 6 further explained the implications of these numbers on the SCP's operation:

"When you have that amount of people vs the limited resources, then the technical development of the profession would not be an attainable priority for the Syndicate. The social and financial programs for its members would be more important."

Agrizzi and Sian (2015) revealed a similar experience in Brazil, where the authoritarian government employed accounting associations/syndications to serve as its adjuncts in extending and legitimizing state polices and, as a result, the accounting and auditing profession, by being subsumed within such a large of body of business professionals, lost its revolutionary exclusionary status they had achieved initially as part of the reforms in the 1950s. Kayed (1990, p.311) attributed the failure of the SCP to contribute to the professional research and development of the accounting profession to two reasons: firstly, the inability of the SCP to exercise its regulatory role amid the government's exclusivity on issuing regulations, and, secondly, there was "*a feeling that the establishment of a truly professional body might be regarded as a political activity; a professional body might be regarded as a political activity*". Moreover, Dahawy *et al.* (2002, p.211) highlighted the effect of the UAS on transforming Egyptian professionals merely into "*technicians who applied the rules*".

In effect, the initial strategy of professional closure, together with its shortcomings, was repealed by the State, whilst maintaining a fig leaf of professionalization through routes two and three. During the 1960s, the existence of the newly created public sector and the nationalization of private companies changed the employment destination of accounting professionals. Many of the private sector accountants and auditors switched employers to the CAO, which became the largest employer of accountants and auditors in Egypt (Kollaritsch, 1965; Amer *et al.*, 1979; Briston and El-Ashker, 1984; Hassan, 2008a). Interviewee No. 6 commented on the presence of British firms and professionals: "*All the foreign auditors left Egypt around 1956. There was no*

reason to stay after the nationalization policies". Many Egyptian auditors moved their practices to other Arab countries and, by 1965, most of the international auditing firms had left Egypt (Abd-Elsalam, 1999; Zerban, 2002; Hassan, 2008b). Nationalization effectively froze the auditing profession in Egypt (Amer, 1969; Renshall, 1981; Kayed, 1990; Hassan, 2008a). At the time, an auditor could be classified into two main categories: a majority of auditors who were employed by the CAO and a minority who were employed by small private firms, mainly concerned with tax issues for the remaining private sector companies (Kayed, 1990; Hassan, 2008b; Farag, 2009).

Although the fundamental changes to the economy supplied the government with the type of accountants it needed, it is argued that those changes significantly undermined the development of the Egyptian profession. During this state capitalism regime, the state effectively eliminated the Anglo-American profession from the state-profession axis. The SCP was an attempt to replace the ESAA. It presented an alternative body to the Anglo-American professional model, which was controlled by the state, a form of a state sponsored professionalization project. The state encouraged the continuation of the *revolutionary usurpationary* closure initiated by law 133/1951, by diluting the state controlled syndicate of accountants and auditors into the larger cluster of professionals represented in the SCP (Longuenesse, 2009). Arguably, the rigid uniform governmental accounting model (UAS) changed the Egyptian auditors' mind-set towards the concept of auditing as a tick-box perception. With the vast majority employed in the public sector or the CAO, a standardized rigid governmental accounting approach flourished on the account of public accounting. Consequently, one might argue that this mind-set negatively affected any later attempts for development (i.e. local standards-setting). The focus of this politico-economic regime was building national capacity, and the national professionalization project followed. The domination of the Egyptian state in the economy necessitated a corresponding, centrally-planned, professional association (SCP) and body (CAO).

3.6 The Egyptian professionalization project under the "Open doors policy" (1974-2004)

Following the 1973 war, Egypt switched its political orientation to the West, and attempted to reform the economic agenda. In 1974, the government passed a law known as the "Open doors Policy", aimed at attracting foreign investors and companies by relaxing some of the rigid socialist rules and introducing more free-market-related legislation (Hassan, 2008b). However, the government maintained a firm grip over market regulations (Elleithy and Nixson, 1998). In 1977, the Ministry of Social affairs issued Decree no. 2280 to reinstate the ESAA, which had been disbanded in 1964 (Farag, 2009). Despite being a professional association, the ESAA was,

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however, reinstated as a non-governmental organization (NGO), subject to the same rules as NGOs¹⁴.

Following the 1979 Camp David Accord, substantial amounts of foreign investment and aid from various international organizations flowed into Egypt, which partially led to the development of the auditing profession in Egypt. According to the Accord, Egypt received around 2 billion dollars per year of U.S aid (Carana, 2002; Momani, 2003). In the early 1980's, the ESAA and the SCP held two major international conferences on the development of the profession. The conferences included speakers from the Big Eight, academics from the UK and the U.S, and governmental officials and experts, who called for the adoption of international standards and the development of training programs (Samuels and Oliga, 1982; Kayed, 1990). At the time, most auditors were not interested in international accountant standards. As an outcome of these conferences, the Egyptian Institute for Accountants and Auditors (EIAA) was established through an initial funding from the USAID, to create an *Independent Board for Accounting and Auditing standards* and to provide training programs (Kayed, 1990). Responding to pressure from the WB and the IMF in 1992, the EIAA issued 20 new Egyptian Accounting Standards (EAS), which were prepared following a due process, including a wide range of stakeholders. However, at the time of issuing, they were already five years out of date (Abd-Elsalam, 1999). The newly created board included members of the CAO, the ESAA, the Central Bank, other government officials and academics. However, due to a lack of funding after the USAID funding was exhausted and because of additional legal issues, the EIAA activities were placed on hold (Kayed, 1990).

By the mid-1980s, the American government was frustrated with the poor outcome from the substantial amount of aid to Egypt and pressurised the Egyptian government to take more serious steps towards market liberation (Momani, 2003). Following similar pressure from the IMF and the World Bank, Egypt initiated another round of economic reforms targeting the financial markets, and implemented aggressive privatization policies (Zohny, 2000). In 1992, the Egyptian government issued a new Capital Markets Law, which revived the frozen stock market.

Interviewee No. 4 commented, "*There was an urgent necessity to issue a new law. The law directly affects the quality of financial reports and this was something critical for a country that wants to present itself properly to foreign investors*". These reforms encouraged the creation of new strong private sector entities owned by both foreigners and Egyptians. The growing private sector increased the demand for public accountants. However, the Egyptian professionalization

¹⁴ The ESAA was reinstated under the Civil and Private Association law, which places some restrictions on the rules governing the entry and the dismissal of citizen who joined the association (cited from Interviewee no. 6)

process still produced different classes of public accountants (i.e. three routes). Interviewee No. 6 commented on the work quality of the Egyptian professionals at the time: "*The quality of financial statements produced by them [Equivalent occupations] is low, they are used to governmental accounting*". Consequently, the flow of foreign capital was followed by the return of international audit firms to the Egyptian Market (Kayed, 1990; Longuenesse, 2009). Interviewee no. 10 commented on the return of Anglo-American firms: "*They are present and dominating the market. Although, law 133 grants the right to practice accounting and auditing to Egyptian nationals only, as individuals [but] not firms*". The Big Eight firms at the time reinstated their alliances with their old Egyptian partners who survived the socialist era, while others sought to establish new alliances with Egyptian practitioners of well-established firms.

In summary, Egypt's transformation to a market economy led to a significant switch in the state-profession dynamic, in favour of the Anglo-American model. The changes in the capital market and the entry of multinational companies highlighted the inability of the state sponsored professionalization project (i.e. SCP) to produce adequate professional calibre. This exposed the fact that the accounting and auditing profession in Egypt was lagging behind. Several development programs were sponsored by the IMF and USAID, in collaboration with the government, to develop the profession, but with no, or little, effect (Richards, 1991; Abd-Elsalam, 1999; Zaki, 2001). The consequences of the rigid UAS was reflected in the ability of Egyptian professionals to apply international standards that required the application of professional judgement (Dahawy *et al.*, 2002) The state's acknowledgment of this issue was reflected in the EIAA's establishment and the reinstatement of the ESAA. The Egyptian government realized the importance of a professionalization project that is independent from the state. The following is an example of the shift in the state-profession axis during the regime. Until the early 1990s, the public sector companies had to follow the Uniform Accounting System (UAS), while the private companies had to follow the vaguely defined Generally Accepted Accounting principles. The restructuring of the capital markets in 1997 demanded new Egyptian Accounting Standards (EAS) that were more consistent with IAS (Abd-Elsalam, 1999; Wahdan, 2005; Farag, 2009). The Egyptian government realized that it would have to rely on the Anglo-American profession to bridge the gap. The Egyptian government formed a standards setting committee, headed by the Minister of Finance, and including representatives from the Capital Market Authority (CMA), CAO, the EIAA and the ESAA¹⁵. The state maintained a structure that implies government control, but the ESAA assumed the main role in drafting the new Egyptian standards (UNCTAD, 2008).

Interviewee no. 4, commented on the role of the ESAA in drafting the first Egyptian standards:

¹⁵ The Egyptian Society of Accountants and Auditors (ESAA) joined IFAC in 1980 (ESAA, 2016b)

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"The government needed to "Egyptianize" the international standards, ESAA was supposed to have a supporting role only, but in fact ESAA did all the homework"

This politico-economic stage appeared to reinstall some kind of balance between the state and the profession. However, the development of the profession was still hindered by the lack of political will, limited funding and the constraints levied by law 133/1951.

3.7 Recent developments (2004-2016)

3.7.1 The 2004 proposed accounting profession law

The Egyptian state realized that the expiry of its closure tool (law 133/1951), which was needed to serve its economic agenda. In fact, the discussion mentioned above demonstrates that this realization came as early as the mid-1980's, but with no concrete action taken to change the law. The World Bank highlighted the delay in updating the Egyptian profession law: *"The draft of a new Accounting Practice Law has been under discussion for about five years. The delay in finalizing a new Accounting Practice Law has stalled efforts to improve accounting and auditing practices."* (World Bank, 2002, p.1). In 2004, the new government presented a new professional law to the parliament for debate. The proposed law was drafted and sponsored by the Ministry of Finance, the ESAA, and other related parties. It introduced fundamental changes, such as the creation of an accounting oversight board, and mandatory examinations and practical experience for licensure. It also retained certain privileges for the ESAA regarding the recognition of its certification process, granting its members the right to audit corporations. Interviewee No. 3 commented on the main changes:

"The new proposed law raised many controversial points. It allowed the formation of audit firms as limited liability companies. Unlike the old requirements limiting practice to Egyptian certified auditor [as an individual]"

Interviewee No. 6 highlighted another aspect in his view:

"There was fierce debate on who should keep the auditor's registry, the mandatory practical training clause and its application. Also the elimination of the nationality requirement, which is consistent with WTO efforts for free professional entry".

The above quotes draw attention to the importance of examining the proposed changes from an international perspective. Interviewee No. 4 commented on the probability of its issuance:

"The proposed law was backed up by the government and the majority leader of the ruling party. In Egypt, this means that the probability of rejecting it is significantly low. However, there was a heated debate at the parliament".

The state owned Al-Ahram newspaper, the largest circulating newspaper, highlighted the heated debate between the MP's, citing issues such as the entity responsible for registration (e.g. SCP,

Ministry of Finance), the legal structure of audit firms (e.g. individuals, limited liability), and the risk of foreign control over the Egyptian profession (Ali *et al.*, 2004; Eissa, 2004). The government was forced to finally withdraw the proposed law in 2006.

In order to comprehend the underlying causes and the lobbying powers behind the dismissal of the law, the Egyptian profession should be viewed in terms of two key clusters. The first cluster is the main bulk of practitioners in Egypt, who are mainly auditors in small and medium sized firms certified through route one (certification through experience). This cluster also includes professionals benefiting from the “Equivalent occupations” clause, such as tax agents and CAO employees. The main clients for both clusters are small and medium enterprises, who are mainly concerned with the tax aspects. Interviewee No. 6, elaborated on the parties who opposed the law: *“The Syndicate and the CAO were extremely against the new proposed law”*. A few large local audit firms also opposed the law. No. 10, a managing partner at a large local audit firm, commented:

“The overall quality of the profession is declining, we needed and we still need a new profession law that is based on examination. But the proposed law was favouring the ESAA which is dominated by the Big Four firms. The lead partners of the big four firms controlled the presidency of ESAA for the last 30 years. Its executives and board members are often Big Four partners. They are engaged in head hunting of our qualified young auditors. An entity such as the syndicate should oversee the matters of the profession”.

Interviewee No. 6 added, *“The ESAA was perceived by many as a closed circle. Many people did not like the ESAA maintaining its advantageous position in the proposed law.”* Rival smaller accounting and auditing societies can also be added to the resistance camp. They perceived the law as a tool for monopoly by the ESAA and large international firms, and saw the reform as leading to the erosion of the Egyptian profession through the accreditation of foreign accountants and auditors.

The second cluster included the government, the ESAA and auditors of large Egyptian audit firms, mostly affiliated with international firms. This cluster viewed the current law as obsolete and hindering the development of the profession. They strongly backed the new proposed law.

Interviewee No. 3, a partner at one of the international audit firms, explained: *“Without proper certification process and with the existence of an outdated law, the profession is flooded with unqualified people.”* The total number of practitioners currently registered with the Ministry of Finance registry is around 30,000 members, of which only 2,100 are members of the ESAA (World Bank, 2015b; ESAA, 2016b). The ESAA is viewed as a privileged elite (World Bank, 2002), particularly because it retained the right for its members to automatically register with the Ministry of Finance registry. Interviewee No. 1, an ex. board member of ESAA, commented on criticism towards the ESAA’s special treatment: *“Yes, we are special and we should be proud of*

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that. We provide quality audit services. We have the technical resources to do that. We also provide internal training for all our auditors, junior and senior on the updated international standards". Interviewee no. 12 commented on the issue of training:

"Junior auditors at the international firms, especially those in the Big Four are encouraged to pass the ESAA exams to be ESAA members; it's also a shortcut to be able to audit corporations, instead of waiting 8 years".

Interviewee No. 4, who was involved in preparation of the proposed replacement law, added:

"Law 133/1951; grants to the unqualified "Equivalent Occupations" the right to practice. They probably have never issued an audit report before. The proposed law required examination, just like the ACCA and the CPA. Furthermore, whoever is already registered will continue to have the right to practice"

Interviewee No. 3, elaborated on the possible reasons for the opposition of the law: *"It was rejected partially because of the CAO and the syndicate. Equivalent occupations who had plans to practice auditing after retirement were furious. Also the elimination of the nationality requirement did not make people happy".* The ESAA asserts that its members are the most qualified, based on its membership requirements and claims that most of its members work in large audit firms dealing with multinationals and are constantly updated with audit pronouncements and are experienced regarding how audit works in open markets.

The rejection of the law, and most of the controversial debate in the parliament, was based on the issue that the proposed changes would enable foreign domination of the auditing profession (Ali et al., 2004; Eissa, 2004). Interviewee No. 1, an ex-board member at the ESAA, commented on the rejection of the law: *"One of the main problems facing the Egyptian profession now, is the resistance of the unqualified auditors against the qualified"*. Interviewee no. 2 provided a different view on the rejection reasons:

"Yes, the organizational aspects... [e.g. examination created a bit of resistance but it was settled. There was not much of debate on our need for a proper [professionalization] process. The core fight on that law was its implementation as part of the WTO [free movement of business and professional services]. The Big Four, ESAA and the government were in favour. They saw it as a step towards development. The other side argued that it would cause the profession to be controlled by international audit firms, given its current state. They viewed that the local profession should be protected first."

In this regard, Chua and Poullaos (1998) referred to the closure strategy as a dynamic tool that could be used to achieve a monopoly through different strategies across different times. Law 133/1951, which was intended to develop the profession, grew, in time, to be the obstacle to its development. The attempt for *revolutionary usurpationary closure* in 1951 initially succeeded in changing the structure of the accounting and auditing profession. This closure tool opened the doors of the profession, arguably quite widely, for Egyptians, with some negative impact for the quality of the profession. The main consequence of law 133/1951 was that it turned the "Equivalent occupations", the beneficiaries of its *revolutionary usurpationary* strategy, into a

powerful group that managed to successfully lobby against an *exclusionary closure* strategy. The CAO and the SCP assumed the role of a professional association for equivalent occupations by providing entities that can speak on their behalf. Although the CAO and the SCP are controlled by the state, the rejection of the law was not a representation of the state's direction. The situation demonstrates conflicting interests and views within the government. The government and the ESAA aimed to achieve closure, arguing that it was necessary to raise the profession's quality. On the other hand, parts of the state apparatus backed alternative occupations, the EIAA and small-medium firms, resisting such closure, arguing that this is to the detriment of local auditors. The case in Egypt thus contradicts the literature, where it is suggested that professional associations in developing countries, backed up by international support, will prevail (Caramanis, 2002). Interestingly, a pre-independence closure tool, law 133, which was adopted originally to limit the influence of the Anglo-American profession in 1951, managed to do the same in 2004. Unfortunately, this success in protecting the local profession did not stem from its strong professional capacity. The temporary victory of the local forces in the profession can be attributed to two factors: firstly, the shortcomings in the technical knowledge of members of parliament of the nature and requirements for accountancy certification, and secondly, the use of anti-globalisation and pro-nationalistic speech, which proved to be effective, as evidenced by the parliamentary debate published in state-owned newspapers (Ali *et al.*, 2004; Eissa, 2004).

3.7.2 Using EFSA special registry as a selective exclusionary closure tool

As a response to the deteriorating level of the audit profession (World Bank, 2002; UNCTAD, 2008), local regulators, such as the Central Bank of Egypt (CBE), safeguarded themselves by establishing what is locally known as "Special Auditors' Registries". These special registries can be viewed as a counter measure to the failure of the 2004 proposed law. For public enterprises, which had been partially privatized, the CAO kept special registries of auditors, who were allowed to co-audit companies or banks with public ownership of more than 25% of the shares. This closure strategy can be viewed as an exclusionary, but selective, closure, whereby the privileged group of professionals attempt to tighten control on its circle (Uche, 2002; Sian, 2006). However, Special Registries as a closure tool were effectively implemented using administrative means by governmental or regulatory entities, which acted in lieu of the legislation necessary for closure. In the absence of a strong licensure process based on examinations, the motivation for a selective closure came from both the elite auditors and local governmental regulators.

In 2009, law no. 10 established the Egyptian Financial Supervisory Authority (EFSA) to merge the Egyptian Insurance Supervisory Authority, the Capital Market Authority, and the Egyptian Mortgage Finance Authority. Interviewee No. 5 added:

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"After the failure to amend the practice law and the significant decrease in the professional level of Egyptian auditors, major concerns were raised regarding listed and influential companies and the quality of financial reporting in Egypt. Therefore, we established a new registry independent from the one at the Ministry of Finance. This registry has more strict requirements."

Auditors registered with EFSA's registry have the right to audit a wide range of listed companies, and financial institutions, such as mortgage finance companies, and banks' investment funds. The requirements for registration include several additional requirements related the auditor, as a well as his/her firm¹⁶. Among the auditor's requirements¹⁷, the applicant must meet one of the following conditions: either be an ESAA member, a member of an equivalent foreign professional association (e.g. AICPA, ACCA, ICAEW), a PhD holder in accounting, or registered at the CBE auditor's registry and have at least one bank (EFSA, 2015). Hence, the EFSA's requirements effectively applied an selective closure, designed to filter out auditors traditionally licensed under route two and three (equivalent occupations). Interviewee No. 10, a managing audit partner at large local audit firm, commented on the EFSA's registration requirements:

"The law [133/1951] gives the right to individual auditors, but some of EFSA's requirements are talking about firm specifics. I think these Special Registries are tailored, if you look at them, they are filled with ESAA and big four auditors. There are some registries, such as the old insurance companies' registry, only had about 30 people. The total number of auditor registered at EFSA is 300 auditors; most of them are from the big four".

Interviewee No. 3, a partner at an international firm, defended EFSA's selective measures:

"There is an assurance given by the fact that Special Registries are in place. The most influential segments in the economy are audited by qualified members on those registries. They don't have to be all ESAA or Big Four auditors. There are some local firms of academics and practitioners who are equally qualified. The problem is that the auditing licensure, easily given in Egypt, grants a very wide range of privileges."

Similarly, interviewee no. 6 further commented on the motives for the EFSA's requirements and the selective measures applied to Egyptian auditors: *"Clearly, there is a difference in technical knowledge between the Egyptian auditors. They are used to governmental accounting. The quality of their work was low; Very few of them are up to date with disclosure issues and IFRS"*

Furthermore, the EFSA announced an additional 'barrier to entry' by requiring the applicant to be also registered with the CAO Special Registry for auditors¹⁸(EFSA, 2009). This further manifests the

¹⁶ They include the following; A) Audit firm's Quality control, continued practical training and independence policies. B) A team of at least three auditors with five years' experience in auditing corporations.

¹⁷ The applicant must be registered at the Auditor's registry (corporations) at the Ministry of Finance Registry for at least five years. The also has to be a member of the syndicate. The applicant also has to present five financial reports for five different companies he/she previously audited.

¹⁸ According to the CAO law no. 144 for 1981, The CAO keeps a registry for auditors who are approved to co-audit with the CAO, companies in which a public company or a public bank owns more than 25%. In 2014, The CAO strengthened the entry requirements to its registry guided by EFSA's entry requirements.

government's desire to control and tighten its selective exclusionary closure strategy. Given the absence of proper monitoring and compliance mechanisms over auditors registered with the CAO, the requirement for the EFSA's auditors to also be registered at the CAO registry demonstrates an additional layer of administrative control, with the state appearing to misconceive administrative control as a form of quality control.

The creation of the EFSA in 2009 was part of Egypt's programme towards establishing free market institutions. Hence, the government and the profession were fully aware of the audit quality deficiencies that were adversely affecting the financial markets (UNCTAD, 2008). An administration decision to create the Special Registries fulfilled its role as a 'plan B' in response to the failure to adopt the proposed law. The Special Registries technique used in the Egyptian case conceptualizes the notion of professional closure derived from the professionalization literature. In the absence of legislative support to achieve its closure strategy, the profession was successful into promoting the idea that they are the safe keepers of audit quality. Thus, Egyptian closure depended on the executive power of the government to apply closure, using administrative, rather than legislative, action. The government in this case assumed the role of the legislator. Interviewee No. 2 added, *"In Egypt, and since day one, the culture of execution was based on ministerial decrees... There was a top-down approach... Things were moving, they created the Auditor's oversight unit at the Capital Market Authority (CMA)...to signal to the international community that we have a proper profession."*

In summary, the EFSA's Special Registers were designed to ensure a certain level of professional quality. These closure strategies can be seen as favouring the ESAA members and also acknowledging members of foreign professional associations (i.e. AICPA, ACCA, ICAEW). However, given the weakness of active monitoring by regulators and the permission of law 133 to be certified without examination, the ESAA and other Anglo-American bodies' memberships were viewed by EFSA as an objective and legitimating indicator of quality.

3.8 Latest developments

In 2015, the Egyptian government, represented by the Ministry of Finance, signed an agreement with Spain, representing the European Union, to provide technical and professional experience to support the Egyptian government's institutions. The program aimed to help the ministry in developing the accounting and auditing profession (EU Delegation, 2015). The project, which had a budget of over one million Euros, targeted four essential dimensions (EU Delegation, 2015). It aimed to reform the profession's legal framework (law 133/1951), to review the certification process, to create an accounting and auditing oversight board, and to develop a strategic IT

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system for knowledge sharing and development (World Bank, 2015b). Interviewee No. 29, the director of the program in Egypt, commented:

"According to the EU good neighbour policy, we are here to provide assistance on the application of the best practices of the profession. We are working closely with the Syndicate and the ESAA to raise the quality level of the profession. There is the issue of the level of the entrants to the profession and the issue of the application of a Continuous Education Program (CEP) to update the knowledge of the existing auditors".

Interviewee No. 5, an EFSA official, added: *"We are working in this project on three different axis, the issuance of a new law for the profession, setting up a system for CEP, and legal formation of audit firms".*

In May 2015, the World Bank¹⁹ organized a workshop on strengthening the accounting qualification in Egypt, where the major professional parties which attended included the ESAA, the CAO, the SCP and the Ministry of Finance. Apart from the classic demands for reform of the legal framework, certification process and regulatory oversight, the workshop raised the issue of differentiation between the accounting and the auditing professions. Concerned with small and medium sized businesses, the workshop highlighted the need of small businesses for counselling by experienced accountants, rather than auditors (World Bank, 2015b). Interviewee No.6, suggested: *"Most of the experience and services provided by the "Equivalent occupations" are tax related and they represent the main bulk of practitioners. My idea is that you don't have to be a full auditor to provide these services. We should have a different registry for tax preparers".* The establishment of two auditor's registries with two different certification processes, one aimed at small and family businesses and the other for corporations, would significantly decrease the resistance faced by the previously proposed 2004 law.

In 2016, in follow-up interviews with Interviewees No. 3, 5, 29 on the status of the project and its objectives, the three interviewees stated that the draft for the new law was under discussion between the related parties (SCP, ESAA, and the Ministry of Finance). They asserted that all related parties now had agreed to keep the nationality requirement, but that the major disagreements were related to authority and the structure of the proposed new Supreme Council of Accounting and Auditing. The discussions regarding the law are still ongoing.

¹⁹ The World Bank Middle East & North Africa (MENA) Micro, Small, and Medium Enterprise (MSME) Trust Fund

3.9 Conclusion and implications

Responding to the calls by (Chua and Poullaos, 1998; Uche, 2002; Gillis *et al.*, 2014; Richardson, 2017) to study the life cycle of professionalization projects in relation to its economic and political environment, this paper analyses the development (and sometimes lack thereof) of Egypt's profession since 1946, thereby unveiling the dynamics between the Egyptian State and the profession, in particular in relation to the Anglo-American model. Although the early beginnings of the Egyptian professionalization project closely followed the self-regulated British model, the enacting of Law 133/1951, as a resistance tool, would significantly affect its development in consecutive politico-economic regimes. The main consequence of law 133 on the pre-independence regime was that the Egyptian profession, unlike many developing countries, managed to move away from the British influence by enforcing a nationality requirement.

In the period 1952-1974, the implication of law 133 and the political changes that accompanied the 1952 revolution diverted the Egyptian profession into a path of its own. The application of the UAS and the status-quo of the closure tool (i.e. law 133/155) halted the development of the accounting and auditing profession during the 1960s'. The main focus of the state was constructing a professionalization project that served it agenda. In the state capitalist regime, there was no real place for a local public accounting profession. The government's apparent negligence of the importance of the accounting profession and its effect on the economy contributed to its deterioration. Another factor was the absence of a single entity responsible for the profession. The profession's fate was torn between the Ministry of Finance, the Syndicate, the CAO, EFSA (at a later stage) and the professional associations. With the exception of the professional associations, each of these parties had its own list of priorities and the development of an independent and strong profession was not considered to be an important issue.

During the market capitalist period, i.e. 'open doors policy' (1974-2002), the Egyptian government failed to assess the validity of the professional laws and regulations, which supposedly were issued to maintain the profession's quality. Nonetheless, the government's short term gains of amending parts of the administrative side of the law and postponing the necessary core reforms, such as the certification requirements, led to the profession being crippled by the same law (law 133/1951) that was originally intended to enhance it. Almost every workshop, conference, research paper (Kayed, 1990; World Bank, 2002; Wahdan, 2005; Hassan, 2008a, 2008b; Farag, 2009; World Bank, 2009a) and international report (e.g. ROSC reports) agreed over certain steps to be taken in order to improve the profession. It was the fundamental financial reforms dictated by the IMF that restored some balance to the state-profession axis in Egypt. The privatization policies and the changes to the Egyptian market revived the Egyptian professionalization project

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(i.e. ESAA & EIAA). The Egyptian government realized the importance of an independent public profession to interact with the flow of foreign investments and the changes required to the Egyptian market. This led the Egyptian government to depend on the representatives of the Anglo-American profession (ESAA) as consultants, a form of corporatist relationship, as described by (Richardson, 2017).

In the post-market, a transnational regulatory regime (2004-present), a new exclusionary closure strategy was needed to act as criteria to separate the superior group of the profession, a class of professionals fit for the new international outlook of the Egyptian capital market. As a consequence of the expiry of the initial closure tool (Law 133/1951), and the failure to obtain a new closure tool (2004 proposed law), the government had to assume the role of the legislator and incorporated the safeguards it needed as part of the 'Special Registries' requirements. Local regulators, i.e. the EFSA, established Special Registries, serving as the selective exclusionary closure tool, and the registration requirements in this case acted in lieu of credentials to separate out the superior group. The requirements, which were set as quality safeguards, emphasized certain types of qualifications, e.g. the ESAA and other Anglo-American certifications²⁰, as well as other certain firm requirements, often met in international audit firms. Interestingly, more governmental entities, i.e. CAO²¹, expanded the use of Special Registries as a tool for selective closure. Thus, the creation of exclusionary tools through administrative decrees conceptualizes the recently more dominant role of the state in the professionalization project. The Egyptian case demonstrates an extension to the theory where state apparatus took the initiative by issuing administrative decisions in lieu of legislation to achieve closure.

According to the neo-Weberian closure theory, the rejection of the new professional law would have constituted a failure in the final step in professional closure (Willmott, 1986; Chua and Poulaos, 1993). The role of the government, in this case, exceeded its presumed neutral role after the rejection of the proposed law by the parliamentary authority (A friend or foe role, as highlighted in the Anglo-American professionalization model (Dyball *et al.*, 2007), and also surpassed the role of a mere secondary actor by setting the parameters for the profession. The motive of the government was to signal to the global business community that it was taking measures to separate between two classes of its local profession, whereby only the superior class

²⁰ The applicant should also be either; A) An ESAA member, a member of one of an accredited foreign professional association (e.g. ACCA, AICPA), or a Ph.D. in accounting from an accredited university. B) The applicant must be registered at the CBE registry and have audited at least one bank

²¹ In 2014, the governmental Central Accounting Organization (CAO) established additional requirements for the registration in its Auditor's registry mirroring those of EFSA's. (President of CAO Decree No. 40 of 2014)

(mostly the product of the Anglo-American profession) can be on the EFSA's registry. From a developing economy perspective, the study highlights the role and influence of historicity in the shaping of the accounting profession and, as things currently stand, it seems rather unclear as to whether the developed economy-led reforms, as envisaged in the latest round of international intervention (EU & Spain), can enable the modernisation of the profession as a whole. Similar to other developing countries, one could envisage the gradual emergence of a form of 'selective closure' within the profession, which would benefit a coterie of 'elite' accountants and auditors, often related to the Anglo-American profession, at the expense of a wider professional constituency. Therefore, this research points out the importance of prioritizing the local needs in modernizing the professionalization project in developing countries. The priority should be given to enhance the training and technical knowledge of the local professional base, rather than qualifying a few local elites.

Overall, this paper contributes to the accounting and auditing professionalization literature by: (i) providing an empirical analysis of the evolution of the Egyptian profession, with an emphasis on the changes in State-profession dynamics throughout the reviewed period, and (ii) suggesting a new theoretical variant of Weberian closure i.e. *selective exclusionary closure*, whereby specific elements of the profession would seek to corner more lucrative and prestigious segments of the accounting and audit market, by co-opting the State in adopting limited administrative, rather than broad legislative, reforms. Admittedly, this study relies on the significantly limited available documentation and published evidence and, whilst the number of interviewees could be seen to be small, the researcher has nonetheless been able to access the key professional and regulatory actors in the local context, who have been heavily involved for a long time in the Egyptian professionalization project. In fact, I would argue the (small) size of this influencing group of practitioners is not an exception in developing countries, whereby the same individuals occupy different key positions of influence within the local professional and regulatory arena, with potentially problematic consequences for the development of the profession as a whole.

3.10 Appendix 1: List of interviewees (Paper 1)

Interviewee No.	Position	Interview Duration
1	A Partner at one of the Big Four firms & a current/previous ESAA board member	1 Hours, 5 Mins
2	A managing partner at an international audit firm, a current/previous ESAA board member	1 Hours, 4 Mins
3	An audit partner at one of the Big Four firms & a current/previous ESAA board member	1 Hour, 20 Mins
4	A managing partner at a local firm & a current/previous ESAA board member	54 Mins
5	EFSA senior official	2 hours 40 Mins
6	A managing partner at an international audit firm & a current/previous ESAA board member	3 Hours
10	A managing partner at a large local audit firm	54 Mins
12	Previous senior auditor at an international audit firm	48 Mins
15	An academic and a managing partner at a local audit firm	50 Mins
16	An audit manager at a local audit firm	39 Mins
29	A director of the EU- Egypt twinning program	1 Hour 2 Mins

Chapter 4: The role of Big Four affiliates in ISA

Adaptation in Developing Countries

4.1 Abstract

Motivated by the limited amount of research on ISA adoption in developing countries, this paper aims to examine the dynamics of the national standards-setting process in Egypt in relation to the IFAC's standards-setting process. Drawing on a theoretical framework that relies on Regulatory Space and Regulatory Capture theories, this qualitative research attempts to provide insight into the dynamics of the ISA *adaptation* process, with a focus on the interplay between the Big Four local affiliates, and National Standards Setters (NSS).

The paper relies on primary data gathered from 13 semi-structured interviews with previous and current members of the Egyptian NSS, current and previous board members at the Egyptian Society of Accountants and Auditors (ESAA), Egyptian government officials, senior auditors at international and local audit firms, and local academics. This is complemented by secondary data drawn from publicly available documents from the IFAC, the IMF and other international organizations. By presenting an empirical insight into the background to the local ISA adaptation process, the paper reveals the role of local affiliates of the Big Four firms in shaping the local auditing standards-setting process. It points out the tactics and mechanisms used by the local Big Four to maintain and invest their "knowledge monopoly" over ISA adaptation and implementation. The findings of this paper demonstrate how the ESAA (controlled by the Big Four) exercised its ISA knowledge monopoly, through controlling the Egyptian Standards on Auditing (ESA) exposure drafts and the translation process as regulatory capture techniques. The paper contributes to the literature by providing empirical evidence of the role of Big Four in ISA adoption and their use of local professional associations (i.e. ESAA) to legitimize their control. As a theoretical contribution, the paper suggests that the ISA regulatory space in a developing country can be viewed a sub-regulatory space. The paper attributes the subordination and limitation of the sub-regulatory space to three factors related to the context of developing countries: under-representation in the IFAC, limited technical and financial resources of local actors, and the external pressures from transnational organisations to adopt ISA, as issued by the IAASB.

Keywords: ISA adoption, IFAC, auditing standards, Big Four, developing countries, Egypt

4.2 Introduction

The 1997/1998 Asian financial crisis alerted transnational financiers (i.e. the World Bank & the IMF) to the important link between the implementation of International standards on Auditing (ISA) in developing countries and global financial stability (Schneider, 2003; Wade, 2007). In order to have a sound financial system, the Financial Stability Board (FSB)²² identified 12 key financial standards for countries to adopt, including ISAs. The International Federation of Accountants (IFAC) takes centre stage as the global issuer of ISAs, backed by support from various international organizations and economic entities²³ (Camfferman and Zeff, 2007; Humphrey and Loft, 2008). Humphrey *et al.* (2009) analysed the complex network of organisations making up the global auditing architecture (Suddaby *et al.*, 2007). They concluded that the Anglo-American audit profession (the Big Four), reinforced by their global network and technical resources, were prominent actors in how ISAs were issued and implemented internationally. The Big Four audit firms *“occupy a quasi-oligopolistic position on the market for accounting and auditing services to multinational companies, but also as suppliers of expertise to the standard-setting bodies”* (Ramirez, 2012, p.41). The reliability and comparability of financial information attained by ISAs are highly dependent on the appropriate implementation by audit firms in a local context and primarily geared towards the needs of multinational companies (Suddaby *et al.*, 2007; Ramirez, 2012).

Although ISAs are issued at a global level, the degree of adoption and implementation at a national level are dependent on the context of each country. Similarly, different factors and national contexts determine the role played by the Big Four in the ISA adoption process, such as institutional and regulatory setting (Malsch and Gendron, 2011). For example, post-Enron audit research addressed the power dynamics between the National Standards-Setters (NSS) and the Big Four/audit profession, with a focus on loosening the profession’s grip on the standards-setting process, enhancing due process and public oversight, mainly in a developed country context. (Simunic, 2003; Richardson, 2009; Jeppesen, 2010; Canning and O’Dwyer, 2013; Hazgui and Gendron, 2015). This line of study drew attention to the importance of some local characteristics in developed countries that helped in limiting the profession’s influence, such as *public concern, the presence of accountability mechanisms, NSS technical expertise, and multiple professional associations* (Caramanis *et al.*, 2015).

²² Established by the G7,

²³ International organizations and economic entities supporting ISA adoption include, the International Organization of Securities Commissions (IOSCO), the World Trade Organization (WTO), the International Monetary Fund (IMF), and the European Union (EU).

In the context of developing countries, past research has focused on the incentives and obstacles pertaining to the initial adoption process of international standards (Wade, 2007; Arnold, 2012; Hopper *et al.*, 2016). For example, several studies concluded that successful ISA adoption/implementation in developing countries is contingent on socio-political and economic elements, such as the degree of *economic growth, the nature of the political system and weak institutional structure* (Zeghal and Mhedhbi, 2006; Siddiqui *et al.*, 2011; Zehri and Chouaibi, 2013; Kleinman *et al.*, 2014; Boolaky and Soobaroyen, 2016; Hopper *et al.*, 2016). This paper distinguishes between the terms *ISA adoption* and *ISA adaptation*. *ISA adoption* refers to implementing ISA, as issued by the IAASB, on a wholesale basis with no modifications, while, the *ISA Adaptation* process refers to NSS's attempts to modify the IAASB's version of ISAs to fit its national context. In order to assert that their national audit standards conform to ISAs, NSS are required to adhere to the IFAC's guide²⁴ for modification and follow a satisfactory due process (IFAC, 2006). For example, the ISAs (UK and Ireland) issued by the U.K Financial Reporting Council's (FRC) would be an example to an ISA adaptation process that follows IFAC's guide. However, little is known about the intricacies of the ISA adoption process and its due process in developing countries, particularly when the IFAC's compliance program is mainly self-assessment based (Siddiqui *et al.*, 2011; IFAC, 2012c). Additionally, country-level studies on ISA adoption in developing countries are relatively scant compared to those investigating IFRS adoption (Brody *et al.*, 2005; Mennicken, 2008; Humphrey *et al.*, 2009), despite its vulnerability to capture by the profession (Ramirez, 2012). Little attention has been paid to the effects of what could be termed as *indifferent public interest, NSS weakness, and the influence of Local Big Four affiliates* in developing countries.

Therefore, this qualitative study draws on a theoretical framework that relies on Regulatory Space and Regulatory Capture theories, to address the central role Big Four firms play in ISA adoption in developing countries. In doing so, it provides insights into the dynamics of the *ISA adaptation* process, with a focus on the interplay between the Big Four local affiliates, and National Standards Setters (NSS). This study seeks to answer the following questions: "How are Egyptian Auditing Standards, which are nominally based on ISAs, issued in a local context?" Also, "Who are the main actors involved in the local standards-setting process?" Additionally, "How do the Big Four local affiliates manage to occupy a central role in the ISA adaptation process?"

This research responds to calls by (Cooper and Robson, 2006; Humphrey and Loft, 2013; Humphrey *et al.*, 2014), and (Malsch and Gendron, 2011) to examine the standard-setting process

²⁴ IFAC's "Guide to National Standard Setters that adopt IAASB's International Standards but find it necessary to make limited modifications (IFAC, 2006)

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within its local regulatory environment in different countries. Therefore, this paper aims to: 1) Explore the dynamics of the auditing standards-setting process in Egypt in relation to the IFAC's standards-setting process, 2) Unearth the circumstances that enabled the audit profession, particularly the Big Four local affiliates, to occupy a dominant role in the local *adaptation* process of ISA, and, 3) Demonstrate different tactics used by local Big Four affiliates to leverage their superior knowledge of ISAs. By answering the above research questions, the paper contributes to the existing auditing literature in four aspects (Malsch and Gendron, 2011; Canning and O'Dwyer, 2013). Firstly, it provides an empirical insight into the 'backstage' of the local ISA *adaptation* process in developing countries. Secondly, it reveals the role of local affiliates of the Big Four firms in shaping the auditing standards-setting agenda in developing countries. Thirdly, it demonstrates the tactics and mechanisms used by the local Big Four to maintain and invest their "knowledge monopoly" over ISA adaptation and implementation. Fourthly, it singles out the use of professional associations in developing countries as surrogates of the Big Four firms, with the aim of colonising the local standards-setting process.

Primary data was collected through 13 semi-structured interviews with personnel at the Egyptian Financial Supervisory Authority (EFSA), the Egyptian Society of Accountants and Auditors (ESAA), academics, and auditors at local and international firms. Secondary data was collected on the basis of prior academic work and official documentation (decrees, laws, newspaper articles and other publications).

The remainder of the paper is structured as follows: Firstly, it presents an overview of the IFAC and how ISAs gained international support, followed by a discussion of the role of Big Four global networks in ISA development at the global level and ISA adoption in developed countries. The next section addresses ISA adoption in developing countries, focusing on obstacles to full implementation, followed by a discussion of NSS local adaptation of ISA and the different basis for ISA adoption. I then employ the theoretical lenses to reflect on how the previous factors influenced the auditing standards-setting process in Egypt.

4.3 The rise of IFAC as a global standards-setter

In order to understand the spread of ISA worldwide, it is useful to examine the forces that allowed the IFAC to secure its current position. The IFAC, founded in 1977 as a non-governmental organization (NGO), presents itself as "*the global organization serving the public interest by strengthening the profession and contributing to the development of strong international economies*" (IFAC, 2014a). It now comprises 179 professional accounting associations and members in 130 different countries. The IFAC aims to "*provide the structures and processes that*

support the development of high-quality international standards" (IFAC, 2014b, p.1). The chairman of the International Auditing and Assurance Standards Board (IAASB), the IFAC's standards setting body, claims that more than 100 jurisdictions are using, or committed to using, ISAs²⁵ (Schilder, 2014). The IFAC gained increasing recognition and acceptance for its pronouncements from various influential global organizations, such as, the International Organization of Securities Commissions²⁶ (IOSCO), the European Commission (EC), the International Monetary Fund (IMF) and the World Trade Organization (WTO) (EC, 1996; WTO, 1996, sec. 17; Loft *et al.*, 2006; Camfferman and Zeff, 2007). The IMF, as well as the WTO, fostered and encouraged developing countries to adopt the ISAs and placed ISA implementation as one of the safeguard assessments, related to the external audit mechanism²⁷ (IMF, 2001). The WB's Reports of the Observance of Standards and Codes (ROSC) for developing countries often include recommendations to strengthen NSS/regulators and local professional bodies in order to foster the adoption of "best international practices" (i.e. ISA adoption) (World Bank, 2004; Siddiqui *et al.*, 2011; Boolaky and Soobaroyen, 2016).

However, as the IFAC was gaining increasing recognition, a series of global audit failures cast doubts on the efficacy of ISAs, prompting the need for more public oversight. Humphrey and Loft (2008, p.24) highlighted the EC's concerns:

"Currently, IAASB audit standard setting activities are fundamentally conducted by and for the audit profession. Although improvements have been made recently to the transparency of the due process and to better represent the public interest by the inclusion of a limited number of non-practitioners in the IAASB, the over-arching governance structure of IFAC implies control by the international accounting profession." (European Commission, 2003, p.7)

The IFAC responded by initiating a reform strategy, establishing a Public Interest Oversight Board (PIOB)²⁸, and repeatedly emphasising standards-setting due process and strengthening public oversight (Loft *et al.*, 2006; Humphrey and Loft, 2008). The IAASB, the IFAC's standards' setting body, describes its enhanced due process: *"The IAASB follows a rigorous due process in developing*

²⁵ "The ISAs were thoroughly redrafted and revised during the so-called Clarity project, which finished in early 2009" (Schilder, 2014, p.5)

²⁶ IOSCO endorsed the replacement of previous ISA with the restructured and improved Clarified ISAs issued in 2009.

²⁷ The safeguards placed to mitigate the borrowing country's risk of default: external audit mechanism, Legal structure and independence of the central bank, financial Reporting practices, Internal audit mechanism, and the system of Internal Controls (IMF, 2001)

²⁸ The PIOB members included organizations such as the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the European Commission and the World Bank (Humphrey and Loft, 2009a).

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its pronouncements. Input is obtained from a wide range of stakeholder²⁹... Exposure Drafts of proposed pronouncements are posted on the website and comments are invited;...The Public Interest Oversight Board (PIOB) oversees the work of the IAASB and its CAG³⁰ to ensure that the activities of the IAASB follow due process and are responsive to the public interest" (IAASB, 2016a, p.1).

However, previous research has analysed the IFAC's governance restructuring and its implications for elevating "Public interest", i.e. the core claim of the reforms. Wymeersch (2015) argued that the IFAC's reforms achieved a necessary balance between "professional and public interest considerations" by setting a multi-layer process for standards setting³¹. Conversely, Loft *et al.* (2006) highlighted some issues which appear to debunk the IFAC's core claim of enhancing public interest and accountability. Firstly, the nature of the IFAC, as a transnational NGO, undermines democratic accountability mechanisms, since the latter could only be feasibly exercised at the national level. Secondly, the PIOB's structure (see footnote 7) comprises of likeminded organisations working on the assumption that more international convergence leads to elevating public interest (Loft *et al.*, 2006). Finally, the IFAC has an overlapping, and sometimes conflicting role, by being an "independent" global standards-setter serving the public, and as a representative of the global audit profession, particularly when the Big Four firms and Anglo-American regulators are deeply embedded within the IFAC, e.g. the U.K.'s Financial Reporting Council (FRC) (Loft *et al.*, 2006). Furthermore, whilst the IFAC's reforms showed some initiative in acknowledging the interest of developing countries through its Developing Nations Permanent Task Force (DNPTF), it is argued that the resources allocated to such a task force do not indicate a genuine interest by the IFAC to encompass concerns from a broader constituency of countries (Loft *et al.*, 2006; Wade, 2007).

In summary, the IFAC's reforms aimed to tackle three main issues: increasing public oversight, enhancing the standards-setting due process, and including the interests of developing countries.

²⁹ Stakeholders include the IAASB's Consultative Advisory Group national auditing standard setters, IFAC member bodies and their members, regulatory and oversight bodies, firms, governmental agencies, investors, preparers, and the public. (IAASB, 2015)

³⁰ The Consultative Advisory Group (CAG) comprises representatives of regulators, business and international organizations, and users and preparers of financial statements who are interested in the development and maintenance of high-quality international standards for auditing, quality control, review, other assurance, and related services. Members include, the World Bank, the European Commission, the United Nations Conference on Trade & Development, the Basel Committee on Banking Supervision (IAASB, 2015a)

³¹ The IAASB outlined its standards setting process into five steps, including a) Research and consultation b) Transparent debate c) Exposure for public comments d) Consideration of comments received on exposure e) Affirmative approval (IAASB, 2015a)

Despite the criticism detailed above, the IFAC managed to secure international recognition³² and reliance on its pronouncements regarding auditing standards, thereby establishing itself as the de facto global standard-setter in auditing (Loft et al., 2006). However, the question remains as to how these global level reforms are reflected and implemented at a country level (Loft et al., 2006; Malsch and Gendron, 2011), since consequences for audit quality and concurrent societal benefits would be best appreciated within national settings. In adopting ISA for national use, national standards-setters become engaged in another layer of the standards-setting process, involving certain dynamics and notions of due process at the local level. The local adaptation process involves multiple players, such as, the NSS, professional associations, audit firms and government entities. The weight and influence of each player is dependent on the national context. Moreover, the rise of transnational standards-setters (IFAC) and the Big Four, seem to diminish the classic role of local actors in setting national auditing standards (Humphrey and Loft, 2009b; Malsch and Gendron, 2011). The next section discusses the central role of the Big Four firms in ISA adoption in a global and national context. The following sections discuss the various factors affecting ISA adoption/adaptation and the differences between developed and developing countries.

4.3.1 The Interdependence between Big Four and International Standards

Auditing is a process whereby qualified professionals exercise their judgment on technical aspects, such as audit planning, the collection and analysis of audit evidence and the formulation of an audit opinion. Thus, the regulation of auditing practice and standards involves a smaller number of technical actors (international and national standard-setters, audit firms, and market regulators) compared to the regulation of accounting practice and standards, which often involves many interested parties outside the profession (financial statements preparers, financial analysts, accounting researchers) (Ramirez, 2012; Boolaky and Soobaroyen, 2016). Consequently, the ability to codify such technical processes into international standards depends on practitioners who have had expertise at the international level. This created an interdependent relationship between international standardization and the Big Four networks, where the latter act as an interpretation ‘testing ground’ for principle-based international standards (Ramirez, 2012; Botzem, 2014). The Big Four firms thus developed a network of autonomous firms, bound by contractual agreements, that gradually managed to overcome national barriers, such as legal restrictions on the involvement of foreign practitioners, and natural barriers, such as different

³² In 2006, Directive 2006/43/EC by the European Commission mandated ISA adoption for all statutory audits for all its member states. In 2009, IOSCO officially announced that it encourages regulators to accept the financial statements audited in accordance with the IFAC’s clarified ISA (Humphrey and Loft, 2013a)

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languages, cultures, business contexts and local regulations (Lenz and James, 2007; Boussebaa and Faulconbridge, 2016).

On the one hand, the adoption of international standards had a positive impact on the Big Four transnational operations (Cooper and Robson, 2006). Robson et al. (2007) argued that the use of ISA as a methodology by the Big Four firms enabled them to secure a leading position internationally (Cooper and Robson, 2006; Samsonova-Taddei, 2013). International standardization helped the Big Four significantly in addressing the needs of their clients more effectively through their global network. It supported their claim of carrying out efficient, and arguably uniform, audit engagements, irrespective of the location (Needles Jr et al., 2002).

On the other hand, the Big Four appear to be indispensable players for IFAC, through direct representation, supply of knowledge-experts, or proxy organizations³³ (Cooper and Robson, 2006; Loft and Humphrey, 2006). The IAASB board members are often current or previous employees of the Big Four (Cooper and Robson, 2006; Humphrey and Loft, 2009b). The Big Four's technical departments typically seek to provide a universal interpretation of ISAs, which positions them as an obligatory technical passage point linking standards to practice (Callon, 1986; Ramirez, 2012). Moreover, in 1999, the largest audit firms established the Global Steering Committee (GSC), whose program set out three objectives: 1) Laying out the road for the application of international auditing standards, by adopting ISAs as an audit methodology within their international affiliates; preparing employees for ISA implementation, and conducting quality reviews, 2) Empowering the IFAC as the de-facto auditing standards-setter (Loft et al., 2006), and, 3) Contributing to the development of standards at a national level (Morris, 2001). In 2001, the six major international audit firms³⁴, established the 'Forum of Firms' (FOF), which aimed to promote and support the application of consistent high quality audits in accordance with ISA. The Big Four are represented in the IFAC through its surrogate, FOF, and its executive committee, the Transnational Auditors Committee (TAC) (Loft et al., 2006). Furthermore, one-third of the IFAC's revenue is from large audit firms' direct funding (Humphrey and Loft, 2009b).

International standardization aims to gradually embed the Anglo-American model in other (including developing) countries, thereby providing a familiar setting for the operation of multinational corporations (Ramirez, 2012; Botzem, 2014). Consequently, the Big Four have a significant interest in international accounting standards (IFRS) that are applicable to their clients and, more importantly, in ISAs, which are applicable to them. This interdependent relationship

³³ Such as the Global Steering Committee (GSC) and the Forum of Firms (FOF)

³⁴ The six firms are BDO, Grant Thornton, Deloitte, E&Y, KPMG, and PWC.

between the IAASB and the Big Four has raised concerns about the advancement of professional interest over that of public interest (Loft *et al.*, 2006; Humphrey *et al.*, 2014), thereby leading to IFAC *global level* reforms aimed at enhancing public oversight and limiting the Big Fours' influence (Wymeersch, 2015). However, such reforms might also enhance ISA legitimacy and due process, thereby increasing scrutiny over the Big Four influence at the global level. At the *national level*, issuing similar reforms remains contingent on the local context. Through their extended network, the Big Four influence the ISA setting processes at inception, at the global level, and again at the local level (Suddaby *et al.*, 2007; Botzem, 2014; Boussebaa and Faulconbridge, 2016). By leveraging their technical knowledge, local Big Four affiliates can advance their roles in ISA adoption in different countries. The following sections discusses how the different characteristics of developed and developing countries, such as institutional and regulatory settings, affect the role of the Big Four in ISA adoption.

4.4 ISA adoption in different national context

4.4.1 ISA adoption in developed countries

In the aftermath of audit failures, public accountability mechanisms/institutions in developed countries have often fostered legislative and regulatory reforms. These reforms were aimed at reducing the auditing profession's influence and enhancing the standards-setting process. Such changes have been limited to the transnational level (in the case of IFAC's reforms and the EU green paper) or mainly in the context of developed countries (e.g. the USA, Ireland & Canada) (Simunic, 2003; Humphrey and Loft, 2008; Canning and O'Dwyer, 2013). Countries associated with democratic systems have greater tendencies to adopt restrictive auditing regulations that promote transparency and accountability (Archambault and Archambault, 2009; Boolaky and Soobaroyen, 2016). Humphrey *et al.* (2014) highlighted the role Europe's regional agendas and the effect of the EU ratification played on ISA adoption. ISAs were introduced to countries following the European continental model, where issuing auditing standards was historically allocated to public authorities, i.e. France (Ramirez, 2012; Hazgui and Gendron, 2015). Nonetheless, international standardization and the influence of the Big Four led to an increased level of compatibility in the structure of the audit market between European and Anglo-American models, facilitating cross listing in the EU and the US stock market (Ramirez, 2007; Botzem, 2014). Ramirez (2012, p.46) noted that accounting and auditing standardization, since its early days, was delegated to the Anglo-American profession, but that "*expert's hold*" intensified with the introduction of international standards and spread to the NSS in non-Anglo-American cultures. Past research has addressed ISA adoption in developed countries and its potential effects on audit

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quality (Schockaert and Houyoux, 2007; Köhler, 2009). Simunic (2003) praised the IAASB's standards setting process and argued that its credibility led some countries, such as the UK, the Netherlands and Australia, to rely on ISAs. Simunic (2003, p.26) also advocated the ISA adaptation process: "*adjusted ISAs, as needed for the unique Canadian circumstances*". Simunic et al. (2016) demonstrated how the economic and efficiency consequences arising from similarities in legal regimes across countries affect the degree of ISA adoption.

Despite some differences in how "advanced capitalist" countries regulate their accounting and auditing practices, a common feature of national audit regulations is that they are "*increasingly conditioned by transnational forces*" (Puxty et al., 1987, p.275; Malsch and Gendron, 2011). Such transnational actors (i.e. the Big Four & the IFAC) are in essence a product of the Anglo-American model. This overlap between transnational standards-setter (IFAC) and actors representing developed countries (i.e. the Big Four, professional associations & the NSS) might have contributed to ISA adoption in developed countries. These actors are actively involved in the ISA standards-setting process at the global level (Botzem and Quack, 2005; Cooper and Robson, 2006; Wade, 2007; Humphrey et al., 2009). For example, IAASB members are nominated by the NSS (e.g. the FRC nominates one member), professional associations (i.e. the USA nominates two members, Canada, Netherlands, Australia, Germany, Ireland, Japan, India, South Africa, and Australia nominate one member each), and international audit firms, represented by the FOF, nominate 5 members (IAASB, 2016b). The FRC described its relationship with the IAASB:

"The Audit and Assurance team [at the FRC] seeks to ensure that the FRC point of view is appropriately considered by the IAASB, through actively participating in the development of the IAASB's international standards and guidance that are relevant to the FRC's remit. The IAASB issues the International Standards on Auditing that provide the basis for the FRC's International Standards on Auditing (UK and Ireland) (FRC, 2016).

In this regard, Loft et al. (2006, p.443) argued that the NSS have an incentive to pre-emptively influence ISA at the global level by "*by making staff resources available to IFAC so that its (national) staff can work more directly on the development of international auditing standards*". Once ISAs are issued, the NSS are still allowed to modify ISAs to reflect audit national regulations and practices, but remain constrained by ISAs' scope and modification policy. The window to influence ISA at the global level is predominantly available to the NSS, in developed countries, and the Big Four. However, this is not the case for developing countries, in light of their current under-representation within the IFAC. The following section addresses ISA adoption in developing countries in terms of external pressures for adaptation and the obstacles hindering it.

4.4.2 ISA adoption in developing countries

Following the Asian financial crisis in 1997/1998, the focus has switched from market liberalization efforts to an emphasis on the adoption and implementation of international financial standards, particularly in developing countries (Wade, 2007). Transnational financial institution, i.e. the WB & the IMF, and developed countries blamed the crisis on inadequacies and a lack of financial regulation and transparency in developing countries (Wade, 2007; Hopper *et al.*, 2016). Foreign aid and loans to developing countries were conditional upon implementing "One size fit all" financial and economic reforms, and this includes the adoption of International financial standards (ISA & IFRS) as necessary components of best international practices (Schneider, 2003; Ezzamel *et al.*, 2007; Wade, 2007; Arnold, 2012; Hopper *et al.*, 2016). In 2001, Gordon Brown, the UK Chancellor of the Exchequer, stated that adopting international standards could contribute to preventing a future economic crisis. He also advocated that the financial support of the WB and the IMF should be restricted to countries that have adopted such standards (Schneider, 2003). In addition to the under-representation, developing countries have variant legal and institutional structures compared to developed countries (Wade, 2007; Hopper *et al.*, 2016).

The previous factors present a paradoxical position for ISA adoption in developing countries. On the one hand, developing countries are facing pressures from transnational financiers towards full ISA adoption. On the other hand, the state of their institutional infrastructures often present obstacles to a full and/or timely commitment to ISA adoption. Although ISAs are issued as a uniform set of standards applicable to cross-country adoption, past research has highlighted obstacles facing a harmonized form of ISA adoption across countries (Needles Jr *et al.*, 2002; Simunic, 2003; Köhler, 2009; Fraser, 2010; Leuz, 2010; Boolaky *et al.*, 2016). Needles Jr *et al.* (2002) pointed out some obstacles such as: i) the priority to update accounting standards before ISA, ii) the time lag caused by issuing the necessary legislation for ISA adoption, iii) the NSS and the local profession resistance to ISA adoption, and, iv) the level of training and professional education (Siddiqui, 2012; Boolaky *et al.*, 2016). Issues related to language, interpretation and terminology are also argued to negatively influence a harmonized adoption (Zeff, 2007).

The above discussion highlights inherent challenges for a timely and substantive commitment to ISA adoption, placing local NSS in a challenging situation to balance external pressures and local constraints. IFAC does permit the NSS to modify their national auditing standards to conform with the local rules/regulation, subject to the IFAC's "*Guide to National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications*" (IFAC, 2006). Consequently, the NSSs have elected different bases for ISA adoption, signalling different

levels of conformity and commitment to the IFAC's version of ISA (Boolaky *et al.*, 2016; Boolaky and Soobaroyen, 2016). In their cross-country study, Boolaky and Soobaroyen (2016) attributed the various degrees of ISA commitment to social, political and cultural, local factors. They pointed out a positive relationship between the degree ISA of adoption and a broad set of institutional factors, such as the nature of the political system, degree of economic development, and the legal framework in terms of protection of minority interests. Therefore, a full commitment to ISA in developing countries often necessitates significant changes to the local auditing environment, and is dependent on the NSS's power, readiness, and willingness to change.

4.4.2.1 NSS adaptation of ISA

ISA adoption in developing countries requires the NSS, in the light of external pressures, to carefully navigate through a full and timely ISA adaptation process, possibly with changes needed to suit the local environment, while maintaining an adherence to IFAC's modification guidelines. This situation has led to a shift in the NSS' classic role as an auditing standards issuer that is reflective of the needs of local businesses, audit firms and legal/regulatory environment (Ramirez, 2012). The NSS is now expected to function as a shadow standard setting body which would tailor local regulations and standards to align with best international practices (Loft *et al.*, 2006; Botzem, 2014). Meeting the above conditions is often problematic for regulators in developing countries that are unfamiliar with the Anglo-American model of self-regulation and are inexperienced in providing interpretation of a principles-based form of ISA. Hopper *et al.* (2016) pointed out that developing countries face difficulties in the implementation of principle based ISA because of the following institutional weaknesses: i) poor state of the local accounting profession, ii) inadequately or insufficiently qualified and experienced accountants and regulators, iii) challenges in reconciling standards with national economic planning, iv) insufficient government involvement, and, v) weak legal systems (Perera, 2012). In the absence of capable local actors, the pivotal role of the local affiliates of the Big Four often emerges. Mirroring their influence on the global standards-setting process, the Big Four also have a significant influence, directly and indirectly, on the local standards-setting process in developing countries (Arnold, 2005; Suddaby *et al.*, 2007; Hopper *et al.*, 2016). Numerous studies have mentioned the role of the Big Four as technical consultants for developing countries on reforming audit regulation, acting as mediating agents of transnational financers (Cooper and Robson, 2006; Humphrey *et al.*, 2009; Humphrey *et al.*, 2014; Boolaky and Soobaroyen, 2016; Hopper *et al.*, 2016). Backed up by their resourceful international network, the Big Four have become the primary supplier of ISA experts to the NSS, as they take the lead in reforming local NSS, with the aim of establishing standards in sync with ISA (Ramirez, 2012).

Furthermore, the Big Four firms influence other local actors, such as professional associations. In this regard, Samsonova-Taddei and Humphrey (2014) voiced a concern that the increased focus on the role of the Big Four in international standardization, has led to the marginalisation of national professional associations. The authors demonstrated the legitimizing value of national professional associations by stating:

"National professional bodies are still dependent on membership subscriptions and additional funding paid and provided for by the Big 4 firms. What such bodies can and cannot say, and what "fine line" they choose to walk between advocating policies in the public interest but which ultimately give due respect to their key (financing) constituencies is an empirically interesting question – and one which, intellectually, is not of less importance by having its roots at a national level" (Samsonova-Taddei and Humphrey, 2014, p.919)

In summary, this discussion draws attention to the use of national professional associations as a potential surrogate of the Big Four firms to legitimise and exert their influence on ISA adoption. Given the NSS's weak institutional structure, accountability and oversight mechanism, and the lack of public interest in developing countries, local Big Four affiliates may be able to leverage their superior technical knowhow to dominate the domestic process of adaptation. Such local characteristics of developing countries may well generate different dynamics in the adoption or adaptation that are substantially different from those of developed countries. The IFAC's *"Basis of Adoption by jurisdiction"* presents four broad categories³⁵ of ISA adoption (IFAC, 2012a; Boolaky and Soobaroyen, 2016). However, apart from the wholesale ISA adoption categories, each country represents a unique case of the ISA adaptation process, far from the IFAC's simple categorization, particularly within the ambiguity of the fourth category, "Other" (IFAC, 2012a). Therefore, this research empirically examines how local Big Four affiliates occupy a dominant role in the *ISA adaptation process* in developing countries. The following section discusses the theoretical framework used in this research.

³⁵ 1) ISA Required by Law or Regulation - Country law or regulation requires the use of ISAs as issued by the IAASB in the auditing of general-purpose financial statements. 2) ISA are Adopted – the NSS has adopted ISAs as the audit standards to be used in the country (there are no separate local auditing standards). 3) National Standards are the ISAs - While ISAs have generally been adopted as the local standards, there may be national modifications to them but changes, if any, are stated to be in line with the spirit of the IAASB Modifications Policy". 4) Other - In some circumstances, available information is not adequate to evaluate whether the local adoption process, including the translation of ISAs into the local language, is reasonably up to date with translation lags of a year. In other cases, where a jurisdiction indicates that the local generally accepted auditing standards is "based on", or "similar to", the ISAs, it is not clear whether modifications to, or other differences from, the ISAs meet the requirements of the IAASB Modifications Policy. Finally, there are some countries, which have declared convergence with ISAs as an objective but still have a way to go in achieving this objective. The explanatory notes provide insights into the adoption process.

4.5 Theoretical framework & Research methodology

4.5.1 Theoretical framework

Introduced by Hancher and Moran (1989), Regulatory Space Theory provides an overarching lens that not only captures the internal dynamics of how economic regulations are created, but also accounts for the external factors affecting regulatory space. Hancher and Moran (1989) described "*economic regulation under advanced capitalism*" as a complex process of bargaining, and negotiations and power struggles between interdependent actors alongside a significant government involvement. Regulatory space is defined as "*the range of regulatory issues subject to public decision*" (Crouch, 1986; Hancher and Moran, 1989, p.277). The theory's underlying assumption is that a constitutional democracy under "advanced capitalism" legitimises/mandates some degree of state intervention to regulate the free market, thereby protecting public interest from private power. However, in introducing free market-led regulation to developing countries, such assumptions may be challenged by the historical dominance of the State in the regulation domain, and the limited role played by private sector actors in policy-making. The regulatory space can be illustrated as an arena structured within three dimensions (Nicholls, 2010). The first parameter is a defined parameter for the regulatory space that needs to be filled (i.e. issuing Auditing standards) (Young, 1994). The second parameter is concerned with the actors allowed within such space, (e.g. the NSS, professional associations, different state bodies) (Nicholls, 2010). In spite of the State's inherent advantage within the space achieved by the power to issue regulations, different state and private actors can occupy this space unevenly between them (MacDonald and Richardson, 2004). Therefore, actors will vary in their weight of influence. The third parameter is concerned with areas of debate and negotiations relevant to the proposed regulations, i.e. the adaptation of international auditing standards in the local context (Nicholls, 2010).

To appreciate the regulatory space concept, it is important to identify the position of each player and the aim of all participants to "get a bigger piece of the cake" (Hancher and Moran, 1989). MacDonald and Richardson (2004) argued that cultural, political and market forces directly affect the distribution of "power/influence" of different actors inside the regulatory space. The pursuance of a power advantage should be analysed in relation to many factors including, *the actor's history and entry time to the process, the competitive advantage of each actor, and the resources (political and economic) which provided such advantages and their origin*. This cannot be studied in isolation to the inter-relations between the actors inside the regulatory space, especially between the government, professional associations and audit firms. In a standards setting context, Chahed (2014,p.201) described the position of independent NSSs, as they "often

reside within a nexus of multiple pressures and demands from governments, the accounting profession, the preparers of annual reports, the general media, academia, or strong individual personalities" (Young, 1994). Despite the heightened public concern that interventions by private organizations (i.e. professional associations/the Big Four) may stain the standards-setting process, Malsch and Gendron (2011) argued that the auditing profession, often led by the Big Four, is fiercely resisting the new wave of independent regulations targeting them.

Previous studies employed the regulatory space lens to analyse the dynamics of standards setting and audit oversight in "advanced capitalist" countries, such as the U.K. (Nicholls, 2010; Chahed, 2014), the USA. (Young, 1994), Canada (MacDonald and Richardson, 2004), Ireland (Canning and O'Dwyer, 2013), and France (Hazgui and Gendron, 2015). Most of these studies addressed the pull and push power dynamics between local actors within the national regulatory space. In the developed countries' context, the research focus has been on the regulatory boundaries and realignment, patterns of resistance between a powerful audit profession and, often, a new audit regulator (Hazgui and Gendron, 2015). For example, the Irish and Canadian contexts provided contradicting scenarios to the pull and push regulatory space dynamics in developed countries. In Canada the auditing profession resistance managed to change the alignments within the regulatory space to its favour (Malsch and Gendron, 2011), while in Ireland, public interest and accountability mechanisms helped in suppressing the resistance of the audit profession (Canning and O'Dwyer, 2013). Regulatory space involves multiple powerful actors, but it should not be assumed that regulatory space immediately leads to regulatory capture by private or public actors, particularly in developed countries (Canning and O'Dwyer, 2013).

Regulatory space relates to the broader institutional and cultural dynamics, which differ within the contexts of developed and developing countries. With regards to ISA, several studies have highlighted that globalization and transnational forces (the Big Four & the IAASB) are increasingly influencing local regulatory spaces in both developed and developing countries (Puxty *et al.*, 1987; Malsch and Gendron, 2011; Hazgui and Gendron, 2015). However, such transnational forces do not influence the ISA regulatory space of developed and developing countries in an equal way. After all, representatives of developed countries (e.g. the Big Four, the FRC, the PCAOB) established and controlled the transnational ISA standards-setter, i.e. the IFAC. (Botzem and Quack, 2005; Cooper and Robson, 2006; Wade, 2007; Humphrey *et al.*, 2009; Humphrey and Loft, 2013).

However, there are similarities and overlap between the global regulatory space and developed countries regulatory space. It can be argued that ISA adoption did not induce fundamental changes to the regulatory space dimensions in developed countries, unlike developing countries.

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The first dimension of regulatory space, concerning the parameters and the mechanisms of issuing ISAs, did not require radical change within the regulatory space. This is primarily due to the existence of powerful NSSs in developed countries, *with adequate legal frameworks, technical and financial resources, due process mechanisms, and a degree governmental independence*.

Similarly, in terms of actors (the second dimension), ISA adoption had little or no effect on the inclusion of new actors within the regulatory space in developed countries. The auditing profession and the Big Four in developed countries have always existed as central actors within the regulatory space. However, in relation to the third dimension (i.e. the proposed auditing standards), actors within developed countries' regulatory space (the NSSs & the audit profession) were given a dual attempt to influence the ISA regulatory space on both global and local levels, which is not the case for the underrepresented developing countries.

In the context of developing countries, the ISA adoption process imposes fundamental changes on the three dimension of their regulatory space. Firstly, new regulatory boundaries have to be drawn and defined. This involves the establishment of an independent NSS with adequate financial and technical resources, the issuing of necessary legislation and the formulation of due process mechanisms. As for the second dimension, related to actors, private actors representing the auditing profession, which were historically only on the receiving end, are now included in the regulatory space. Finally, with regards to the third regulatory space dimension, actors within the developing country's regulatory space supposedly should engage in internal negotiation and debate about how to adopt the pre-issued ISAs into the local context.

Subsequently, the paper complements its analysis by using the concept of "*Regulatory Capture*" as an analytic lens to help to understand the outcomes of the regulatory space and its power dynamics. Godfrey and Langfield-Smith (2005, p.1983) described the standards-setting process in terms of the public-interest theory of regulation, where the standards setting process ultimately aims to advance public interest over private interests. The public-interest theory assumes that enhanced financial reporting standards (i.e. auditing standards) are essential to prevent future audit failures (Chalmers et al., 2012). On the other hand, private-interest theory argues that private parties targeted by such regulations engage in lobbying activities in an attempt to sway the outcome of the reforms in their favour. Private-interest groups often portray their lobbying activities as being aligned with the goals of serving the public's interest (Godfrey and Langfield-Smith, 2005). Regulatory capture theory can be considered as a derivative of private-interest theory (Gaffikin, 2005; Godfrey and Langfield-Smith, 2005; Chalmers et al., 2012), where the parties subject to the proposed regulation succeed in advancing their private interest over the public's interest, thereby "capturing" the regulatory process (Peltzman, 1976). This

research employs the Regulatory space and Regulatory Capture lenses to understand the dynamics of ISA adaptation regulatory space within developing countries.

4.5.2 Research methods

The main sources of data were interviews and governmental decrees. A total of 13 interviews were conducted during the period between December 2014 and June 2016. Participants included senior auditors, officials and academics holding/having held key positions within the Egyptian Financial Supervisory Authority (EFSA), the Egyptian Society of Accountants and Auditors (ESAA), and the Big Four firms operating in Egypt. Participants were chosen through purposive sampling, based on their involvement in the regulatory space and, subsequently, by referral (Snowball sampling). They were approached via email or telephone. Given their positions, interviewees were able to gain insights into the Egyptian ISA adoption process, either through direct involvement, or through their position within an influential organization/firm (See Appendix 2). The two main themes of the questions centred around the adoption and implementation of ISA in Egypt and the role of different players. The interviews' duration ranged between 30 minutes to 3 hours, depending on how comfortable the respondents felt discussing the mentioned themes. In order to elicit the participants' views through a free-flowing discussion, the interviews included many open-ended questions and were conducted in Arabic. Participants were asked, after ensuring their anonymity, to provide their views on ISA adoption and its due process in Egypt. Table 2-3, sets out the profiles of the interviewees. Notes taken during the interviews were used to guide the questions for the following interview. Subsequently, the researcher translated and transcribed the interviews, then sorted them into codes/themes related to the ISA adoption process and its regulatory environment. Miles and Huberman (1994) suggested the use of an initial list of codes/themes to evade a possible overload of data. Guided by the mentioned theoretical frameworks, themes were systematically analysed and refined into key aspects directly influencing the NSS and the ISA adoption process. Chapter two of this thesis details the research methodology adopted for this research.

4.6 The Egyptian case

4.6.1 Historical development of Egyptian Auditing standards

In 1974, Egypt passed a law known as the "Open doors Policy" to attract foreign investments. The Egyptian government aimed to relax the rigid socialist rules that had prevailed since the 1960s by introducing more free-market friendly legislation (Hassan, 2008a). The IMF, the WB and the USAID provided financial and technical support to fund the application of comprehensive

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economic reforms (Zaki, 2001; Momani, 2003). However, the failure of consecutive Egyptian governments to achieve noticeable improvements sparked more pressure from the transnational financiers for core reforms to empower and revive the private sector and the capital markets (Lofgren, 1993; Momani, 2003). In the early 1990s, the Egyptian government initiated its "*The Economic Reform and Structural Adjustment Programme*" (Weiss and Wurzel, 1998). It entered into an 18-month stand-by agreement with the IMF and the WB on core reforms aimed at "*privatising public sector corporations and creating a climate conducive to attract both domestic and foreign investors to the Egyptian capital market*" (Zohny, 2000, p.5). Past studies on the Egyptian auditing market highlighted its deficiencies on several fronts such as Auditor's independence, weak/lack of professional codes and conflict of interests, and also pointed out the government's efforts, at that time, to issue corporate governance regulations in order to remedy the situation (Wahdan and Herik, 2012; Mohamed and Habib, 2013; Soliman and Ragab, 2014). The Companies Law of 1981, regulating the private sector, required all companies to prepare their annual audit financial statements according to "generally accepted accounting principles", but did not refer to a specific set of accounting or auditing standards (Abd-Elsalam, 1999).. The deficiencies of the Egyptian auditing profession and the mandate for using international standards gave an advantageous position to international audit firms over local firms; particularly for foreign investors. Interviewee no. 12 commented on the Egyptian audit market by stating:

"When a foreign investor lands in Egypt, he/she usually heads straight to the Big 4, most probably [.....], even though they pay much higher fees. They [foreign investors] choose [Big Four firm] not only because their perceived high audit quality, but also because they handle different aspects for the company, such as taxes."

Abd-Elsalam and Weetman (2003) pointed out that international audit firms in Egypt state in their audit reports that the financial statements were audited in accordance to international standards, while local Egyptian auditors referred to "Generally Accepted Accounting Principles".

When the new Capital Markets Law was issued (Law 95 of 1992), it initially mandated the use of international accounting standards for all listed companies (World Bank, 2002). Interviewee no.1, a partner at a Big Four firm commented on the initial mention of international standards:

"After we drafted the executive regulations for the Capital Markets law, which stated that the financial statements should be audited according to international standards, we faced law suits arguing that the law is unconstitutional. The argument was based on the fact that the law is referring to a text that is not available in Arabic [the official language]"

The above quote highlights the necessity for an Arabic version of ISA, tailored for the Egyptian context. In 1997, the Minister of Economy and Foreign Trade formed the "*Permanent Committee for Standards of Accounting and Auditing*", which he headed, tasked with setting the first Egyptian accounting and auditing standards (Ministerial Decree 478, 1997; World Bank, 2002). The structure set by the government (i.e. the Minister of Economy/Investments) included one

representative from the following governmental institutions: the Central Auditing Organization (CAO)³⁶, the Capital Market Authority (CMA), the Departments of Companies, two professional associations, the Egyptian Institute for Accountants and Auditors (EIAA)³⁷, the ESAA, and one accounting academic (Ministerial Decree 478, 1997). This Decree effectively established the regulatory space parameters of the first auditing NSS body in Egypt. It set a precedent by which actors should be included in the newly established local regulatory space. Nearly half of the actors were representatives of governmental bodies, an arguably bureaucratic composition that was maintained along the same lines in consecutive future committees. Although the committee/the NSS's structure implied a governmental-led approach, in effect the ESAA retained the main responsibility for the technical part of the standards-setting process (World Bank, 2002). The ESAA, which was originally established in 1946, "*plays an important role in the accountancy profession. However, it functions like an elite body of accounting professionals*" (World Bank, 2002, p.4). Interviewee no. 10, a managing partner at large local audit firm, explained the ESAA's role:

"Historically, the CAO used to set the accounting regulations in Egypt. However, for the last 20 years or so, the ESAA has controlled the accounting and auditing standards-setting process in Egypt, particularly one Big Four firm".

At the time of this research, the number of certified auditors registered to practice at the Ministry of Finance was 30,000 members; but only 2,100 of them were ESAA members (Samaha and Hegazy, 2010; ESAA, 2016a). The WB's ROSC addressed the mechanisms of the Egyptian standards-setting process and the role ESAA plays:

"The Society's [the ESAA] standard-setting committee selects international accounting and auditing standards that are applicable to the Egyptian situation. Once the committee selects an international standard, it is translated into the local language and becomes the basis for drafting an Egyptian standard that reflects specific requirements under Egyptian laws and regulations. The draft standard is submitted to the Permanent Committee for discussion, finalization, and adoption. The final version of the standard is transmitted to the Ministry of Foreign Trade for issuance by a ministerial decree. (World Bank, 2002, p.7)

The first set of Egyptian Accounting Standards were (EAS) issued in 1997. The Capital Markets law was amended, enforcing the use of the newly issued Egyptian standards (Ministerial Decree 503, 1997). In 2000, six Egyptian Standards on Auditing (ESA) were issued, addressing only issues

³⁶ The Central Accounting Organization (CAO) was established in 1964, to plan future budgets and control public funds (Hassan, 2008a, Mohamed and Habib, 2013). The CAO is the responsible entity for auditing all public entities and governmental entities (Farag, 2009).

³⁷ The Egyptian Institute for Accountants and Auditors (EIAA) was established through a two million U.S. Dollars grant from the USAID (Kayed, 1990). The EIAA aim was to create an Independent Board for Accounting and Auditing standards and to provide training programs of its members. However, due to a lack of funding after the USAID funding was exhausted and legal issues, the EIAA activities were placed on hold (Kayed, 1990). Although, the EIAA resumed its efforts to position itself as representative body for accountants, the ESAA continues to be the dominant professional association in Egypt.

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related to the auditor's report (Ministerial Decree 55, 2000). However, the standards mandated the application of ISAs on issues that the EASs did not address (Ministerial Decree 625, 2000). Interviewee no. 6, an ex-board member at the ESAA and a partner at an international firm explained:

"Since the late 1980's, we [international audit firms] have been using international standards. Some Big Four firms already have translated copies for internal use, but they like to maintain a monopoly on such knowledge. Therefore, the lengthy bureaucratic standards-setting process, from one committee to another, did not really bother them. Nevertheless, when they were facing pressures from the Minister to issue the Egyptian standards, the wording of the preface was a good "way out" for the Big Four".

The resources and training available for local Big Four affiliates through their network equipped them to implement ISA if required by a multinational client. Thus, the referral to the use of ISA in the absence of a corresponding ESA did not constitute an issue for the Big Four affiliates, unlike local audit firms.

In 2004, a new government adopted radical economic reforms in order to boost the economy (Dahi, 2012). The proposed reforms focused on introducing a new tax law in 2005, privatizing public sector companies, and changing the economic and investment framework to attract foreign investors. Interviewee no. 2 a partner in an international firm and an ex ESAA board member added:

"Since day one, the culture of execution was based on ministerial decrees. The ESAA and the minister at this time had a good relationship with each other. There was a top-down approach to the adoption and implementation of ISAs. Things were moving, they created the Auditor's oversight unit at the Capital Market Authority (CMA). This gave the standards some enforcement power, of course, to signal to the international community that we have a proper profession."

In updating its financials regulations, the Egyptian government depended on private actors familiar with best international practices. Given the limited resources of other actors within the Egyptian regulatory space, the ESAA managed to position itself as an obligatory passage points in the ISA adaptation process. Interviewee no. 10 was asked about his views on who were the most influential actors in the standards setting process. He stated:

"It used to be the CAO, but now it is only one [Big Four firm] at the front row. When you confront them with this fact, their answer is; we are not [a Big Four firm], we are ESAA. Nevertheless, we all know that the Big Four occupy the ESAA and rationalize it with their contribution to most of the ESAA's funding. They will not fund if it does not bring some kind of benefit to them"

Interviewees no. 2, 6, 13 and 12 concurred with interviewee no. 10, that one Big Four firm controlled the ESAA's operations. In summary, the ESAA provided a legitimization front for the inclusion of the Big Four within the Egyptian regulatory space. The ESAA acted as a surrogate for local Big Four affiliates to exercise influence over the ISA adoption in Egypt.

4.6.2 The Standards-setting process in Egypt

By 2008, the current version of ESAs were issued, containing thirty eight ESAs and a general audit framework (Ministerial Decree 166, 2008). The current 2008 ESAs is based on the IFAC's 2005 version of ISAs. As an IFAC member, the ESAA is required to submit a Statement of Membership Obligations (SMO) as basis of the IFAC Member Compliance Program, including details on the state of ISA adoption in their jurisdiction. The SMO should include an up-to-date, comprehensive description of the current status of the local profession and reports on actions taken to fulfil the member's "*obligations to support the adoption and implementation of ISA*" (IFAC, 2012c, p.4). Members should provide a satisfactory explanation if they fail to meet their SMO stated targets, or risk membership suspension or removal (Siddiqui, 2012). In their latest SMO, the ESAA stated that is not responsible for adopting auditing standards, but their role is merely to monitor the IAASB pronouncements and propose modifications to the NSS, to ensure convergence between ESAs with ISAs. The ESAA stated that it promotes the need to bring ESAs in line with ISAs, but the standards have not been updated, despite several meetings with the Ministry of Investment³⁸ in 2014, and 2015, on the subject (ESAA, 2016a).

This research attributes the failure to successfully ensure a full and timely ISA adoption and implementation to two reasons. The first is related to the delay in aligning ESAs with ISAs, which addresses the standards-setting process and the attributes of the actors involved. The second aspect is concerned with the dynamics/technicalities of the due process within the ESAA, in terms of translation issues and exposure drafts.

4.6.2.1 The delay in aligning ESAs with ISAs

This section provides the views of our interviewees regarding the process of developing auditing standards in Egypt. Interviewee no. 9, a partner at a local audit firm, and a member of the ESAA, addressed the question of who initiates the standards-setting process in Egypt, by stating: "*ESAA initiates the process. However, there is no trace to what happens internally*". Interviewee no. 4, an ex-board member of ESAA who was involved in the standards-setting processes, clarified the "lengthy" standards-setting process, by saying:

"It starts with the standard-setting committee at the ESAA, and then it goes to the Permanent Standards Setting Committee, before final approval by the Minister of Investment."

³⁸ Egyptian Accounting and Auditing Standards are issued by a ministerial decree from the Minister of Investment.

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Interviewee no. 1, a partner at a Big Four firm and a member of the standards-setting committee, commented on the rationale behind the constant time lag (currently nine years) between ISAs and ESAs:

"In the past, the standards-setting committee was headed by the Minister, which made us go through a prolonged bureaucratic process to set a meeting with him to review the standards. Now, the Minister just ratifies and issues the standards".

Interviewee no. 2, a partner in an international firm and an ex ESAA board member, added:

"To address the development lag, they established... or tried to... a body called the Supreme Council for Accounting Standards, but it never held a meeting. This council was supposed to replace the Minister in order to enforce timely developing accounting standards. As for the auditing standards, they gave the development task to the ESAA. As far as I knew from the ESAA board members, they did not find sufficient support from the concerned ministries. There was a confusion about which minister had the authority to issue the standards".

In 2013, the Prime Minister formed a new Permanent Standards-Setting Committee, headed by the President of the EFSA instead of the Minister. The new NSS committee³⁹ maintained most of the bureaucratic composition of the previous standards-setting bodies, with a notable inclusion of an auditing expert (practitioner), and a Big Four partner (Egyptian Cabinet, 2011; EFSA, 2014b).

Interviewee no. 1 further explained the time lag in developing the standards:

"Bear in mind that the people at the ESAA are volunteers, they do not get paid for this job. They are partners at their firms; the standards-setting committee is not their full-time job. For example, in 2014 while we were working on the new standards, a new updated one came out which we had to factor in".

Interviewee no. 5, an official at EFSA, further commented on the same issue:

"We found that the changes from 2005 to 2013/2014 are merely categorization and reorganization of the standards. They are not material. However, for accounting standards, there are considerable amounts of work to update the EASs to align with IFRS, and that's what we are focusing on. The new EASs should be issued next month⁴⁰."

Interviewee no. 3, an ex-board member of the ESAA's standards setting committee and a partner at a Big Four firm, further explained: *"they have a big problem concerning funding; we end up translating and working on the standards at our offices".*

In their 2014/15/16 SMOs, the ESAA stated that their action plan on the tasks named *"Further Development of the Ongoing Implementation of the IAASB Pronouncements"* had started in

³⁹ The new/current standards-setting body includes seven members: 1) the President of EFSA (serving as the committee Chairman). 2) The President of the General Authority for Investment and Free Zones (GAFI) or his representative. 3) A representative of the Central Auditing Organization (CAO). 4) The President of the Egyptian Institute for Accountants and Auditors (EIAA). 5) The President of the Egyptian Society of Accountants and Auditors (ESAA). 6) The head of Accounting & Auditing sector at the Syndicate of Commercial professions, 7) An accounting expert chosen by the Committee Chairman.

⁴⁰ The new set of Egyptian Accounting Standards (EAS) were issued in July 2015. However, the Egyptian Standards on Auditing (ESA) have not been issued yet.

November 2012. The completion date was listed as "March 2013 ongoing" in all three SMOs (ESAA, 2014, 2015, 2016a). Interviewee no. 7, who was also involved in the standards-setting process within ESAA, commented:

"Most countries have dedicated qualified professionals for these tasks. However, in Egypt, although we as professionals are willing to help, we do not have enough time. We do help after our normal work schedule and we are not paid. This is not a sustainable system. However, I do not agree to the standards setting process in Egypt. I think it has many flaws and is largely affected by politics and economic interests. One Big Four firm takes the credit for issuing the standards".

Interviewee no. 6, an ex-board member of ESAA, revealed the backstage of ESAA's standards-setting process:

"I was involved with the ESAA regarding issuing ESAs. The progress and the quality were, at many times, not satisfactory, because in reality... it is a voluntary task. In many cases, the partners would delegate the task to their managers, and so on. At one point, they decided to use paid experts/academic for drafting the auditing standards (not the accounting) in order to have a real progress and constant updates. I think it yielded a better quality, because you could enforce a deadline and hold them accountable. However, the ESAA board quickly decided to stop using external experts, citing that this task with the ESAA should not be a paid one".

When questioned about the actual involvement of other actors representing the remaining institutions (i.e. the EFSA, the CAO, etc.) within the standards-setting committee, Interviewee no. 6 argued:

"They don't have the necessary calibre. Bottom line, when it comes to standards and interpretations, it is very hard to find someone outside of the international firms. The ESAA practically has a monopoly on the standards-setting process in Egypt through the Big Four. The standards setting committee might have only 1 or 2 members from the Big Four, but they control the rest"

In summary, the delay in updating the ESAs could be attributed to insufficient financial and technical resources in Egypt. However, it is important to consider the implication of the IFAC's Clarity Project⁴¹ on ISAs issued 2009, onwards. The new structure for ISAs sets a clear objective for each ISA and establishes the auditor's obligation to the objective. For example, it uses clear language in communicating requirements the auditors need to fill, by adding the phrase "the auditor shall" (IAASB, 2009). Thus, ISAs' new structure and what it entails places an additional responsibility on auditors that might hinder the adoption and implementation of ISAs issued 2009, onwards.

⁴¹ The Clarity Project, which aimed to enhance the clarity of ISAs, "it involved the application of new drafting conventions to all ISAs, either as part of a substantive revision or through a limited redrafting" (IAASB, 2009). The project resulted in issuing a set of 36 clarified ISAs (One new standard, 19 redrafted and 16 revised and redrafted).

4.6.2.2 Translation Issues

The 2009 ROSC described the ESA standards-setting process, by stating:

"There are no Egyptian standards on auditing as such; instead the regulatory framework prescribes the use of International Standards on Auditing, as prepared by the International Federation of Accountants (IFAC's ISAs), which are translated into Arabic.". (World Bank, 2009b, p.14).

Commenting on the differences between ISAs and ESAs, Interviewee no. 12 stated: *"The Egyptian standards are a mere translation of the ISA, the problem is that the ESAA is always late in translating it".* Interviewee no. 8, a partner at a Big Four firm, reaffirmed this view: *"I don't think there is a big difference between ISAs and ESAs. The Egyptian Standards are an accurate translation of ISAs. We are just behind on the updates".* Interviewee no. 11, a partner an international firm, commented on the delay in issuance the new updated standards:

"I think we are very behind with the updates. Things are moving fast abroad, constantly updating, while it takes us a very long time. The IFRS are now issuing an Arabic translation with the help of the accountants' association in Jordan."

Interviewee no. 6 commented on how ISA's English version and ESAs Arabic version are used:

"We apply ISAs as a benchmark. My team and I do not wait for the Egyptian standards to be updated, because by the time it gets translated, it is already outdated and a new version is issued. We have some staff members who cannot read the original text in English. In this case, we use the official translation by the International Arab Society of Certified Accountants (IASCA) in Amman, Jordan. They hold the license to translate IFRSs and ISAs pronouncements. They have an office here in Cairo."

The IFAC set a policy for reproducing and translating its pronouncements to *"ensure that interested parties have appropriate authorizations by IFAC in place and avoid inadvertently infringing any IP rights or copyright laws"* (IFAC, 2016). It announced the availability of some of its pronouncements in Arabic⁴². Interviewee no. 7 commented on the possibility of ISA translations issues and use of ISA official Arabic version:

"We could adopt ISA as it is, but we have a law that requires the Egyptian standards to be in Arabic. There is an existing Arabic translation by IASCA, but they argued that it wasn't using Egyptian terminology."

Interviewee no. 5 was asked to respond to the criticism regarding the translation time-lag, despite the availability the IFAC's official translation, as provided by the IASCA. The following is his response to the issue:

⁴² The IFAC's Arabic pronouncements include the "Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements" translated by the IASCA and "IFAC Professional Accountants in Business Committee publication, Defining and Developing an Effective Code of Conduct for Organizations" translated by the Saudi Organization for Certified Public Accountants (IFAC, 2011b)

Interviewee no. 5: "[IASCA] has the right to translate the international standards, but it won't fit the Egyptian market as it is. There are some exceptions. For example, we do not follow the accounting standards as ISA in areas such as the fair value and capital leases."

Interviewer: "So it should not be a problem for the auditing standards, right?"

Interviewee no. 5: "We did not start working on the auditing standards yet. After we found that differences between our current version of ESAs and ISAs are not significant. Nevertheless, we will do it."

The above discussion detailed several aspects affecting ISAs' translation into ESAs. However, the availability of the IFAC's Arabic translation, the amount of resources and the lengthy time allocated by the ESAA to the translation process, imply that ISA translation issues are used as techniques by the ESAA to increase its influence over the standards-setting process.

4.6.3 Exposure Drafts

Contrary to the IFAC's own due process and its guide to the NSS, which promote wider public engagement in the standards-setting process, the 2009 ROSC report criticized the process in Egypt, by stating:

"The Permanent Committee for Standards of Accounting and Auditing is not required as such to consult with the public when issuing new accounting standards or interpretations. However, because in practice the ESAA has the main responsibility for drafting EAS and ESA, and represents the accounting and auditing profession, key stakeholders are thus consulted on a de facto, if not de jure basis. (World Bank, 2009b, p.14)"

The vast majority of Egyptian auditors are excluded from ESA's standards-setting process.

Interviewee no. 6 commented on the transparency and inclusion of Egyptian auditors into ESAs due process:

"Although something like the standards' exposure draft should be circulated to all registered auditors, not only the ESAA members, in practice, they circulate internally between only members of the ESAA's standards-setting committee and the board ratifying it. The regular ESAA members do not receive it."

The ESAA claimed that, starting from 2014, it disseminated new exposure drafts to the ESAA's members with regards to reporting issues to take into account (ESAA, 2016a). However, our interviewees disputed this claim. Interviewee no. 4 stated: "We publish it on the ESAA's website. If anyone is interested, they can look at it and send comments. We send it out after it is issued".

Interviewee no. 9 contended by adding: "The ESAA does not send exposure draft. They just send us the newsletter". Interviewee no. 1, a Big Four partner and a member ESAA standards-setting committee, discussed the issue of disseminating exposure drafts to ESAA members: "Our ESAs are already identical to ISAs with even the same standards' numbers, names and paragraphs". When the interviewer pointed out new areas that were introduced in later versions of ISA, such as the International Standards on Quality Control (ISQC1), interviewee no.1 replied:

"What you are saying is rules based standards not principles based. The principle based standards states that you should maintain the quality. How to maintain the quality is the

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question... For example, you can set a principle for a car driver to look out for his life and property, as well as that of others.... If I used a rule based approach such as, put on the seat belt, but did not mention not crossing over sidewalks. Then if he did, as such, he is not at fault".

This promoted a discussion regarding which approach (rules based vs principle based) was applicable in the Egyptian local context. Interviewee no.1 then pointed out that the core problem hindering the full application of ISA in Egypt was the weakness of the local profession. Interviewee no.1 further explained:

"It is not the gun. It is the man behind the gun. That's why, we at the ESAA are proud with our membership examination and certification process. There is a big gap in the technical knowledge between the ESAA members and other Egyptian auditors"

The majority of the ESAA members were auditors at local Big Four affiliates in Egypt. The ESAA members pass through an examination and certification process which produces technically superior auditors, who are more capable in engaging in the ISA adoption and implementation discussion. Nonetheless, regular ESAA members are also not included in the ESAA's due process. In fact, the EASs exposure drafts were negotiated and discussed only within a very small circle at the ESAA.

4.7 Discussion

This research employed the Egyptian case of ISA adoption to provide insights into ISA regulatory space and its dynamics within developing countries. Transnational forces (global standards-setters i.e. the IFAC & the Big Four firms) have led to substantial changes within the national regulatory spaces and increased the complexity of regulatory dynamics between local actors (Malsch and Gendron, 2011; Hazgui and Gendron, 2015). However, this paper argues that such regulatory space changes are more fundamental in the case of developing countries. The focus of this paper is the rising role of local Big Four affiliated firms, within the regulatory space in developing countries and, amid the inherent weaknesses of other local actors. Unaccustomed to international standards, the Egyptian government established the NSS to adopt ISA. ISA adoption substantially changed the three dimensions of the local regulatory space and assigned a central role to local Big Four affiliates. The first dimension is concerned with the regulatory parameters set and controlled by the regulator, i.e. the NSS (Nicholls, 2010). On paper, the Egyptian ministerial decrees establishing the NSS committee/body maintained the bureaucratic composition when defining the parameter of the regulatory sub-space and the actors involved. In reality, the ESAA assumed the leading position in directing ISA adoption, dictated the work agenda and flow within the regulatory space, with nominal participation from the EFSA, the CAO and other organizations' representatives. Despite the inherent advantage of the state apparatus in setting regulations

(MacDonald and Richardson, 2004), the Egyptian state effectively gave away their advantageous position, given the lack of technical knowledge and financial resources.

In terms of the actors involved, the NSS, unfamiliar with ISAs, were bound to include private actors (ESAA) as experts on ISAs in the local regulatory space. By using the ESAA as a surrogate, the local Big Four firms not only managed to gain access to the local regulatory space, but also to legitimize their increasing influence. Regarding the proposed regulation/auditing standards (the third regulatory dimension), major deficiencies in the standards-setting mechanism and due process facilitates its capture by the Big Four. The standards-setting process in Egypt involves a small circle of actors, with no input from other key stakeholders. The data demonstrated how the ESAA utilized its monopoly on the ESAs' exposure drafts and the translation process, as regulatory capture techniques. The inferior technical knowledge of other local actors about ISA related issues boosted the ESAA's power, inversely affecting the due process. ESAs are issued on a de-facto basis, amid an absence of adequate public oversight and there may be questions raised as to the relevance of the public interest.

The above discussion reveals how ISA adoption has different impacts on the regulatory space dynamics of developed and developing countries. For developed countries, the local regulatory space is more integrated, and even overlapping with the global regulatory space. In terms of actors, the NSSs and professional associations of developed countries are represented in the IFAC's global regulatory, thereby having an early involvement at ISA inception to voice their countries' interests (Simunic, 2003). Furthermore, regulatory space in developed countries is characterized by the presence of a strong NSS, multiple actors, adequate representation of the audit profession, already established due process mechanisms, the availability of financial and technical resources, and a relatively higher degree of public interest and transparency. Both regulatory spaces, on the global level and in developed countries' contexts, operate within an already established institutional structure, with some overlapping actors. Thus, ISA adoption has not caused fundamental changes to the regulatory space of developed countries. In fact, the process of ISA adoption in developed countries effectively passes through a double "calibration" process. Firstly, it passes through the IFAC's global regulatory space with its due process and, secondly, it filters through the local regulatory space. In essence, ISAs adopted in developed countries are subjected to two different due process mechanisms, which are supposedly designed to increase public oversight and to limit the influence of the audit profession.

Conversely, ISA adoption in developing countries is subject to different dynamics at the local level. It can be argued that ISA adoption in developing countries is effectively operating in a "sub-regulatory space". Figure 4-1, below, illustrates the interrelation between the global and local ISA

regulatory spaces in developing countries. Following ISAs' issuance at the global level, ISA regulatory space in developing countries is governed by different cultural and institutional dynamics and motives. The NSSs of developing countries are expected to produce a local adaption of ISAs, amid external pressure from transnational financers, and limited financial and technical resources. Although the composition of actors within the sub-space is at the discretion of the local authorities, ISA adoption has caused a power shift, favouring the Big Four local affiliates within developing countries' regulatory space. At a global level, the Big Four firms have occupied a prominent position with the global regulatory space, acting as a testing ground and interpreters for ISA (Suddaby *et al.*, 2007; Humphrey *et al.*, 2009). At the local level, local Big Four affiliates have leveraged an advantageous position as a necessary nexus between best international practices and calibrating ISAs to the local context (Ramirez, 2012). In essence, they are the only local actor in developing countries who can claim ISA experience. In contrast to the intentions of the IFAC's reforms, ISA adoption has helped the Big Four local affiliates to occupy increasing space and power. This masked domination could negatively affect the credibility of ISAs' due process within developing countries' sub-regulatory space.

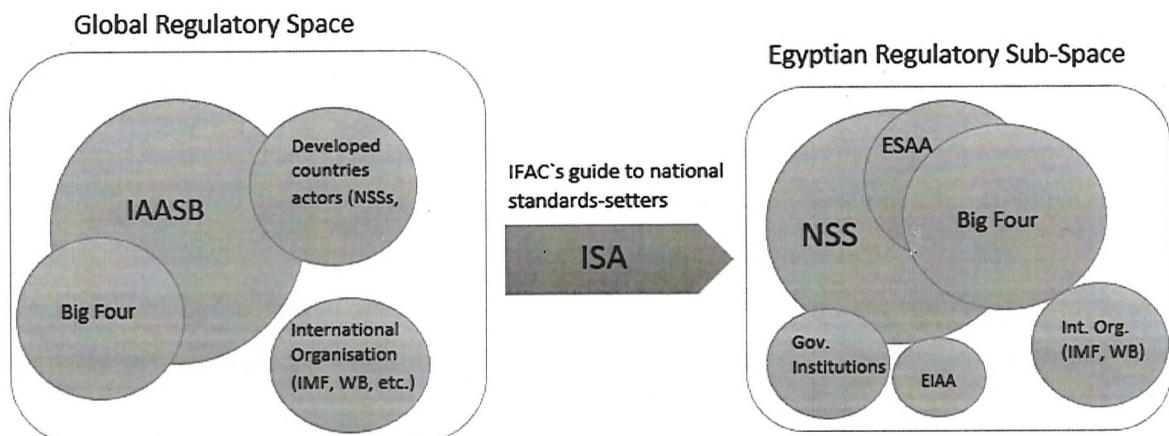


Figure 4-1 Key actors within the global and Egyptian regulatory space

4.8 Conclusion

At the global level, the IFAC's reforms advocated serving the public's interest and insuring an ISA due process that is independent, transparent and free of inappropriate pressures by the audit profession (IFAC, 2011, 2012b; Williams, 2014). Additionally, at the local level, audit failures in developed countries led to audit reforms emphasising public oversight and limiting the influence of the audit profession. The audit profession, particularly international audit firms, responded by employing different resistance strategies (Humphrey *et al.*, 2009; Malsch and Gendron, 2011;

Canning and O'Dwyer, 2013; Hazgui and Gendron, 2015). Nevertheless, public interest and pressure, accountability and oversight mechanisms remain among the main factors leading to suppress the profession's resistance, and to "enhance" the standards-setting process in developed countries (Humphrey *et al.*, 2009; Canning and O'Dwyer, 2013). This should not be understood as an attempt to idolize the regulatory space dynamics of developed countries but, rather, as an effort to reveal these dynamics unfolding within developing countries' regulatory space. The broader cultural and institutional variations between developed and developing countries result in changes in the regulatory space dynamics and the role of the Big Four in the ISA adoption process.

The implementation of ISA due process, as advocated by the IFAC, is challenging in the context of developing countries. There are several presumed factors which hinder the full ISA adoption and implementation, particularly in relation to the characteristics of actors within the regulatory space. Firstly, developing countries lack well-established NSSs, such as the FRC in the UK, and the PCAOB in the USA, with adequate powers to intervene, enforce and mediate between different local actors (Young, 1994). Furthermore, the NSSs in developing countries are poorly funded and unable to hire qualified professionals. Secondly, the absence of multiple, strong, professional associations in developing countries hinders the development of the local profession and inversely affects public interest. Unlike developing countries, auditors in developed countries are engaged directly, or indirectly, (i.e. exposure drafts) in the standards-setting process through their professional associations. Hopper *et al.* (2016) argued that professional associations in developing countries are weakened by the lack of political will, domestic divisions and interference by "Northern" professional associations. Additionally, the lack of democratic accountability mechanisms in developing countries furthers the public's indifference regarding auditing regulations. The previously mentioned factors, combined with pressure from transnational donors to adopt ISA, has allowed the Big Four local affiliates to capture the local adaptation process as a mediating agent between the local context and best international practices, on the account of due process. Finally, this research argues that the presence of diverse, independent, representative, qualified local actors within the regulatory space is a necessary safeguard against the increasing power of the Big Four. A limitation of this research is the difficulty in attaining records concerning the points of debate and negotiation of the proposed standards.

4.9 Appendix 2: List of interviewees (Paper 2)

Interviewee No.	Position	Interview Duration
1	A Partner at one of the Big Four firms & a current/previous ESAA board member	1 Hours, 5 Mins
2	A managing partner at an international audit firm, a current/previous ESAA board member	1 Hours, 4 Mins
3	An audit partner at one of the Big Four firms & a current/previous ESAA board member	1 Hour, 20 Mins
4	A managing partner at a local firm & a current/previous ESAA board member	54 Mins
5	EFSA senior official	2 hours 40 Mins
6	A managing partner at an international audit firm & a current/previous ESAA board member	3 Hours
7	An audit partner at one of the Big Four firms & a current/previous ESAA board member	32 Mins
8	An audit partner at one of the Big Four firms	35 Mins
9	An academic and a partner at a local audit firm	1 Hour, 35 Mins
10	A managing partner at a large local audit firm	54 Mins
11	An audit partner at an international audit firm	47 Mins
12	Previous senior auditor at an international audit firm	48 Mins
13	An audit manager at an international audit firm	1 Hour

Chapter 5: Auditing the Egyptian Auditors: An Analysis of Compliance Reviews by the Local Public Oversight Body

5.1 Abstract

The purpose of this research is to enrich our understanding to the oversight function in developing countries and its relation to the global audit arena, by examining the establishment of the Egyptian Audit Oversight Unit (AOU), and its oversight approaches. Drawing on the theoretical framework of “society of the spectacle” by Debord (1967, 1988), this research attempts to reveal how the AOU modelled their compliance reviews to mirror the image of Public Oversight Boards (POBs) of developed countries, in order to integrate into the global audit spectacle.

The paper relies on primary data gathered through 20 semi-structured interviews from the main two stakeholder groups relating to the oversight process: the regulator (i.e. EFSA) and audit firms in Egypt. Secondary sources include data from organizations, such as the World Bank, the IFIAR, the EFSA, and the European Commission. The research provides a closer examination of the dynamics surrounding the AOU’s oversight approach to different types of Egyptian audit firms (local firms, local firms with a nominal international affiliation, and local affiliates of Big 4 firms and other ‘top tier’ international firms).

The findings of the paper reveal how the AOU’s establishment was a response to the global audit reforms advocating the establishment of POBs, aimed at re-gaining public trust, with little or no information about practical changes in audit practice. Drawing on Debord’s spectacle analogy, the paper highlights the AOU’s dependence on checklist-based compliance reviews, thereby replicating the image of their counterparts in developed countries. The paper demonstrates how the AOU focused on the visibility of certain audit policies (e.g. QC manuals), rather than the actual improvements in audit practice. Furthermore, the paper demonstrates that small audit firms respond to AOU’s by focusing on inspection risk rather than improving their audit processes. The paper also reveals that internationally affiliated audit firms are likely to bypass the AOU’s oversight mechanisms, depending on their network’s image, policies and procedures which supposedly are modelled on “best international practices”

The paper contributes to the literature by presenting empirical insights into the operation of auditing oversight in practice in a developing country context. Moreover, the paper contributes to

the literature on the effectiveness of POBs', by demonstrating how the AOU's checklist oversight approach might have increased the symbolic compliance of local audit firms. In doing so, the paper sheds light on the capacity of POBs in a developing countries to monitor international audit firms and their readiness to engage in transnational oversight recognition arrangements.

Keywords: Audit reforms, Public Oversight Boards, Compliance Reviews, Big Four firms, Developing countries, Egypt.

5.2 Introduction

A series of high-profile corporate scandals questioned the ability of the Anglo-American self-regulation approach in preventing future audit failures (Humphrey *et al.*, 2011; Arnold, 2012; Hazgui and Gendron, 2015). Subsequently, Public Oversight Bodies (POBs) were introduced as a new powerful class of regulators with a mandate to improve audit quality (Maroun and Atkins, 2014; Caramanis *et al.*, 2015). Their role was to formulate and interpret the "meaning" of audit regulations compliance and, subsequently, to "*monitor, enforce and penalize non-compliance with professional standards and practices*" (Maroun and Atkins, 2014; Dowling *et al.*, 2015, p. 3; Glover *et al.*, 2015). Inspired by the U.S. Public Company Accounting Oversight Board (PCAOB), the concept of POBs spread globally, with similar mandates, although national POBs implemented different oversight approaches (Hazgui and Gendron, 2015). Contingent upon the diverse local contexts, national POBs applied different enforcement styles, registration requirements, and inspection programs in monitoring audit firms under their jurisdiction (Malsch and Gendron, 2011; Dowling *et al.*, 2015). In this respect, compliance reviews are regular inspections and evaluations of a registered audit firm's practices and quality control system, either by relying on peer-review based inspections or direct inspection by the POB. These new regulatory measures have been introduced in developed countries, e.g. the U.K., Australia and Canada (Unerman and O'Dwyer, 2004; Malsch and Gendron, 2011; Holm and Zaman, 2012), as well as in developing countries, e.g. South Africa (Maroun and Atkins, 2014).

Several studies have sought to evaluate the effect of POBs and their compliance reviews on the level of audit quality and, when using quantitative measures, they have identified, in the main, positive outcomes (Francis, 2004; DeFond and Lennox, 2011). However, such cross-sectional studies of audit quality do not provide evidence of changes in audit practices at the firm level (Power, 2003; Humphrey *et al.*, 2011) and results vary according to how 'audit quality' is measured. Across different jurisdictions, critics question whether audit reforms and POBs have generated material improvements in audit quality (Humphrey *et al.*, 2011; Malsch and Gendron, 2011; Carson *et al.*, 2013; Dowling *et al.*, 2015). Some regard such audit reforms to be lacking

substance, and these are often labelled as a 'Tick-the-Box' approach to legitimise the presumed existence of control at an arms-length basis (Unerman and O'Dwyer, 2004; Humphrey *et al.*, 2009; Power, 2009; Malsch and Gendron, 2011; Maroun and Atkins, 2014; Dowling *et al.*, 2015; Hazgui and Gendron, 2015). Arguably, if the establishment of POBs does not appear to have changed audit practices, then their establishment could be viewed as a form of spectacle, i.e. mere theatrics. This spectacle portrays an image of enhanced "audit quality" that is necessary to subdue public concerns and pressure. This argument is reinforced by the nature of the audit quality itself, as a socially constructed concept, pursued by POBs and audit firms as an "espoused" ideal, which is easy to express in rhetorical terms, but difficult to be precisely observed by outsiders (Holm and Zaman, 2012, p.53)

As a response to external pressures, some national POBs appear to mirror the operational image of international POBs, but with no changes to audit practices (Caramanis *et al.*, 2015). Although the POB's effectiveness depends on locally enforced accountability mechanisms and institutional power dynamics between local actors (*POB & audit firms*), it is increasingly conditioned by global/transnational forces (Suddaby *et al.*, 2007; Humphrey *et al.*, 2011; Gillis *et al.*, 2014). After the financial crisis, the global regulatory arena witnessed the creation of new institutions to facilitate POB coordination and to increase global oversight consistency, i.e. The International Forum of Independent Audit Regulators (IFIAR), & The Committee of European Auditing Oversight Bodies (CEAOB)⁴³ (Humphrey *et al.*, 2009). POBs are increasingly engaged in knowledge sharing, and interdependency oversight arrangements (IFIAR, 2012a; Gillis *et al.*, 2014). POBs refer to their international counterparts to ensure that their local oversight is within the "norm", by also gaining legitimacy in referring to the "best international practices" of other prominent POBs (Houghton *et al.*, 2013; Dowling *et al.*, 2015; Hopper *et al.*, 2016). In pursuit of achieving integration into the global audit structure, there is a risk that POBs model their compliance reviews to mimic the *form* of other leading POBs, but not their *substance*. For instance, Hazgui and Gendron (2015, p.1248) reported that, under the pressure from the PCAOB and the EC to have a "sufficiently advanced" regulatory oversight, the French POB, the *Haut Conseil du Commissariat aux Comptes (H3C)*, altered their compliance review mechanisms and introduced a form of co-regulation within the profession. This is particularly relevant in the case of POBs in developing countries, given their inherent institutional weaknesses. Their rationale is that if POBs of developed countries conduct their compliance reviews using certain monitoring tools, such as checklists, then these tools reflects "best international practices". POBs rely on the use of

⁴³ "The Audit Regulation, which became applicable on 17 June 2016, repealed the decision establishing the EGAOB (Commission Decision 2005/909/EC). The EGAOB has therefore ceased to exist".(European Commission, 2016)

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checklists and rule-based compliance reviews to legitimize their work, thereby presenting a form of “audit trail” evidence and “regulated transparency” (Power, 2009, p. 852; Dowling *et al.*, 2015)

Responding to calls to study audit regulatory sites outside developed countries, and given the scant research in the examination of POBs and their effectiveness in developing countries (Cooper and Robson, 2006; Suddaby *et al.*, 2007; Gillis *et al.*, 2014; Maroun and Atkins, 2014), this study analyses the establishment of the Egyptian Audit Oversight Unit (AOU)⁴⁴, and its actual oversight approaches. Drawing on the theoretical framework of “society of the spectacle” by Debord (1967, 1988), this research critically evaluates how the creation and operation of POBs in developing countries are shaped by, and integrated into, a global audit spectacle. Debord’s concept of the spectacle explains the gradual domination of global capitalism over modern societies, where reality is driven, manipulated and controlled by theatrical spectacles portrayed in the media (Boje *et al.*, 2004; Uddin *et al.*, 2011). The spectacle is a metaphoric term which refers to “a corporately orchestrated performance”, a social control mechanism, whereby global forces (corporations/transnational standards-setters) repeatedly portray images of implemented pseudo-reforms to gain the public’s confidence and maintain the existing order (Boje, 2001, p.432; Uddin *et al.*, 2011). Debord’s analogy of the spectacle, and its transformational stages, namely, *concentrated* (i.e. centralized economies), *diffused*, *integrated/global* and *Megaspectacle*, provides an useful theoretical framework to analyse audit reforms (Gumb, 2007), particularly when considering the transformational dimension in the context of developing countries. The use of these notions is not new in the accounting literature. For instance, Enron’s collapse can be viewed as a Megaspectacle, threatening the profession’s established order (Boje *et al.*, 2004). The wave of audit regulatory reforms (i.e. POBs) can be viewed as circumscribing systems put in place to merit public trust (Gumb, 2007; Gumb *et al.*, 2015), a form of spectacle representation that is spreading globally. Relatedly, compliance reviews, as a control mechanism used by POB, can be viewed as a one of the global spectacle’s *props* deployed in a developing economy spectacle.

Informed by the above, this study raises the following questions. Firstly, “How did the AOU introduce and enforce its compliance reviews in the Egyptian context?” Secondly, “How did the local audit firms (affiliates of international firms and local firms) view, and respond to, the new regulator?” This qualitative study contributes to the literature (Maroun and Atkins, 2014; Hazgui and Gendron, 2015; Canning and O’Dwyer, 2016), by revealing: 1) The circumstances surrounding the introduction and operation of a POB namely, the AOU, into a developing country, and the

⁴⁴ In 2008, The Audit Oversight unit (AOU) was established under the umbrella of the Egyptian Financial Supervisory Authority (EFSA), as its auditor’s oversight arm.

challenges faced by the POB, 2) The rationale behind AOU's compliance approach and the variations in terms of how local firms reacted to the new regime (international vs local audit firms) and, 3) The case of POB *cross-oversight recognition*, where the POBs in developed countries, i.e. the CEAOB, rely on the oversight mechanisms of their counterparts in developing countries. This transnational arrangement of regulatory oversight is consistent with Debord's analogy, whereby control mechanisms of the global spectacle are integrated and utilized into the local audit spectacle (Debord, 1988; Gumb, 2007; Hazgui and Gendron, 2015). The focus of this study is important for several reasons. Firstly, transnational oversight arrangements, particularly the link between POBs in developing countries and the global audit arena, remain an under-investigated issue (Kleinman *et al.*, 2014; Sunderland and Trompeter, 2017). Secondly, Egypt presents an interesting case, since the local audit profession has not ever been subject to either self-regulation or public oversight.

Furthermore, there is scarcity of studies addressing POB and the attributes of compliance reviews in developing countries (Cooper and Robson, 2006; Suddaby *et al.*, 2007; Malsch and Gendron, 2011), particularly qualitative studies in Egypt⁴⁵. This is due to the difficulty of access to the Egyptian auditing environment (Raslan *et al.*, 2016). Data for this research was collected through 20 semi-structured interviewees with senior officials at EFSA, and senior/junior level auditors at international and local firms. Decrees, laws, and official internal documents were used as a secondary source of data for triangulation and validation purposes. The next section addresses the introduction of POBs in different countries. The section following that discusses the POBs effectiveness and influence on audit quality, followed by a section on the transnational interdependency between POBs. Finally, the theoretical lens of the "spectacle", as conceptualized by Debord (1967, 1988), is mobilised to analyse EFSA's oversight function in relation to the global regulatory structure.

5.3 Public Oversight Boards (POBs), their International Spread, Effectiveness and Interdependency

Major regulatory reforms are often induced by crisis/scandals (Hancher and Moran, 1989), or MegaSpectacles, according to Debord's analogy (This will be explained in more detail in Section 3) (Boje *et al.*, 2004). Enron, as with other scandals, such as Tyco and WorldCom in the U.S.A, HIH in Australia, and Parmalat in Italy, pushed for audit reforms in over 12 of the leading global

⁴⁵ A notable exception is Raslan *et al.* (2016), who addresses auditor risk assessment and quality control elements in Egyptian audit firms.

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economies (Jones, 2011). For example, IFIAR members grew in number from eighteen members, in 2006, to fifty-two POBs in 2015 (IFIAR, 2017). However, the success of reforms aimed at producing POBs that are capable of elevating audit quality levels is conditioned by macro and micro factors unique to every national context. At the macro level, their application depends on domestic political constraints, socioeconomic structure, and a *balanced combination of capacity and institutionalized incentives* (Hegarty et al., 2004, p. i; Humphrey et al., 2009; Caramanis et al., 2015). At the micro level, the POBs' operational effectiveness hinges on the availability of institutional resources and the effective implementation of the regulations in practice (Malsch and Gendron, 2011; Hazgui and Gendron, 2015). Additionally, POBs' oversight approach depends on the nature of interactions and power dynamics (subject to negotiations) between the local POB and the audit firms, which varies depending on the local context in each country (McAllister, 2010; Malsch and Gendron, 2011; Canning and O'Dwyer, 2013). Indeed, in general, there are distinctive characteristics between the contexts of developed and developing countries, involving factors such as public interest/support, democratic accountability mechanisms and transparency, which, in turn, positively affect the scope and power of POBs in developed nations (O'Donell, 1994; Canning and O'Dwyer, 2013). On the other hand, some developing countries "*inherited serious socioeconomic difficulties from the preceding authoritarian regimes*", which hinder the production of functional POBs (O'Donell, 1994, p.63; Caramanis et al., 2015). The next section addresses the circumstances surrounding the introduction of POBs in different national contexts.

5.3.1 POB implementation in local contexts

Past research has addressed the creation of POBs in different countries in terms of their regulatory scope, oversight approach, as well as the audit firms' response (Malsch and Gendron, 2011; Canning and O'Dwyer, 2013; Carson et al., 2013; Maroun and Atkins, 2014; Caramanis et al., 2015; Hazgui and Gendron, 2015). In Ireland, for example, Canning and O'Dwyer (2013) revealed the important role of public support (political and legal) in repelling aggressive regulatee (audit firms') resistance. Public backing empowered the Irish POB to adopt and implement its oversight mandate over the profession during the early stages of its establishment (Canning and O'Dwyer, 2016). In contrast, the Canadian case demonstrated the power of international audit firms in resisting the newly established POB (Malsch and Gendron, 2011). Additionally, Malsch and Gedron (2011) extended their analysis to address the global aspect of POBs, and concluded that:

"the Canadian regulatory space, is not unique and that the impact ensuing from the creation of outside regulators in terms of establishing an arm's length relationship between overseer and overseen is less profound than is often claimed" (Malsch and Gendron, 2011, p.457)

In a similar vein, claims of arm's length oversight in developing countries can be further challenged, given the inherent institutional weaknesses of POBs in such countries. The World Bank (WB) financial reform programs finance the establishment of POBs in developing countries (World Bank, 2008, 2015c). The WB and IFIAR tend to portray the establishment of POBs inspired by the Anglo-American model as an essential component to ensure the necessary level of audit quality to integrate into the global market (Cooper and Robson, 2006; Wade, 2007; Caramanis et al., 2015). Arnold (2012) criticized the reliance on "ready-made" Anglo-American remedies to address issues of financial regulation. For example, in Greece, the EU pressure to transplant an Anglo-American POB model in a contextually different regulatory environment was faced by the *"problematic features of the domestic policymaking system"* (Blavoukos et al., 2013, p.151; Caramanis et al., 2015; Canning and O'Dwyer, 2016). Although, European audit regulations led to the establishment of a Greek POB, local political, economic, and cultural factors, such as the dominance of Greek delegative democracy and the large divisions within the Greek profession, led to a dysfunctional POB, conducting compliance reviews, but whose work has been described as "*audit quality inspections has been, at best, erratic*"(Caramanis et al., 2015, p.26). In South Africa, Maroun and Atkins (2014) criticized audit reforms which sought to merely improve compliance, rather than enhancing the level of professional judgment. The authors argue that these reforms did not lead to fundamental change in audit quality, given the emphasis on legalistic forms of compliance or a compliance to maintain professional appearance (Maroun and Atkins, 2014), the latter being akin to a form of spectacle.

Relying on quantitative methods, Carson et al. (2013) observed that countries which established POBs and conducted compliance reviews reported higher levels of variables associated with audit quality⁴⁶. Nevertheless, Caramanis et al. (2015) warned that enacting Anglo-American inspired POBs without careful consideration of the national context does not necessarily result in enhanced audit quality. Therefore, there is a need to investigate the POBs' operations and dynamics in different national contexts. In particular, how would POBs operate in a weak institutional environment if they borrowed the same oversight mechanisms from global 'best practice'? In summary, there is a general consensus that the presence of a powerful POB is an essential component in raising audit quality (Malsch and Gendron, 2011; Maroun and Atkins, 2014), yet the degree of their efficacy is highly dependable on the local institutional environment in which they operate (Canning and O'Dwyer, 2016). Kleinman et al. (2014) reviewed regulatory regimes of different countries, and concluded that uniform levels of audit quality are not attained

⁴⁶ Carson et al. (2013) used the level of abnormal accruals of audit firms' client companies as a measure of audit quality.

by performing a standard procedural compliance review, but by assessing how professional judgment is exercised and regulated within different *"national cultures, legal systems, accounting standards, auditing standards, and auditing enforcement regimes"* (Kleinman et al., 2014, p.79).

5.3.2 Audit quality and POB effectiveness

It is inherently challenging to assess the role of POBs in enhancing a relatively aloof concept such as audit quality (Power, 2003; Humphrey et al., 2011). Arguably, audit quality evaluates the auditor's professional judgment and auditing procedures. Auditing processes and practices are not mere technical procedures and they rely heavily on professional judgement in interpreting auditing standards (Maroun and Atkins, 2014). In this regard, the literature has examined the efficacy of POBs in improving audit quality by relying on some quantifiable outcomes, such as abnormal accruals, auditor turnover, propensity to restate and firm size (Daugherty and Tervo, 2010; Lennox and Pittman, 2010; Carcello et al., 2011; DeFond and Lennox, 2011; Church and Shefchik, 2012). For example, Carcello et al. (2011) reported a decrease in abnormal accruals following the PCAOB's inspection of the Big Four auditors, thereby arguing for an observed increase in audit quality. Daugherty and Tervo (2010) concluded that smaller firms did not perceive that the compliance reviews enhanced audit quality, while larger audit firms regarded PCAOB's inspection as having a positive impact on their audit practices. DeFond and Lennox (2011) concluded that compliance reviews represent an additional cost to small auditors and led to lower quality auditors exiting the market, thereby improving the overall audit quality levels. Lennox and Pittman (2010) found that the audit firms' share of the market was not affected by receiving a negative compliance review, in spite of the fact that Church and Shefchik (2012) documented a number of common, and recurring, audit deficiencies in the PCAOB's reports on the Big Four, and second tier US audit firms. Church and Shefchik (2012) also documented a steady decline in audit deficiencies, but were unable to determine whether such a decline was due to improvements in audit firm quality control or better handling of the compliance review process. Knechel et al. (2013) concluded that PCAOB compliance reviews might have improved audit quality, on the basis of specific quantitative variables. However, they are not indicative enough to assess the contribution of the firms' quality control practices and their results are often not disclosed (DeFond, 2010; Gunny and Zhang, 2013; Knechel et al., 2013). In summary, there remains a significant element of a 'black box' in our understanding of the effectiveness of POBs.

At the same time, it is acknowledged that the introduction of a new regulator to a predominantly self-regulated profession has caused significant changes in the audit practice of audit firms (Martinow et al., 2016). POBs have placed pressure and tension on audit firms to 'pass' compliance reviews, thereby affecting audit practices (Daugherty and Tervo, 2010; Dowling et al.,

2015; Hazgui and Gendron, 2015). Audit firms have begun to focus on auditing processes, employing additional audit procedures and extensive checklists to increase the “auditability” and the “process visibility” of audit quality (Power, 2009; Dowling et al., 2015; Martinow et al., 2016), with little evidence of this having an effect on audit quality (Power, 2009; Houghton et al., 2013; Johnson et al., 2014). For the regulatees, POB’s compliance reviews have centred around demonstrating a more structured audit process in order to manage inspection risk, sometimes on the account of audit risk (Johnson et al., 2014; Martinow et al., 2016). Also, for POBs, the use of checklists as an oversight tool has provided consistency, verifiable evidence, and transparency (Power, 2009). Additionally, factors such as work pressure, and extensive rule-based regulations, are expected to increase reliance on a tick-a-box oversight approach, (Power, 2009; Humphrey et al., 2011). The POBs’ reliance on checklists and the box-ticking oversight approach is, however, seen to undermine the audit quality of financial statements, since it switches the attention away from audit risk (Asare and Wright, 2004; Johnson et al., 2014). This issue is particularly relevant to developing countries, where local POBs generally have constraints with regards to institutional capacity, and international audit firms are able to hide behind their globally designed audit processes/programs. For example, a co-regulation oversight approach emerged in France, when the French H3C realized that the technical resources of the French professional association were essential to achieve its oversight mandate (Hazgui and Gendron, 2015). In summary, POBs were introduced under the assumption of enhancing audit quality, through monitoring and enforcing the implementation of audit standards. However, one could argue that the POBs’ implementation of a bureaucratic set of procedural compliance reviews (using checklists) limits the regulator’s ability to engage in a substantial analysis of audit firm practices (Malsch and Gendron, 2011; Dowling et al., 2015).

5.3.2.1 Transnational oversight

Many authors have argued that an analysis of the work of POBs in different countries cannot be considered in isolation of the factors existing at the global level (Cooper and Robson, 2006; Malsch and Gendron, 2011). Several factors require an international perspective to appreciate how, and why, POBs operate in certain ways. Firstly, the global financial crisis in part highlighted the role of the auditors of banking institutions, as well as the (limited) regulatory capacity and capability of their national POBs (Humphrey et al., 2009; Sikka, 2009). This resulted in what Humphrey et al. (2009, p. 812) call a ‘standards–surveillance–compliance’ between international POBs and the international profession in pursuit of transnational governance of audit practices. Secondly, there has been increasing interest in the audits of large multinational groups (Carson et al., 2013). Following the concerns raised by the PCAOB and IAASB on this issue (IAASB, 2015b; PCAOB, 2016), Sunderland and Trompeter (2017) discussed several problems facing POBs and

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auditors of multinational groups in applying and interpreting the guidance on auditing standards, i.e. ISA 600, related to the conduct of group audits. For example, they highlighted that differences in cultural and national contexts are among the main reasons leading to inconsistencies in applying ISA 600, which is drafted on a principles basis (Sunderland and Trompeter, 2017). Finally, there has been the gradual emergence and positioning of transnational regulatory bodies (IFIAR & CEAOB) and a transnational recognition between POBs, (Simnett and Smith, 2005; Malsch and Gendron, 2011; EC, 2014; Kleinman *et al.*, 2014).

National POBs are involved in transnational regulatory arrangements, bilaterally and under umbrella organizations i.e. IFIAR and CEAOB⁴⁷ (Cooper and Robson, 2006; Malsch and Gendron, 2011; Kleinman *et al.*, 2014). For example, Kleinman *et al.* (2014) compared the oversight approaches of nine countries⁴⁸, and reported that only four⁴⁹ conducted direct compliance inspections, while the remainder relied on peer compliance reviews. Similarly, Carson *et al.* (2013) examined the oversight approaches of 33 countries (mostly IFIAR members) and concluded that audit quality variables were higher in countries with an established POB and IFIAR member. However, the authors did not identify how the different oversight approaches might lead to differences in audit quality⁵⁰ (Carson *et al.*, 2013). Relatedly, European countries are required to establish a national POB, according to EU Directive 2006/43/EC (European Commission, 2006, sec 20). Despite the significant variations in their overall oversight approach and in the way they conduct compliance reviews, European POBs are extending interdependency oversight arrangements within and beyond Europe (Humphrey *et al.*, 2011; Osma *et al.*, 2014). The CEAOB was established to facilitate the coordination between European POBs and to assess the adequacy of third countries' oversight systems (EC, 2010, 2014, 2016). CEAOB recommends equivalence and mutual oversight recognition for POBs that are deemed to be adequate or, in some cases, it may advise extending a transitional period for others⁵¹, e.g. Egypt (EC, 2011, 2016). In summary, the

⁴⁷ The Audit Regulation, which became applicable on 17 June 2016, repealed the decision establishing the EGAOB (Commission Decision 2005/909/EC). The EGAOB has therefore ceased to exist". (European Commission, 2016)

⁴⁸ Kleinman *et al.* (2014) surveyed systems of auditing oversight in nine countries, selected on the basis of their GDP, namely the United States, China, Japan, India, Germany, Russia, the United Kingdom, Brazil, and South Africa.

⁴⁹ Germany, South Africa, the United Kingdom, and the United States have an oversight mechanism, which requires direct inspections. However, Russia, China, Brazil, India and Japan conduct their oversight function relying primarily on a peer review system.

⁵⁰ The authors differentiated between three main characteristics of oversight, *being the duration since inspections commenced (outlining the number of years of inspection experience), the type of inspection system, being inspections directly undertaken by the independent POB or undertaken by professional bodies under the POB's supervision, and the frequency of inspection.* (Carson *et al.*, 2013, p.23-24)

⁵¹ EU audit directives require member states to register and subject third countries auditors of companies whose securities is traded in the EU to their system of oversight and quality assurance unless they are

global audit regulatory arena is increasingly involving complex regulatory relationships between local and transnational forces (Humphrey et al., 2009). Therefore, the work of national POBs should not only be examined as a local issue, but also as an interaction between the global and local regulatory contexts.

5.4 The concept of the Spectacle as a Theoretical Framework

In a bid to critically evaluate the creation and operation of a national POB, this paper employs the concept of the “spectacle”, as introduced in Guy Debord’s book, *“Society of the Spectacle”* (Debord, 1967). Debord (1967) presented the notion of spectacle to analyse modern societies in a reinterpretation of Marx’s theory of accumulation of production. In the opening paragraph of his book, Debord (1967: para.1) stated:

“In societies dominated by modern conditions of production, life is presented as an immense accumulation of spectacles. Everything that was once lived has receded into a representation.”

According to Debord, the concept of the spectacle provides an explanation of a wide range of social phenomena. The spectacle is, in a metaphoric sense, representing a social control narrative which is founded on mere appearances, a collection of images projected to, and between, people (Uddin et al., 2011). For Debord, the spectacle is a worldview, where images and theatrics are used to construct a pseudo-reality that, in appearance, presents a good story but which is, in fact, a tool for manipulating social totality (Boje, 2001; Welsh et al., 2009). In contrast to other theoretical perspectives concerned with appearances (e.g. impression management, symbolic management), the spectacle serves no one in particular but, rather, it is the evolution of the economic realm for its own benefit and reproduction or, as Debord (1967: para. 16) described it, *“it is nothing other than the economy developing for itself”*. Debord attributed the initial economic domination of the spectacle over human beings to the degradation of being into having, and this has now been followed by current social developments, which have shifted the emphasis from *having* to *appearing* (Welsh et al., 2009). In today’s societies, the significance of appearance and image surpasses the reality of *having/being*, resulting in an alienated society with distorted forms of communication that mediate social relationships (Best, 1994; Welsh et al., 2009). Therefore, control mechanisms of the spectacle are closely connected with the inherent ability of modern states to control images through mass media and other forms of broadcasting information, such as marketing, advertisement and propaganda (Debord, 1967).

deemed equivalent. Egypt was granted an extension in 2016 and its oversight system currently classified as “transitional” (EC, 2014, 2016)

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In his initial work, Debord (1967) introduced two types of spectacles, *concentrated* and *diffused*, but later added a third, the *integrated spectacle*. According to Debord (1967: para 64), the concentrated spectacle is linked to bureaucratic capitalism regimes and centrally-planned countries, and can be employed as a tool to strengthen state power. A concentrated spectacle economy is centrally planned, using a top- down approach, without allowing for the participation of the public. A class of bureaucrats controls the power of decision-making. Other means of social control, such as the media, are state controlled, thus facilitating image projection and propaganda (e.g. akin to a *Potemkin village*). Unlike the concentrated spectacle, which is based on coercion, the *diffused* spectacle is associated with freedom of choice, coupled with "*the abundance of commodities in modern capitalism*" (Debord, 1967: para 65). It is based on temptations of the image projected by the American way of life, or what Debord calls "*the Americanisation of the world*" (Debord, 1988, p.8; Uddin et al., 2011). It has manifested in the spread of American *images*, such as Hollywood, Disney, Coca-Cola, etc. (Gumb et al., 2015), around the world. This type of spectacle is deemed to be more effective in seducing other countries to let go of their traditional forms of bourgeois democracy (Debord, 1988).

Around the end of the Cold War era, Debord (1988, p.8) added in "*Comments of the Society of Spectacle*", a new type of spectacle, the *integrated spectacle*, which "*has since tended to impose itself globally*". The *integrated/global spectacle* is an enhanced mixture of the concentrated and diffused spectacles, together creating a stronger form of spectacle, a metaphoric representation of globalization. Debord (1988) saw it as an inevitable extension of the stronger, diffused, spectacle, where capitalism extended beyond its borders through economic domination. Western capitalism is seen to continue its economic colonization by maintaining the free flow of capital and commodities, through integrating and projecting their victorious diffused spectacles into the new integrated/Global spectacle (Uddin et al., 2011). The integrated spectacle has been reinforced in contemporary societies by the emergence of a variety of modern tools/techniques and modes of communication (the world becoming a "*global village*"). Debord (1988, p.11) highlighted that contemporary societies within the integrated spectacle are *affected by the increasing "incessant technological renewal"*. The integrated spectacle's power stems from its ability to utilize the best of the concentrated and the diffused spectacles (Boje et al., 2004). It employs continuously renovated control mechanisms, which are now more subtle and veiled, and not associated with known figures, in contrast to the concentrated spectacle (Debord, 1988). Inspired by the diffused variant, a "*hubris of corporate culture*" and the economic implications of the integrated spectacle have helped its diffusion into modern societies, shaping socially and economic produced behaviour and objects (Boje et al., 2004, p. 755). Thus, using its global corporate hegemony, the global/integrated spectacle has maintained its status quo by

suppressing any futile and weak pockets of resistance (Uddin et al., 2011; Gumb et al., 2015). According to Debord, the ultimate aim of this spectacle is to deeply incorporate itself, so that the image becomes reality itself.

5.4.1 The Spectacle as a theoretical lens in management, accounting and auditing

Within the management literature in general, the reliance on Debord's notion of spectacle has been rare, and less so within the accounting discipline (Uddin et al., 2011). According to Boiral (2013, p.1041), the concept of the Spectacle reflects:

"The loss of contact with reality, which is increasingly understood through the proxy of information and images that have invaded all areas of society, including advertising, politics, organizational communication, consumption and entertainment"

The notion of "Spectacle" provides an interesting approach to studying the development of management, where management's control of the proliferation of images, supposedly intended to increase transparency, has resulted in artificial representations which conform with societal expectations (Gumb, 2007; Boiral, 2013). Gumb et al. (2015) argued that the integrated spectacle provides an interesting lens to understand the fusion of bureaucratic control (e.g. senior management/auditors) with the spread of participative democracy/oversight. The authors highlighted several control mechanisms and tools of the integrated spectacle, facilitated by advances in information systems, such as Enterprise resource planning systems (ERPs), *"integrated management control, integrated management software packages, integrated spreadsheets, integrated auditing, etc."* (Gumb, 2007, P: 810-811; Gumb et al., 2015). For example, corporations use Total Quality Management (TQM) and projected images and notions of "customer satisfaction" to disguise, legitimise and maintain their corporate practices, while alienating the workers (Munro, 1995). Furthermore, with regards to accounting/auditing, contemporary accounting symbols, such as accounting/auditing reforms, preparation of financial reports and participatory budgeting, International Financial Reporting Standards (IFRS) and International Standards of Auditing (ISA), can be seen in the light of the integrated spectacle (Uddin et al., 2011).

Although Debord did not explicitly study accounting and auditing, the notion of the spectacle provides a theoretical lens that is useful in revealing often-invisible dimensions in accounting practices, related to control/oversight, accounting/auditing reforms and proliferation of image/transparency. Uddin et al. (2011) examined how Debord's typologies of the spectacle offer interpretations of changes in accounting practices at a national level. For example, Uddin et al. (2011) drew upon the spectacle's metaphorical and transformational dimensions (i.e. the transition from a concentrated to an integrated spectacle) to study accounting reforms, i.e. how

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donor agencies imposed global accounting practices on developing countries. The study shows how the Ugandan government purported satisfaction with the Danish decentralized local governance system in order to secure funds to finance local reforms (Uddin *et al.*, 2011). The focus was to implement “best governance practices”, thus enhancing financial management and fund allocation, by implementing a participatory budget process to identify recipient projects. Uddin *et al.* (2011) demonstrated how the different phases of participatory budgeting were parts of “spectacular” activities between the Ugandan government and the donor agencies. For example, an essential mechanism of the participatory budget process was the organising of a budget conference to seek direct inputs from the public and local governments. However, Uddin *et al.* (2011, p. 304) showed how budget conferences were used as a ‘spectator tool’, organized to give the appearance of participation while, in fact, they were mainly “wine and dine” events offering no real opportunities for substantive participation. Furthermore, the Ugandan case can be viewed from the transformational dimension of the spectacle. The Ugandan concentrated spectacle was transformed into an integrated spectacle, using subtle accounting reforms and spectacular events portraying the illusion of local participation, while the control over the budget remained in the hands of the government (Uddin *et al.*, 2011).

In the context of corporate reporting, the research by Boiral (2013) questioned the reliability and transparency of sustainability reports and whether they were used as tools to project a self-enhanced image for social legitimacy. The authors concluded that companies do not report on the vast majority of significantly negative events, and rely on information overload to cause confusion amongst stockholders. Boiral (2013) questioned the quality of disclosed information and the process of assurance, arguing that their reliability was subject to many limitations, such as auditor independence and lack of involvement by stockholders. Finally, in an explicit reference to audit reforms and POBs, Boje *et al.* (2004) used Best and Kellner (2001)s’ newly developed fourth notion of “*Megaspectacle*” to interpret the collapse of Enron, incidentally one of the key triggers of the creation of national audit oversight boards (Boje *et al.*, 2004). *Megaspectacles* are “

Media-hyped scandals offered as mass entertainment, beneath which lie the implosion of the first three types of spectacle.... The ‘tragedy’ of the megaspectacle is that while the mighty are brought down, so are the livelihoods and pensions of countless stakeholders, while the underlying dynamic of spectacle remains undisturbed. In this way, the stage is tragically set for similar tragedies” (Boje, 2001, p.755).

Using the spectacle dialectic, Gumb (2007) questioned whether audit reforms leading to a plethora of control systems/mechanisms, such as Sarbanes-Oxley Act (SOX), the legislation that marked the creation of the PCAOB and compliance reviews, represented a theatrical attempt to restore confidence, and later loosened, once the financial markets stabilized (Hazgui and Gendron, 2015). The State, in advanced capitalism, as the primary agent of social control, enforces control mechanisms which might include disciplinary actions against those who threaten

social and economic order (Welsh *et al.*, 2009). The status quo is maintained by the integration of surveillance tools and the portrayed images of control (Boje *et al.*, 2004; Welsh *et al.*, 2009; Malsch and Gendron, 2011). POBs and their control mechanisms can be examined through Debord's spectacle framework, in its metaphoric and transformational dimension. Uddin *et al.* (2011) argued that the transformational dimension of the spectacle can help us to understand how the global spectacle influences the modelling of the local spectacle in its form. The spectacle metaphoric dimension can provide insights into the impact of importing the integrated spectacle tools into a local context, similar to Uddin *et al.* (2011)s' examination of the use of the participatory budgeting process in Ugandan case. The establishment of POBs in developing countries can be understood from the perspective of the transformational dimension of the spectacle. As a signal of their readiness to merge with the global economy, developing countries establish national POBs, thereby transforming the image of a local concentrated spectacle to mimic and integrate into the global spectacle. Regarding the metaphoric dimension, compliance reviews conducted by POBs can be viewed as surveillance and control tools, used to project an illusion of control over audit practices and to gain public trust by artificially projecting the credibility of pseudo reforms.

Finally, Other theoretical perspectives such as, legitimacy theory also interprets reforms applied by an organization in response to external pressures as mostly aimed at improving the organization's image (Boiral, 2013). Legitimacy theory might be able to explain why audit reforms are being applied, and could measure its effectiveness by comparing its outcomes with various proxies. However, such theories do not tend to critically evaluate the extent of which these reforms resulted in a "real" change in audit practice (Boiral, 2013). Furthermore, these theories assume a certain degree of deliberate deception from the management side. On the other hand, Debord's spectacle framework aims to critically reflect on the discrepancies between the reality and the projected images, as it argues that the modern world is submerged into the spectacular frame. Research Methods

Data for this qualitative study was gathered through 20 semi-structured interviews from the main two stakeholder groups relating to the oversight process: the regulator (i.e. EFSA) and audit firms in Egypt. Secondary sources of data from organizations, such as the World Bank, IFIAR, EFSA, and European Commission, were relied upon to help the researcher's understanding of the link between the Egyptian POB and the global audit spectacle. Participants were selected from the three main categories of audit firms practicing in Egypt. The first category included the Big 4 firms and other 'top tier' international firms, where one would expect the local office to function rather

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uniformly⁵² on a cross-national basis. The second category was local firms with a nominal international affiliation⁵³. The final category was local firms with no affiliation to international audit firms. Initially, participants were chosen using purposive sampling but, later, through snowball sampling. Potential participants were approached via email or telephone to discuss the outlined research agenda. The research questions broadly addressed the application the Egyptian Standards for Auditing (ESA) and their links to the International Standards for Auditing (ISA), and EFSA's oversight. The interviewees were encouraged to talk widely and freely about the topic. Interviews were recorded after participants were assured of anonymity and confidentiality. The interviews took place in Cairo, Egypt, and the interviews' recorded time was between 30 minutes and 3 hours, depending upon the auditor's experience and openness. For example, four interviewees responded to most of the questions about audit practices within their firm by referring to the firms audit manual, which resulted in shorter interviews. (see Appendix 3: List of interviewees)

Respondents were encouraged to elaborate on their answers in open ended questions and to provide insight of their assessment of the state of auditing and audit oversight in Egypt.

Subsequently, the interviews, which were conducted in Arabic, were translated and transcribed. Each interview was read and reviewed carefully to identify key themes (Miles and Huberman, 1994), which included: EFSA's focus on QC manuals, the variant responses between local and international audit firms to the new regulator, and the applicability of these requirements in the Egyptian context. Additionally, these themes were contrasted with the primary and secondary data to reveal similarities and differences and, subsequently, the researcher used them in follow-up interviews. Guided by the theoretical framework, these themes were refined into key issues regarding POB establishment and operation in Egypt. Chapter two of this thesis details the methodology adopted for this research.

5.5 The Egyptian Audit Spectacle

5.5.1 The Establishment of the Auditors Oversight Unit (AOU)

As a part of its comprehensive macroeconomics reform program, the new 2004 "reformist" Egyptian cabinet sought to implement structural reforms to attract foreign investment to a

⁵² The local firm (i.e. Big four office in Egypt) applies all the brand's audit software/QC manual and audit program/processes.

⁵³ i.e. local members do not receive technical assistance and are not subject to the network's audit quality review.

liberalized economy (Joya, 2011). The economic reform program included the privatization of state-owned companies, substantial restructuring of the financial sector, the issuance of a new tax code, and financial regulations reforms (World Bank, 2010). These reforms were primarily drawn from the World Bank's recommendations for 'assisting' struggling developing countries (Hopper *et al.*, 2016). The WB financed the financial sector reforms via three Financial Sector Development Policy Loans (World Bank, 2007). The objective of the second loan of \$500 million, as published, was to:

"Build a more competitive financial system, with sound banking and non-banking financial institutions, led by the private sector, and able in the medium-term to provide efficient financial services. This second operation will assist Egypt to strengthen the enabling environment for financial intermediation, resource mobilization and risk management, and increase private participation in the provision of financial service (World Bank, 2008)"

As a result, in 2009, the Egyptian Financial Supervisory Authority (EFSA) was created to act as a regulatory and supervisory entity, combining the regulatory bodies of non-bank financial services, capital markets, insurance companies and mortgage finance institutions. In addition to its regulatory functions, EFSA states that its role is to:

- *"Cooperate and coordinate with other non-banking regulatory bodies abroad, thus developing and increasing efficiency of means and methods of supervision in non-banking financial markets and instruments domains" (EFSA, 2014a).*
- *"Communicate, cooperate and coordinate with societies and organizations which regulate work of financial supervision authorities across the globe, thus empowering the Authority to assume its competences according to the best international practices" (EFSA, 2014a).*

The above wording of EFSA's objectives reflects an active pursuit of competence through mimicking and refers to "best international practices" as promoted by International organizations (e.g., WB, IFIAR, and IFAC). In the course of data collection, most participants referenced the work of international counterparts, particularly the PCAOB as a benchmark, despite having no first-hand experience of its operation. For example, in discussions of the PCOAB's structure and oversight jurisdiction, and how would EFSA mimic the work of the PCAOB, interviewees representing EFSA seemed uninformed about the role of the Anglo-American self-regulation model in conducting the oversight of auditors of non-public entities. According to Debord (1988, p.9), one characteristic of the integrated spectacle is that it is deeply integrated in shaping and describing reality; that it *"spreads itself to the point where it now permeates all reality."*

EFSA (represented previously by the CMA) has been a member of IFIAR since 2008, an organization whose "core principle⁵⁴" is to promote an effective independent audit oversight

⁵⁴ Notably principle no. 4 states; "Audit regulators should have comprehensive enforcement powers which include the capability to ensure that their inspection findings or recommendations are appropriately addressed; these enforcement powers should include the ability to impose a range of sanctions including, for example, fines and the removal of an audit license and/or registration."

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(IFIAR, 2012a, 2016a). The implementation of IFIAR's core principles is not a prerequisite of membership, but members are expected to work towards their implementation in their jurisdictions (IFIAR, 2012a). Interviewee No. 5, a key staff member at the AOU, explained the motivation for creating the unit in 2008: "*EFSA is a member of IFIAR. EFSA's board decided to establish an Auditing Oversight Unit to be compliant to their requirements, similar to the PCAOB in America...we received funding from the WB to establish the oversight unit*". Modelled on the PCAOB, the stated aims of AOU involve "*verifying the registered auditors' compliance to relevant professional quality standards, decisions and systems as well as their compliance to the applied auditing standards and Code of Ethics*" (IFIAR, 2016a, p.1; Raslan et al., 2016). According to the Egyptian capital market's law, EFSA shall maintain a registry of auditors who are licensed to audit listed companies and other financial institutions (EFSA, 2008; Raslan et al., 2016). It is important to highlight that EFSA's registry comprises about 375 auditors, registered as individuals and not as audit firms (refer to chapter one for more details). Therefore, AOU's oversight is primarily levied on individual auditors, but aspects related to audit programs and Quality Control (QC) manuals are assessed at the firm level.

The AOU's main objectives were to set entry requirements to EFSA's registry and to suggest a mechanism for the compliance review, focusing on QC⁵⁵ (EFSA, 2008; Raslan et al., 2016). AOU consists of five departments, Registration, Compliance Reviews, Follow up on Professional Standards and Cooperating with International Organizations, Enforcement, and Continuous Professional Development. Interestingly, the AOU's limited staff, around 3-5 staff members, is tasked to manage all five departments, while the AOU board consists of around 12 members. Figure 1, below, demonstrates AOU's institutional structure. In 2014, the EFSA amended the AOU's board composition by eliminating a potential conflict of interest within the AOU board structure (IFIAR, 2015). Interviewee no. 5, a senior official at EFSA, explained: "*We amended AOU's board structure according to IFIAR guidelines. Auditing practitioners were removed as voting board members.*"

"Audit regulators should at a minimum be responsible for the system and conduct of recurring inspection of audit firms undertaking audits of public interest entities. Audit regulators should have the authority and ability to enforce inspection findings and recommendations. The audit regulator should have comprehensive enforcement arrangements such as fines, suspensions and the removal of an auditor's or audit firm's license or registration" (IFIAR, 2012b, p.4)

⁵⁵ In terms of official structure, the legislation granted the AOU board of directors adequate power and independence to perform its function. However, in reality, these duties were delegated to AOU staff (EFSA Decree 50/2014).

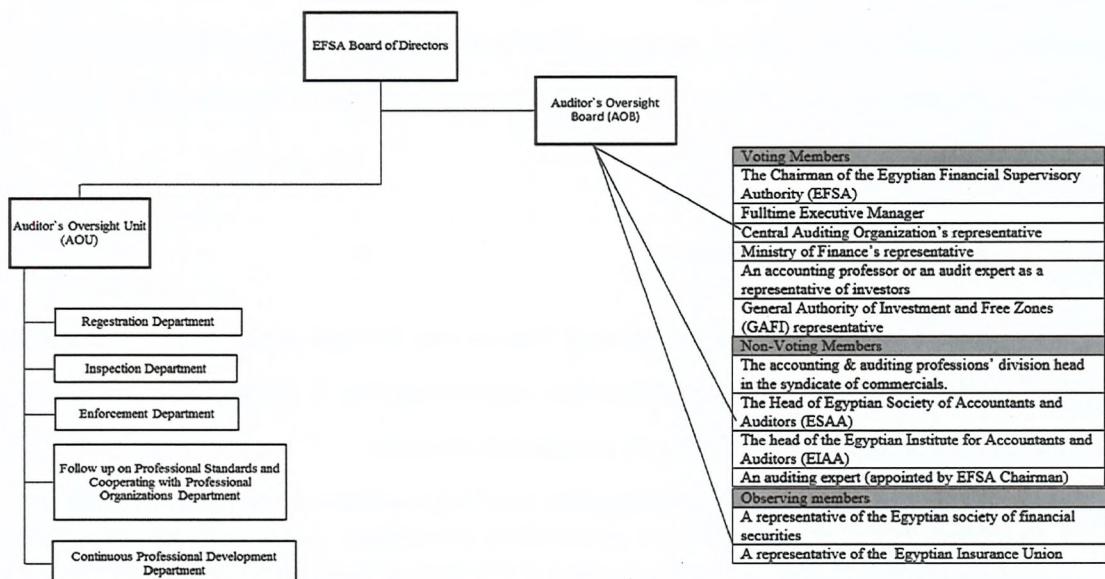


Figure 5-1:, EFSA's institutional structure

Regarding AOU's staffing, interviewee No. 4, an EFSA advisor at the time, commented on the AOU process: *"We couldn't afford to hire a practitioner. We started the unit with loaned staff from the Central Auditing Organization (CAO)*⁵⁶. Unfortunately they are from a public [governmental] auditing background". DeFond (2010) suggested that the introduction of POBs resulted in a shift from expert inspectors (experienced peer review auditor) to independent experts (POB staff with no current audit experience). However, the Egyptian case highlights two additional concerns. Firstly, prior to the AOU's establishment, Egyptian auditors were not subject to any active oversight. Secondly, the AOU staff did not have any current or previous audit experience, other than in relation to the audit of governmental bodies.

The above discussion highlights how the AOU's establishment was inspired and influenced by the global regulatory arena, evidenced by the pressure from IFIAR and the WB funding to establish the AOU. According to Debord's transformational dimension of the spectacle, enacting a national POB that follows IFIAR guidelines and mimics the structure of POBs in developing countries (PCAOB) signals the transformation of the local concentrated spectacle, which did not practice any oversight on local auditors before, towards integration into the global audit spectacle. The metaphoric perspective of the spectacle can be viewed in the AOU staffing process. The AOU's limited financial resources, together with the number of staff hired and their technical knowledge, suggests potential operational constraints in conducting the AOU's oversight functions. Relatedly, Egypt is one of the developing countries which the CEAOB classified as 'transitional' and granted a

⁵⁶ (refer to chapter one for details on CAO)

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status extension in 2016 (EC, 2011, 2016). Although the application of this mutual oversight arrangement could not be verified, on paper, EFSA's oversight function levied on Egyptian auditors grants them an exemption from being registered and from being inspected by an EU state regulatory body.

5.5.2 AOU's oversight approach

The AOU's main tool in conducting compliance reviews was through examining the auditor's submission of an updated EFSA registration form. Interviewee No. 5, a key AOU executive, explained AOU's approach in designing its compliance reviews:

[In 2008, after examining all the Egyptian auditing regulations and Egyptian auditing standards (based on 2004 ISA), we summarized all auditors' duties and responsibilities. We rephrased these duties and restructured it in the form of a checklist/questionnaire. We used this questionnaire to create a tool to measure compliance and audit quality of our registered auditors. However, we faced a problem that people did not really get what we are looking for. For the first few years, we tried to raise awareness about the new concept of compliance reviews. We are trying to expand the "Audit Quality" culture. ... We visited most audit firms of our registered auditors. We also selected a sample of their client's audit files and checked their audit quality system using the checklist of our questionnaire. We also discussed and reviewed the questionnaire with the auditor].... [We used this checklist questionnaire as basis to construct the registration forms]

The above quote highlights two main aspects in the AOU's selection of its oversight approach. Firstly, the AOU selected a light-touch enforcement style (supportive vs coercive), evidenced by allowing a transitional period to "raise awareness" (Martinow et al., 2016). Secondly, the AOU conducted its compliance reviews by merging checklists related to auditor's duties into a registration form, signed by the auditor, to demonstrate visibility and the verifiability of audit practices (Power, 2003; Dowling et al., 2015). The registered auditors are compelled to update their registration form annually. The form contains sections covering information about the auditor's firm, current and previous clients, the availability of written policies on HR, independence, and documentation requirements. It also contains a checklist of the availability of audit programs and, particularly, QC manuals. (See Appendix B.1: Regulations on Auditors' registration). Interviewee No. 6, a partner at an international audit firm, stated:

In Egypt, we do not have active compliance reviews. Instead, the AOU practices its oversight function by setting barriers to entry... A sort of pre-practice compliance review... Selectively, they tailor the requirements to entry for people [auditors] they see fit... Supposedly, I was already granted an auditors' license to practice; and they [AOU] should conduct their compliance reviews on me during or post conducting the audit. If I made a mistake, they can apply sanctions or even de-register me. In Egypt, we stop at creating the oversight unit but not how it functions."

The AOU's oversight focused on the registration form and checklists (i.e. the existence of certain policies inspired from by IFIAR Reference Guide to POBS (IFIAR, 2016b) as a pre-practice

compliance review. The emphasis was on satisfying the form and highlighting the visibility of certain policies at the firm level. Although auditors are registered at EFSA as individuals, the AOU processed and examined the registration forms on an audit firm basis, in accordance with the Egyptian audit practice law (131/1951). In the spectacle's language, the AOU appeared to have imported the global control mechanism and tools (e.g. QC manuals, written polices, checklists, etc.) into a local, concentrated, spectacle. However, the AOU is constrained by the local context (e.g. political, legal, cultural and institutional constraints). Relatedly, Interviewee No. 2, a partner at an international auditing firm, further commented on AOU's oversight mechanisms and its local context:

"In addition to the political aspect involved, it [EFSA's oversight] was also affected by the lack of resources and capital deficiencies. You need a certain type of qualified staff and costly technical developments... A big part of the quality control practices in Egypt, is just satisfying a checklist."

Previous studies have highlighted that, in different parts of the world, the use of checklists was a part of audit firms' response to compliance reviews. (Humphrey *et al.*, 2011; Houghton *et al.*, 2013; Martinow *et al.*, 2016) This is a practice welcomed by POBs for the ease of auditability it offers, particularly for POBs with limited resources (Power, 2009). However, in the Egyptian case, it was the AOU, not the audit firms, which introduced and relied upon the use of checklists. A possible explanation is that the AOU suffers a shortage of staff, as some of the AOU departments⁵⁷ were merged, due to EFSA's limited financial resources. Interviewee No. 4, an ex-advisor to EFSA and a partner at a local firm, commented on AOU's staff shortage and the seriousness of its compliance reviews: "*Well, currently... It is active in a sense of managing which auditors should be allowed to register at EFSA's auditor's registry*". In summary, the AOU's oversight approach of satisfying a checklist for pre-registration seems to promote symbolic compliance by the audit firms, yet, in my view, the AOU passionately believes that implementing its oversight approach will result in improved audit quality. This is constant with the spectacle dialectics, where the global integrated spectacle and its control mechanisms are presented as an unquestionable reality and "*has spread itself to the point where it now permeates all reality*" (Debord, 1967; 1988, p.23). The following sections demonstrate the response of audit firms (local vs international) and the degree of actual change to their audit practices.

⁵⁷ The Oversight unit now comprises four departments; Registration, periodic inspections, International cooperation and follow up on international standards, and Continuous Professional Development.

5.5.2.1 Audit Quality Compliance Reviews on Local Firms

The majority of local firms in Egypt are small sized firms, led by one partner only. Several factors⁵⁸ relating to the Egyptian context have alienated Egyptian audit firms from the best international practices, particularly small firms (Wahdan, 2005; Raslan *et al.*, 2016) The AOU's registration requirements required significant structural changes for small audit firms, such as adopting and applying QC manuals. This section presents the interplay between the AOU and local firms regarding the new registration requirements. Interviewee No. 22, a manager at a local firm, commented on AOU's oversight:

"The AOU visited us two years ago, and the examined some of our files thoroughly. They gave us some remarks and said they will visit us again, but they never did".

Interviewee No. 19, a senior at the same firm, explained:

"A year after their visit they posted on their website a memorandum stating that they inspected some audit firms. Based on their findings, they are requiring all audit firms to have written procedures of every cycle with the firm, especially the QC manual. The requirements were vague on what they were looking for. Every time we submitted, it got rejected. They just told us this is not enough. We asked around other firms on what they have done. We kept rephrasing the Egyptian quality control standard and resubmitting until they accepted, but we don't know why it got accepted"

Interviewee No. 10, the managing partner at a local firm, commented on EFSA's QC manual requirement as a registration prerequisite:

"I do not agree with that. This a trap set by EFSA to benefit international firms. The trap is that they require a QC manual for small firms and then hold us accountable to it if they conduct a compliance review... They [EFSA] actually tell you that you can copy it from the internet from firms abroad. I think some firms did not even translate it into Arabic. Big four firms already have these manuals and submitted it as it is. For firms with no international affiliation, it's very costly to get an audit software, QC manual and apply these requirements"

Interviewee No. 28, a managing partner of another local firm, commented on EFSA's compliance reviews:

"They visited me once. For a full day, they checked if my audit files are complete. They did not look at the content....It is a nominal check up on compliance. We need to apply compliance gradually. If they want to implement 100% of their compliance requirements, half of the firms in Egypt will be de-registered"

In the Egyptian case, the AOU adopted a mainly supportive enforcement, to encourage small firms to comply. As the above quotes show, the AOU repeatedly allowed for the re-submission of

⁵⁸ A) The applicable Egyptian auditing standards are outdated. (Based on 2004 International standards on Auditing). B) Egyptian auditors are not subject to any kind of audit oversight. C) Auditors in Egypt lack adequate awareness of issues such as auditor's independence and conflict of interest (Raslan *et al.*, 2016) D) The deficiencies regarding the accounting education quality (Raslan *et al.*, 2016) . E) They often do not have an adequate HR or Quality control departments.

registration forms. The AOU's focus was, thus, on increasing the "visibility" of the audit processes, through the presence of written audit procedures and QC manuals.

Consequently, an adherence to AOU requirements was relatively easier for some local audit firm than others. Local firms with international affiliation receive various levels of technical support from their foreign affiliation, (i.e. QC manuals, audit software, written policies and procedures). In some cases, local firms have foreign clients and are subject to the foreign POBs compliance reviews. Interviewee No. 6, the managing partner, commented on his firm's QC manual:

"We have a QC manual that is adapted from IFAC's guide for Small and Medium Practices. We translated it into Arabic to make it understandable for my staff. In 2014 AOU asked to have our QC manual to maintain our registration...I think they[EFSA] made the requirements harder to kick auditors out of the registry, We passed it with no problems...I also had to submit that to the foreign regulator"

The AOU oversight requirements largely affected small audit firms. The lack of written audit processes, QC manuals, and another requirements of the AOU-style checklists blocked the registration of some operators. Interviewee no. 5 explained:

"In the Egyptian context, we are not familiar with concepts such as oversight, QC manuals and complying with International Standards on Quality Control (ISQC1). In 2009, we introduced the new registration rules, which included these issues. We had setbacks because the 2011 revolution, but in 2014 we started again. Now, we specifically ask to have a copy of the firm's QC manual and we assess their firm's audit quality system. We also check that during our visits. We also published guidance and announced what we are looking for. In 2014, we rejected some registration forms submission because they were lacking some of the elements we highlighted"

With regards to the case of the small audit firms' responses to public oversight, past research has indicated that POBs mostly target smaller and riskier audit firms (Hermanson *et al.*, 2007), which in many cases has led to the exit of small firms from the market (DeFond and Lennox, 2011). In the Egyptian case, there had been only around six cases of sanctions and two cases of de-registration for local auditors since 2009. This is may be due to the AOU's supportive enforcement style (transitional period) in encouraging auditors to update their audit processes and to satisfy the AOU's checklist. However, these requirements/control tools are primarily nominal, to satisfy the form required by "best international practices" rather than its substance. As the above quotes indicate, it was easier to pass the AOU requirements following the submission of audit processes and QC manuals inspired/copied from international audit firms. The next section highlights such interplay between the AOU and international firms in Egypt. Using Debord's spectacle analogy, this can be viewed as one of the transformation stages of the concentrated spectacle into the global integrated spectacle. In other words, the AOU, representing a concentrated control system, is now implementing its imported control tools (compliance reviews) on global actors, i.e. international audit firms. The following section demonstrates the response of the Big Four firms in

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Egypt to the AOU and how their involvement in the global audit profession, in turn, has affected the local oversight process.

5.5.2.2 Audit Quality Compliance Review on International Audit Firms

As previously noted in chapter one of this thesis, international audit firms operating in Egypt are required to have an Egyptian managing partner. However, they operate as a regional office abiding to all policies and procedures of the global parent network. Using their network's resources, Egyptian Big Fours firms conduct their audits using the network's unified integrated software and QC manuals. Therefore, satisfying the AOU's requirements did not entail formulating any visibly new audit practices or procedures. Interviewee No. 6 commented on local compliance review over Big 4 firms:

"The local regulator doesn't have the resources... or may be the knowledge to thoroughly inspect and confirm the documents they asked for. The big "names" already have a QC manual and no one dares to discuss the content with them... EFSA employees are going to teach the Big 4 how to construct a QC manual... of course not. In fact, EFSA used the Big 4 to give them training courses at its inception. The "know how" is at the Big 4. Many government agencies go to them for help. They will not bother them for a missing part of QC manual. They probably use Big 4 manuals as a bench mark"

The above quote highlights an important aspect of the interplay between Big Four and the POB in developing countries. When the local POB's oversight approach depends on the mere existence of audit processes and procedures, then passing local compliance reviews is almost guaranteed for the Big Four firms. Local Big Four firms use software that is more advanced, and receive regular training on latest auditing standards, compared to POBs in developing countries. There are significant variations in technical resources between the AOU and the Big Four firms in Egypt. Interviewee no. 1, an audit partner at a Big Four firm, commented on this issue:

"To improve audit quality in Egypt we have to strengthen EFSA and the AOU. The national regulator has to be strong and well qualified, which in our case is neither. We have to hire experienced retired auditors and we also have to raise adequate funding from listed companies for AOU expansion and technical training. But in the current situation if AOU's staff came in and asked for my audit files, I'll hand them an electronic copy on a USB. They won't know what to do with it"

Therefore, the introduction of POB in a local context did not constitute any pressure on the Big Four firms. In fact, they welcomed the added layer of oversight. Interviewee No. 5 described the Big Four's response to AOU's compliance review:

"They have no problem with our inspections. In fact, they are very interested in it. Because as a part of their network compliance review, they are asked if they have local compliance reviews? If they were inspected by the local regulator or not? And what were their remarks?"

For the purpose of passing the AOU's checklist compliance reviews, local Big Four firms rely on the availability of their network's resources (updated QC manuals, written audit processes and

advanced software). However, the question is about the actual implementation of these advanced audit processes in practice. Their implementation is what could reflect an improvement in audit quality.

In this regard, there were conflicting views among the auditors of international firms about the degree of implementation of some audit processes (i.e. audit software and QC manuals). A number of interviewees, including three partners from different firms⁵⁹, pointed out that they constantly used the integrated software and implemented the QC manuals. They stated that their implementation represented the "Big Four" audit quality guarantee, based on "best international practice". On the other hand, several interviewees, mainly managers or senior level auditors⁶⁰, argued that the implementation of these audit practices (i.e. software, QC manuals & ISAs) was not consistent. They attributed the reasons to two main differences between the Egyptian and the international context. The first set of differences related to Egyptian businesses and their operations. Interviewee No. 20, a senior auditor at an international audit firm, further explained:

"The [Software] is applicable in the case of mainly multinational companies where they have a well-documented and functioning internal control system. However, most Egyptian companies do not have adequate internal control or well-documented cycles, so using the audit software will be a waste of time. We mark [software] as done, after we have finished our audit. We have to mark it as it was used in the course of the audit, because it's a requirement by our [audit firm] international office."

The second set of differences were related to the firm's culture and status in the Egyptian audit market. Interviewee No. 12, an ex-senior auditor at an international firm, commented on how the firm's culture affected the implementation of advanced audit processes within international firms:

"The structure is there, but the degree of implementation is highly depending on the firm. For example, [Big 4 firm] they do have a quality control partner with a designated team, while in [another Big 4 firm] the function is a mere quick glance over the checklist. Surprisingly there are smaller international firms that actually implement it".

This view was corroborated by interviewee No. 25, an ex-senior auditor with previous experience in two Big Four firms. Finally, Interviewee No. 2, a managing partner in an international firm, commented on quality control practices within Egyptian audit firms:

"A big part of the quality control practices in Egypt, is just satisfying a checklist. Nevertheless, in our firm, we do have a designated quality control reviewer, which is an additional cost on us. Although, we don't receive direct support from our international affiliates like the Big Four. The practical reality is that firms compromise between

⁵⁹ Interviewee No. 8, 3 and 27 were partners at three different Big 4 firms. 2. Interviewee No. 11 was a partner at an international audit firm. Interviewee no. 23 was an audit manager at one of the Big Four firms. Interviewee No. 14 was a manager responsible for quality control in an international audit firm.

⁶⁰ Interviewee No. 26 was an ex-manager of a Big 4 firm. Interviewee no. 25 was an ex-senior auditor with previous experience in two Big Four firms. Interviewee No. 17 was a senior at an international audit firm. Interviewee no. 20 was a senior auditor at an international audit firm.

compliance and resources available. This is a pragmatic way to have some kind of an independent arrangement or consultant to handle this issue. Basically tailoring your quality control"

To summarize, the AOU's new added layer of oversight did not affect the audit practices of the Big Four firms in Egypt. As a part of the Big Four network, the local Big four affiliates utilized the existence of QC manuals and other policies modelled on best international practice to pass the AOU's compliance review and registration requirements. In fact, passing the local POB compliance reviews benefited the local Big Four firms in portraying the image of compliance with other foreign POBs and their networks. Furthermore, the data demonstrated that the presence of such audit processes did not necessarily translate into a change of audit practices or actual implementation, in some cases. In order to overcome its limited financial and technical resources, the AOU depended on a pre-practice oversight which assumed that the presence of policies equated to their implementation. Overall, the AOU's Tick-a-Box oversight approach may be unintentionally promoting the symbolic presence of mechanistic audit practices in audit firms, which does not provide evidence of improvements in audit quality (Power, 2009; Knechel, 2013)

5.6 Discussion

The primary objective of POBs is to improve audit quality following audit failures, by monitoring the audit processes and practices of audit firms. However, many studies have regarded such independent oversight reforms as symbolic, for the purpose of image credibility, with minimum effect on audit practices and quality (Power, 2003; Humphrey *et al.*, 2011). According to Debord's spectacle analogy, audit failures represent a Megaspectacle, that interrupt the global integrated audit spectacle and, consequently, the creation of the PCAOB, while other POBs are control practices designated to project an image of confidence in the audit profession (Boje *et al.*, 2004). Promoted by transitional forces, such as IFIAR and WB, POBs have been presented to developing countries as an essential factor to improve audit quality and to integrate their local practices into the global audit spectacle. According to Debord, these new requirements/control systems represent the transition needed for a concentrated audit spectacle to satisfy a form by reforming the global integrated spectacle. POBs can be viewed as part of what Humphrey *et al.* (2009, p.812) call coordinated network governance between POBs and the international audit firms, towards a global governance of audit practice.

The Egyptian case captures how the AOU's establishment represented a part in the integration process of a locally concentrated spectacle into the global audit spectacle. To mimic international best practices, the AOU mirrored their control tools (e.g. QC manuals and other firm requirements), assuming they equated to improving audit quality. Using the spectacle analogy,

transnational regulators and local POB were submerged into the spectacular frame, fundamentally believing that audit quality is reached by mirroring the images projected. Nonetheless, POBs' effectiveness in changing local audit practices is dependent on the local context (Hazgui and Gendron, 2015). The AOU's oversight approach of conducting a pre-practice, checklist dependant compliance review failed to induce visible change in the audit practices of Egyptian local and international audit firms.

Nevertheless, in so doing, the AOU might have increased the symbolic compliance of small audit firms, by focusing on audit processes, coupled with visibility and unrealistic requirements (QC manual and QC reviewer in small audit firms). Small audit firms focused on inspection risk and portrayed the image of compliance by a symbolic submission of QC manuals, not by practical implementation. The Egyptian case also highlights an interesting segment of audit firms, *local audit firms with international affiliation*. Using Debord's analogy, they represent a transitional phase for audit firms, from a locally concentrated spectacle to the global spectacle. They fall into an overlapping space where they adopt some policies that mirror international firms, to portray the integrated spectacle, promoted by transnational organizations (i.e. IFIAR). However, these firms are not subject to the integrated spectacle modern control mechanisms/tools (e.g. the Big Four conduct compliance reviews of their regional offices). They also are not obligated to use the audit processes of their networks (i.e. software/QC manuals), unlike the Big Four regional offices. Additionally, the Egyptian case demonstrated that the local Big Four firms are likely to pass AOU's oversight mechanisms. From the AOU's perspective, a locally concentrated audit spectacle, the brand name of international firms represented the projected perfect image of "best international practices" of the global integrated spectacle that they were aspiring to join. In a sense, by presenting their networks' audit programs and policies, local Big Four affiliates were regarded as being compliant by the AOU. However, this research has demonstrated that the presence of these global Big Four "state of the art" audit processes, did not necessarily mean that they were implemented by their local affiliates in practice. Their actual implementation was highly dependent on local constraints, such as national laws, institutional resources, levels of education and technical knowledge, firm culture and cultural factors. Additionally, even if the previous factors provide a supportive environment, the implementation of such audit processes should not be regarded as an automatic improvement to audit quality. According to Debord's spectacle dialectic, the use of modern integrated tools (Big Four QC manuals, software, audit processes) can also be viewed as the integrated spectacle's tools of control and surveillance. The utilization of these surveillance tools project the image of control to the public, thereby reinforcing the credibility of audit reforms and POBs (Debord, 1988; Uddin *et al.*, 2011; Boiral, 2013).

The Egyptian oversight case demonstrated that both the AOU and local auditors were submerged in the spectacle of compliance, rather than initiating actual changes to audit practices. Debord (1967, p.1) stated that the global integrated spectacle exists for its own reproduction and *"presents itself as a vast inaccessible reality that can be never questioned"*.

5.7 Conclusion

In summary, it can be argued that the POBs' work in developing countries replicate the image of the global audit regulatory arena, with little being known about their impact on audit practice. Additionally, local Big Four affiliates seem to pass easily through the oversight systems of developing countries, with no changes in their audit practices. Consequently, this state of affairs in developing countries has implications on the wider global audit arena. For example, the spectacle of local POBs refutes the claim of a uniform Big Four audit quality across the world, which would raise concerns regarding mutual oversight recognition in Europe and elsewhere. These implications are also relevant to transnational organizations (IMF, WB, and IFIAR) regarding the importance of sustainable technical and financial resources for POBs in developing countries. This is particularly important in the case of Egypt, in light of the transitional status extension, which was granted to Egypt until 2018 by the CEAOB, regarding the reliance on the Egyptian oversight (EC, 2016). This extension grants the right to Egyptian auditors to perform audit activities in the EU without EU oversight, despite the acknowledgement of the CEAOB that the Egyptian oversight is under transition (EC, 2016). The establishment of a "functional" POB should lead to an improvement in core audit practices. However, amid the domination of the global audit spectacle, and the unquestioned exaltation of its control mechanism, namely the POBs, audit reforms and POBs' compliance reviews can be viewed as a part of the immense accumulation of images reinforcing the spectacle of audit quality to the public. Even though POBs and local auditors might not be engaged in active deception or impression management, but simply trying to follow best international practice as advocated by transnational organizations.

5.8 Appendix 3: List of interviewees (Paper 3)

Interviewee No.	Position	Interview Duration
1	A Partner at one of the Big Four firms & a current/previous ESAA board member	1 Hours, 5 Mins
2	A managing partner at an international audit firm, a current/previous ESAA board member	1 Hours, 4 Mins
3	An audit partner at one of the Big Four firms & a current/previous ESAA board member	1 Hour, 20 Mins
4	A managing partner at a local firm & a current/previous ESAA board member	54 Mins
5	EFSA senior official	2 hours 40 Mins
6	A managing partner at an international audit firm & a current/previous ESAA board member	3 Hours
8	An audit partner at one of the Big Four firms	35 Mins
10	A managing partner at a large local audit firm	54 Mins
11	An audit partner at an international audit firm	47 Mins
12	Previous senior auditor at an international audit firm	48 Mins
14	An audit partner at an international audit firm	40 Mins
17	A senior auditor at an international audit firm	41 Mins
19	A senior auditor at a local audit firm	34 Mins
20	A senior auditor at an international audit firm	46 Mins
22	An audit manager at a local audit firm	33 Mins
23	An audit manager at one of the Big Four firms	30 Mins
25	A previous senior auditor at two of the Big Four firms	34 Mins
26	A previous manager at one of the Big Four firms	56 Mins

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27	An audit partner at one of the Big Four firms	43 Mins
28	A managing partner at a large local audit firm	30 Mins

Chapter 6: Conclusion

6.1 Introduction

This PhD thesis has examined how the changes in local audit practice within developing countries are influenced by the global context. This was addressed in three papers (Chapters 3, 4, and 5), which looked at three different APPs within the context of Egypt. The three papers addressed the development of the Egyptian professionalization project (first paper), the process of ISA adaptation (second paper), and the establishment and operation of a local POB (third paper), respectively. Although each paper stands independently, they are interrelated, and analyse the varying influence of national and transnational forces (i.e. IFAC, IFIAR, and international audit firms) in shaping or re-shaping audit practice in a developing country.

This study was informed by an interpretive philosophical paradigm and employed a qualitative approach, using a multi-case research design. It drew on primary data collected through semi-structured interviews with key stakeholders, such as auditors in local and international audit firms, the local professional association (i.e. ESAA), regulators (i.e. EFSA), representatives of European development programs, and accounting academics within the Egyptian auditing environment. Additionally, it drew on secondary data sources, such as Egyptian laws, governmental decrees, official documents from various organizations (e.g. EFSA, ESAA, IFAC, EC, IFIAR, IMF and WB), and newspaper articles. Informed by the theoretical framework of the three papers, the data was analysed using thematic analysis approach.

By addressing the research questions, this thesis has provided multiple contributions to knowledge, by generating a multi-faceted understanding of three APPs within the context of Egypt's developing economy. As a whole, the thesis contributes to the literature by providing empirical insights into how global audit practice influences that of developing countries. It also attempted to reveal the internal dynamics of how audit practices are regulated and implemented in practice in Egypt.

This chapter concludes the thesis by summarising the research aims, questions, findings, contributions, and avenues for future research. Firstly, the chapter provides a summary (Table 6-1) to how the thesis research aims and questions have been addressed. Secondly, it presents for each paper a detailed discussion of the research aims, contributions and implications for various stakeholders. Finally, the chapter ends with a discussion of the thesis' limitations and opportunities for future research.

6.2 Revisiting research aims and RQs

The overarching aim of the thesis was to examine the influence of transnational and national forces on the change in three APPs in the context of Egypt. The overall focus of the thesis was addressed in three sub-aims, which were addressed in turn in three separate, yet connected, papers. Table 6-1: provides a brief summary of how the research aims and questions were addressed.

Table 6-1: Revisiting research aims and questions

Thesis sub-aims	Paper research questions	Paper's findings
1) Present a longitudinal analysis of the development of the Egyptian professionalization project over the period 1946 to 2016.	1) How did successive Egyptian governments rely on pre-independence closure tools to restrain and direct the development of the profession? 2) How did the subsequent politico-economic regimes affect State-profession dynamics?	1) Despite that, the early beginnings of the Egyptian professionalization project closely followed the self-regulated British model, the enactment of Law 133/1951, as a resistance and closure tool would significantly affect its development in consecutive politico-economic regimes. 2) The fundamental changes of the Egyptian politico-economic compass should have been followed by serious steps towards the reform of an outdated accounting profession. However, the Egyptian government failed to monitor the continued validity of the current profession's law (133/1951) for its market economy model. 3) The State dependency on amending the administrative aspects of the law and postponing core reforms, such as the certification requirements, led to the profession being crippled by the same law (law 133/1951) which was paradoxically intended to improve the profession.
2) Examine State-profession dynamics; the interplay between the Egyptian State and the profession.		
1) Explore the dynamics of the auditing standards-setting process in Egypt in relation to the IFAC's standards-setting process.	1) How are Egyptian Auditing Standards, which are nominally based on ISAs, issued in a local context?	1) Following ISAs' issuance at the global level, NSSs in developing countries are expected to produce a local adaption of ISAs, amid external pressure from transnational financers, and limited financial and technical resources,

<p>2) Unearth the circumstances that enabled the audit profession, particularly the Big Four local affiliates, to occupy a dominant role in the local adaptation process of ISAs.</p> <p>3) Demonstrate different tactics used by local Big Four affiliates to leverage their superior knowledge of ISAs.</p>	<p>2) Who are the main actors involved in the local Standards-setting process?</p> <p>3) How do the Big Four local affiliates manage to occupy a central role in ISAs adaptation process?</p>	<p>causing a power shift favouring the Big Four local affiliates.</p> <p>2) The paper revealed how Big Four local affiliates occupied an advantageous position as a necessary nexus between meeting 'best' international practices and calibrating ISAs to the local context by leveraging their superior knowledge of ISAs.</p> <p>3) The Big Four local affiliates used professional associations (ESAA) as surrogates to legitimize their dominance on ISA exposure drafts and translation process.</p>
<p>1) Examine the establishment of the Audit Oversight Unit (AOU) and its implemented oversight approach in an Egyptian context.</p> <p>2) Investigate how the formation and operation of POBs in developing countries are shaped by and integrated into the global audit arena/Spectacle.</p>	<p>1) How did the AOU introduce and enforce its compliance reviews in the Egyptian context?</p> <p>2) How did the local audit firms (affiliates of international firms and local firms) view and respond to the new regulator?</p>	<p>1) The Egyptian case captures how the AOU's establishment (as a part of audit reforms) represented a step in the integration process and of a local oversight mechanisms into the global audit arena.</p> <p>2) To mimic international best practices, the AOU mirrored their oversight approach of their counterparts in developed countries by depending on pre-practice checklist-based compliance reviews, which focused on the visibility of certain audit policies (e.g. QC manuals) rather than their actual implementation and intended purpose of improving audit practice.</p> <p>3) This paper demonstrated that AOU's oversight might have increased the symbolic compliance by small audit as they focused on inspection risk and the visibility of audit processes. The paper also revealed that local Big Four firms are likely to bypass AOU's oversight mechanisms depending on their network's image, policies and procedures which supposedly modelled on "best international practices"</p>

6.2.1 Revisiting the first APP (Paper: 1 Charting the development of the Egyptian accounting profession (1946-2016): An analysis of the State-Profession dynamics)

The sub-aim addressed in the first paper presented a longitudinal analysis of the development of the Egyptian professionalization project over the period 1946 to 2016. Utilising a theoretical lens that drew upon Weberian closure theory and cultural political economy theory, this paper investigated State-profession dynamics, that is to say, the interplay between the Egyptian State and the profession. It also examined how State-profession dynamics were affected by the changes brought about by three different politico-economic regimes. The paper demonstrated how consecutive Egyptian governments relied on a pre-independence closure tool (Law 133/1951) to restrain the development of the profession.

The Egyptian professionalization project revealed the influence of the Anglo-American professionalization model in a developing country. Similar to self-governed settler colonies (Chua and Poullaos, 2002), the Egyptian professionalization project commenced with the establishment of the ESAA, with relative control by Egyptian nationals over the ESAA. However, the issuance of law 133 by the El-Wafd government was an act of *revolutionary usurpationary closure* (allowing only Egyptian nationals), which disrupted the Anglo-American professionalization narrative by granting exclusive rights to the ESAA. Although this closure (at that time) managed to achieve its intended purpose of ending Anglo-American domination of the profession, consecutive Egyptian governments continued to rely on this tool during later politico-economic regimes.

Similar to the narrative of many developing countries (Poullaos and Uche, 2012), during the period of state capitalism (1952-1974) the state attempted to strengthen the local profession by relying on law 133, and co-opting the Egyptian professionalization project to serve the state's politico-economic goals. This dynamic changed with the introduction of open market policies (1974-2004). During this period, and under the pressure of transnational financers (i.e. the IMF), the state-profession dynamics shifted as the Egyptian government realised that it needed the Anglo-American professional model to assist with its structural reforms. However, the development of the Egyptian profession since is in a deadlock. On one side, the government, through the ESAA, advocated the Anglo-American approach to develop the Egyptian profession. On the other side were the local professional forces (e.g. local auditors and governmental entities, such as SCP and CAO), reinforced by the pre-colonization closure tool (law 133/1951). This deadlock situation has continued to the present day, leaving no fundamental solution for the development of the Egyptian professionalization project.

6.2.1.1 The first paper's contributions

At the paper level, the first paper adds to the emerging post professionalization literature (Suddaby et al., 2007; Gillis et al., 2014), and in particular to the research by Richardson (2017, p.16), who called for the examination of the transition in the life cycle of local professionalization projects and areas of “bifurcation” and convergence between global and local mechanisms.

Firstly, the first paper provided a 70 years longitudinal analysis of the evolution of the Egyptian profession through different politico-economic regimes. By examining the profession's primary legislation (law 133), the paper highlighted a critical area that have a significant impact on how a local professionalization project is subsequently shaped. Proposing, drafting, and lobbying behind laws which shape or alter professional closure are significant alleys where national and transnational forces exert their influence on local professionalization projects. The paper demonstrated an empirical case to the rationale and discourse used by the local and global forces to justify/reject the new proposed profession law.

In doing so, the paper also contributed to the literature on the state-profession axis (Chua and Poullaos, 1998; Dyball *et al.*, 2007; Agrizzi and Sian, 2010) through revealing a different case of the relationships between the state and the profession and how the external global forces have influenced the state-profession axis. Additionally, this paper, as far as I know, contributes to the literature by being the first research paper presenting a detailed analysis of the developments of the Egyptian auditing professionalization project from 1946, particularly in relation to Law 133 adopted in 1951. The findings of this paper enhance the understanding of the lingering and varying influences of the Anglo-American profession (e.g. Anglo-American professional association & international audit firms) on local professionalization models in developing countries. Secondly, this paper suggested a new theoretical variant of Weberian closure, i.e. selective exclusionary closure, whereby regulators in developing countries employ closure strategies by issuing administrative decisions as a substitute for broad legislative reforms.

6.2.1.2 Implications and recommendations of the first paper

The findings of the first paper present a number of implications for policymakers in Egypt and other developing countries. In order to develop the national professionalization project, there should first be a national consensus on the deficiencies, their perceived role and a proposed professionalization model of the national profession. This would be similar to the two international conferences that were held in Egypt during the 1980s, which identified a development strategy, including the need for an overarching regulatory authority in the profession (Kayed, 1990). Furthermore, a national consensus should be reached on the main

disagreements between the two 'camps' on the details of the professionalization process created by law 133/1951.

The current law allows three routes within the Egyptian professionalization process, which has led to technical variations between Egyptian practitioners. However, the production of three different types of auditors can be turned into a positive opportunity to improve the professionalization project, by producing two types of auditors, the Certified Auditor and the Certified Audit Technician. This could contribute to strengthening the professionalization project in developing countries. Since the economies of developing countries often still rely on small and medium sized entities, the professionalization process could focus on fostering a type of practitioner who could address the need of these businesses. This would be similar to what Poullaos and Uche (2012, p.85) suggested about the professionalization of "accounting technicians", who would possess the necessary skill and knowledge to help certain types of business; but do not have to go through a more complex professionalization process.

The creation of two types of professional qualifications in Egypt could provide a reasonable solution for all stakeholders. The Certified Audit Technician would probably include a large portion of the local profession (e.g. Route 3). These auditors would not only keep their practicing licence and their clients (mostly small and medium businesses), but also would be able to focus on improving and developing their professionalization domain and process. On the other hand, the professionalization process of Certified Auditors would be open to all local auditors, but would concentrate on designing an independent and robust process, where the focus would be on developing adequate examination and practical training on complex technical issues related to the audits of large and multinational companies. This approach could provide a middle ground between conforming with the global business setting and enabling the development of the Egyptian profession to meet the national needs. Finally, these suggestions and implications are contingent on the political will, allocation of resources and the realization of governments in developing countries of the importance of the first APP, a strong and independent national profession.

6.2.2 Revisiting the second APP (Paper: 2: The role of Big Four affiliates in ISA Adaptation in Developing Countries)

The second sub-aim of this thesis was to explore the dynamics of the national standards-setting process in Egypt in relation to the IFAC's standards-setting process. This was addressed by revealing the role of the audit profession (particularly the Big Four local affiliates) in the ISA adaptation process. This was in response to calls by (Cooper and Robson, 2006; Humphrey *et al.*,

2014; Samsonova-Taddei and Humphrey, 2014) to examine the standard-setting process within its local regulatory environment in different countries. Drawing on a theoretical framework that relies on Regulatory Space and Regulatory Capture theories, this paper revealed how local Big Four affiliates leverage their superior knowledge of ISAs to occupy a central role in the ISA adoption space. The paper reveals how the introduction of ISA and the lack of technical knowledge and financial resources of the local Egyptian stakeholders led the Egyptian NSS to effectively give away their substantive role in setting national regulation to Big Four affiliates. The findings of this paper reveal how the ESAA (used as surrogate by the Big Four) exercised its monopoly on the ISA adaptation process, by controlling the ESAA's exposure drafts and the translation process as regulatory capture techniques.

6.2.2.1 The second paper's contributions

The second paper contributed to the limited literature on ISA adoption, particularly in developing countries (Needles Jr *et al.*, 2002; Humphrey *et al.*, 2014; Boolaky and Soobaroyen, 2016), by presenting an empirical investigation into the 'backstage' of the local ISA adaptation process in developing countries. In doing so, the paper demonstrated how the local affiliates of the Big Four firms dominate the ISA adaptation process in developing countries. The paper responds to the calls (Samsonova-Taddei and Humphrey, 2014) for a 'refocus' on the role of local professional associations in the transnational regulatory agenda, in light of the heightened emphasis of the literature on the Big Four's transnational influence. This paper articulated the link between local Big Four firms, professional associations and transnational forces by revealing the use of professional associations in developing countries (i.e. ESAA) as a form of Big Four surrogates, with the aim of dominating the ISA adaptation process. The paper also presented how the local affiliates of the Big Four employ certain tactics and mechanisms, i.e. controlling standards exposure drafts and translation, to maintain and invest their "knowledge monopoly" over ISA adaptation. As a theoretical contribution, the paper suggested that the ISA regulatory space in a developing country can be regarded a sub-regulatory space. The paper attributed the subordination and limitation of the sub-regulatory space to three factors related to the local context of developing countries: under-representation in the IFAC, limited technical and financial resources of local actors, and the external pressures from transnational organisations to adopt ISA.

6.2.2.2 Implications and recommendations of the second paper

The findings of this paper indicate the different implications of ISA adoption, particularly in Egypt, and generally in the context of developing countries. In light of the widespread adoption of ISA around the world and the position of the IFAC as a de-facto transnational standards-setter,

developing countries should aim to tailor the ISA adaptation process, by first taking into account their national needs. Prioritizing national needs is permitted by the IFAC's guide to national standards-setters and is practiced by national standards-setters in developed countries, such as FRC (ISA-UK). However, this is contingent on the financial and technical resources available for NSS in developing countries. Therefore, an adequately funded NSS is essential in Egypt and other developing countries in order to balance national needs with the transnational reality of global business. A strong NSS is essential to producing adequate national auditing standards, which represent the second APP. Additionally, the implications of this paper address the concerns raised by (Samsonova-Taddei and Humphrey, 2014) on the effect of international standardisation in marginalising the role of national professional associations; instead favouring international audit firms.

The findings of this paper present empirical evidence of the use of professional associations (i.e. ESAA) as surrogates of local Big Four audit firms. By placing the ESAA on the forefront, the Big Four legitimise their role in the ISA adaptation process. Although local Big Four affiliates do spend much of their time and resources in aiding NSS in the ISA adaptation process, their dominance effectively jeopardises the credibility of the due process relating to ISA adaptation. To overcome such dilemmas, NSS in developing countries should work towards a more transparent and inclusive standards-setting process. Additionally, in order to achieve the necessary balance within the ISA adoption regulatory, other local actors (e.g. SCP, and emerging rival professional association) should dedicate more resources towards developing their technical abilities. To improve the second APP, it is crucial to strengthen NSSs in developing countries, to enable them to conduct a transparent ISA adaptation process, which conforms with the IFAC Guide to NSS and also addresses the national context.

6.2.3 Revisiting the Third APP (Paper 3: Auditing the Egyptian Auditors: An Analysis of Compliance Reviews by the Local Public Oversight Body)

The third sub-aim of this thesis was to examine the establishment and operations of the Egyptian POB. Drawing on the theoretical framework of the "society of the spectacle" by Debord (1967, 1988), this paper critically examined how the emerging transnational regulatory forces shaped and integrated a developing country's POB, namely the AOU, into a global audit arena/spectacle. Additionally, the paper explored the differences in response between the international and local audit firms to AOU's compliance reviews. The findings of the paper demonstrated that audit reforms promoted by transnational organizations (i.e. IFIAR) have led developing countries to mimic the image of Anglo-American POBs in modelling their national POBs (Caramanis et al., 2015).

The paper supports insights from the literature (Power, 2009; Holm and Zaman, 2012; Caramanis *et al.*, 2015) in arguing that audit reforms advocating the establishment of POBs are primarily geared towards re-gaining public trust, with little or no information about practical changes in audit practice. Furthermore, the paper highlighted the AOU's dependence on pre-practice checklist-based compliance reviews, which focused on the visibility of certain audit policies (e.g. QC manuals) rather than their actual implementation and the intended purpose of improving audit practice. Drawing on Debord's spectacle analogy, such symbolic compliance reviews can be viewed as a replication of the integrated spectacle's tools of control and surveillance into a concentrated spectacle.

Finally, the Egyptian POB case presented empirical evidence of how local and international audit firms responded differently to POBs' oversight in developing countries. The focus of the small audit firms was on managing the inspection risk and portraying symbolic compliance, by submitting evidence of the required policies, rather than implementing them. As for local affiliates of international audit firms, the paper revealed how they could bypass the compliance reviews of the local POB by shielding behind the reputation of their global network's audit policies and procedures.

6.2.3.1 The third paper's contributions

The third paper contributes to the emerging literature of POBs and their influence on audit practice, beyond the American context (Gillis *et al.*, 2014; Maroun and Atkins, 2014; Caramanis *et al.*, 2015). Firstly, the paper revealed how developing countries sought to mimic POBs in developed countries in the modelling of the institutional and operational structures of their local POBs. In doing so, the paper adds to the limited accounting literature (Boje *et al.*, 2004; Gumb, 2007; Uddin *et al.*, 2011) which has employed Debord's notion of the spectacle to examine audit practices. Secondly, the paper demonstrated the dependence of POBs on pre-practice checklists in conducting their compliance reviews. In doing so, it contributes to the literature (Humphrey *et al.*, 2011; Houghton *et al.*, 2013; Martinow *et al.*, 2016) on the rising use of checklists by POBs. The paper demonstrated that the dependence of the Egyptian POB on checklists led to an increase in symbolic compliance, rather than a change in audit practice.

The paper also contributes to the literature on the effectiveness of compliance reviews and the visibility and verifiability of audit practices (Power, 2003; Dowling *et al.*, 2015), by presenting an analysis of the varied responses of local and international firms to the new added layer of oversight. The paper revealed that small firms in developing countries struggle to satisfy the visibility requirements mandated by the local POB (i.e. the existence of written policies and procedures). Additionally, the paper demonstrated how international firms could easily pass the

visibility requirements set by POBs in developing countries. Finally, the paper adds to the literature on transnational regulatory arrangements (Suddaby et al., 2007; Humphrey et al., 2009; Gillis et al., 2014), by reviewing a case of mutual oversight recognition between POBs of developing (i.e. EFSA) and developed countries (i.e. CEAOB).

6.2.3.2 Implications and recommendations of the third paper

The findings of the third paper present the implications of POBs in developing and developed countries. For developing countries' POBs, it serves as a reminder that the purpose of enacting an independent POB is to enhance audit quality through improving and changing audit practices (Humphrey et al., 2011; Malsch and Gendron, 2011). Therefore, POBs in developing countries (including Egypt) should first consider a broader reform of their institutional structure to respond to their wider politico-economic context. This should include an evaluation of their technical and financial abilities, the choice of the oversight approach (direct inspections versus peer-review based inspection) if needed, and the degree of cooperation needed to conduct co-regulatory oversight, which depends on the status of the local profession. Secondly, in designing their compliance reviews, POBs in developing countries should consider the degree of dependence on checklists, to avoid turning them into a 'managing inspection risk' exercise for audit firms. In summary, the functionality of local POBs in developing countries is highly dependent on the financial and technical resources available, as well as the scope of their regulatory authority over local audit firms.

As for the implications for POBs in developed countries, this paper examined a case of cross-regulatory arrangements between developing countries, i.e. Egypt and Europe. The paper's findings responded to calls (Suddaby et al., 2007; Malsch and Gendron, 2011; Gillis et al., 2014; Sunderland and Trompeter, 2017) to examine such transnational regulatory arrangements between different countries. In 2011, the CEAOB stated that Egypt was still in the process of establishing a POB and an oversight mechanism, and granted the EFSA an extension to the transitional period until July 2012 (EC, 2011). However, in 2016, the CEAOB acknowledged its need for additional information in order to assess the equivalency of the Egyptian oversight system, yet it extended the transitional period to 2018 and stated:

"In order to carry out a further assessment for the purpose of taking a decision in respect of the equivalence of such systems, there is a need to obtain additional information from those third countries in order to better understand those systems. Therefore, it is appropriate to extend the transitional period granted by Decision 2011/30/EU" (EC, 2016, Section L 201/23)

In light of the above, the findings of the third paper, and the lesson learned from the Asian financial crisis of 1997/98 (Wade, 2007), there is a need for a deeper examination of the CEAOB equivalency assessments criteria for audit regulatory systems of third countries.

6.3 Limitations and opportunities for future research.

This thesis has a number of limitations due to constraints in space and time, the methodological approach, and data access. Future research opportunities are suggested to address such limitations and to advance the literature in the context of this study.

This study was not able to examine certain aspects of the three APPs because of limited time and space. The first paper examined the development of the Egyptian professionalization project in the period 1946-2016. However, the depth of this examination was limited due to the difficult, and sometimes restricted, access to public records, such as the parliamentary discussion of Law 133, the 2004 proposed law and the ESAA minutes of meetings. Additionally, the historical and sensitive nature of the investigation placed some limitation on access to key professional and regulatory actors within the local context.

Furthermore, the Egyptian parliament is expected to discuss a new accounting profession law, which was drafted with the help of an Egyptian-European development program, to enhance the profession in Egypt. Thus, future research might examine these developments by attempting to gain access to various key stakeholders, such as members of the Egyptian-European program, the ESAA, the SCP and the CAO. Future research also might consider an investigation of the perceptions and challenges facing the three types (routes) of Egyptian auditors.

The second paper, which focused on the ISA adoption process in Egypt, was also subject to a number of limitations. Firstly, there was limited access to the NSS and the ESAA minutes of meetings related to the discussion and decisions taken during the various stages of the standards-setting process. Additionally, the paper did not seek to provide a detailed comparison of ISAs with ESAs. Future research might address this by focusing on the ESAA's submission of the IFAC's Statements of Membership Obligations (SMO), thereby approaching the investigation from the IFAC's external perspective. Future research could also provide more insight into ISA adoption, by analysing the structural and translations differences between ISAs and ESAs.

The limitation of the third paper, which addressed the establishment and operation of the POB in Egypt, was mainly due to the EFSA's policy regarding the publication of compliance reviews results. Although the EFSA's website publishes decisions regarding the removal of auditors from the EFSA's registry, it does not provide any details about the circumstances of the removal.

Additionally, this research did not manage to gain access to the details regarding cross-oversight arrangements between the EFSA and the CEAOB. Future research might address this issue by attempting to gain access to the CEAOB records on criteria, and the assessments employed in evaluating the equivalency of non-European POBs' oversight mechanisms.

Although the interpretive qualitative approach enabled this study to provide insights into the three APPs in the Egyptian context, the quantitative approach remains dominant in auditing research globally, and particularly in Egypt (Humphrey, 2008; Samaha and Hegazy, 2010).

Alternatively, future research might employ quantitative methods to enrich our understanding of the three APPs. For example, one potential research avenue is to examine Egyptian practitioners' perceptions of the Egyptian professionalization project and its changes, given that they are rarely consulted about developments in their own profession. Additionally, quantitative methods could be used to test the degree of ISA and ESA implementation by Egyptian auditors (within local and international firms). Furthermore, future research could provide new indications of the effect of POBs on audit practices by relying on quantitative proxies of audit quality, such as abnormal accruals.

Finally, this study focused on the single context of Egypt, so future avenues should include multiple national contexts to provide richer insights into APPs. For example, future research should examine and cross-examine the changes in the three APPs in other Arab countries which bear similarities in their cultural context, but which differ in the politico-economic context. Furthermore, such comparative studies would be useful in revealing the changes in, and consistency of, strategies employed by transnational organizations in promoting Anglo-American audit reforms within the different Arab politico-economic regimes.

6.4 Chapter summary

This chapter has presented a summary of this PhD project's aims, findings, implications, contributions, and opportunities for future research. This thesis involved three qualitative papers that examined the influence of the global context on three APPs in the Egyptian context. The three papers have contributed to the literature by examining three interrelated APPs through three corresponding theoretical lenses. The first paper outlined the developments of the Egyptian professionalization project over the last seventy years, and revealed the interplay between the State and the profession, and how this dynamic was affected by global forces through different politico-economic regimes. The second paper examined the ISA adoption process in Egypt. It revealed the central role of local Big Four affiliates in the adaptation of local standards (ESAs) to international standards (ISAs). The third paper examined the establishment and operation of a

new national POB in Egypt. The findings suggest that the Egyptian POB attempted to mimic the image of other POBs in developed countries, in order to integrate into the emerging transnational regulatory arena. The overall thesis provides multiple contributions to the literature. It contributes both contextually, and theoretically, by generating new insights into areas of bifurcation and convergence between global and local APPs. This chapter concluded with opportunities for future research concerning the three APPs, which may enrich the literature.

Appendices

Appendix A

A.1 Interview Guide

Sample Interview Questions (Broad questions)

1. Can you tell me a brief about yourself, as an auditor? Position, educational background, years of experience, auditing experience (local VS international)?
2. What do you think of the current status of audit practice in Egypt?
3. What is the main obstacles to the development of audit practice in Egypt? And who should be responsible for this task?

<ol style="list-style-type: none"> 4. How do you evaluate the role of EFSA? 5. Are you familiar with ISA? 6. What is the difference between ESAs and ISAs?

Sample Interview questions (First paper)

<ol style="list-style-type: none"> 1. Are you a certified auditor? If yes, what was your certification route? If not, under which route are you planning to get certified? 2. How do you evaluate the Egyptian professionalization process? 3. What do you think of the current practice Law (Law 133)? Why? 4. What do you think should change in Law 133? 5. How do you evaluate the role of the ESAA? 6. Do you know any information about the 2004 proposed profession law?

Sample Interview questions (Second paper)

<ol style="list-style-type: none"> 1. How familiar are you with International auditing standards (ISAs)? Generally at your firm, and personally? 2. If yes, how do you evaluate ESAs in comparison to ISAs? 3. How would the change in auditing standards (ESAs Vs ISAs) affect your audit processes? 4. Are you familiar with the differences between ESAs and ISAs? If yes, please elaborate 5. For senior auditor, how familiar are you with the ESAs standards setting process? If yes, did you have an active role? 6. How do you evaluate ESAs standards setting process? And how would you improve it? 7. What do you think of ESAA's role in the standards-setting process? 8. Are you a member of ESAA? If yes, do you received ESAs exposure drafts?
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Sample Interview questions (Third paper)

<ol style="list-style-type: none"> 1. At your firm, are you subject to any kind of compliance reviews? If yes, please elaborate 2. Are you, or anyone at your firm registered at EFSA? 3. If yes, please elaborate on EFSA the requirements of registration process and how do you evaluate it. 4. Was your firm subject to EFSA compliance reviews (inspection visits), if yes how do you evaluate it? 5. How do you evaluate EFSA oversight? Please elaborate 6. What do you think EFSA should do to enhance its oversight mechanism?

A.2 Consent Form



CONSENT FORM (V1)

Study title: The implementation of International Standards on Auditing: The Case of Egypt

Researcher name: Peter Ghattas
Ethics reference: 12121

Please initial the box(es) if you agree with the statement(s):

I have read and understood the information sheet (insert date /V1 and have had the opportunity to ask questions about the study.)

I agree to take part in this research project and agree for my data to be used for the purpose of this study

I understand my participation is voluntary and I may withdraw at any time without my legal rights being affected

I am happy for the interview to be tape recorded. (If not applicable, please delete)

I am happy to be contacted regarding other unspecified research projects. I therefore consent to the University retaining my personal details on a database, kept separately from the research data detailed above. The 'validity' of my consent is conditional upon the University complying with the Data Protection Act and I understand that I can request my details be removed from this database at any time.

Data Protection

I understand that information collected about me during my participation in this study will be stored on a password protected computer and that this information will only be used for the purpose of this study. All files containing any personal data will be made anonymous.

Name of participant (print name).....

Signature of participant.....

Date.....

[Date] [Version Number]

A.3 Participant Information Sheet



Participant Information Sheet (V1)

Study Title: The implementation of International Standards on Auditing: The Case of Egypt

Researcher: Peter Ghattas

Ethics number: 12121

Please read this information carefully before deciding to take part in this research. If you are happy to participate you will be asked to sign a consent form.

What is the research about?

The aim of this study is to explore the auditing standard's setting process in Egypt. Egypt's latest auditing standards are based on the International Standards on Auditing ISA, however, Egypt has its own mechanism and process for issuing and implementing auditing standards. This manifold process involves the government, accounting associations and audit firms. This research seeks to examine the dynamics of issuing, implementing and monitoring compliance of auditing standards on the ground in Egypt. This research is funded by the University of Southampton.

Why have I been chosen?

I have contacted audit firms in Egypt, the Egyptian Society of Accountants and Auditors (ESAA) and the Egyptian Financial Supervisory Authority (EFSA) to participate in this study. You have been selected because you are either an auditor or you are part ESAA or EFSA and you have a direct relation with auditing standards.

What will happen to me if I take part?

You will be asked to participate in an interview (of about one hour) where the interviewers will be asking your views and opinions on your experience with Egyptian auditing standards. Should you agree to the interview being recorded, a transcript will be circulated in confidence to you and you can decide to amend or clarify your response. There is no expectation of a follow-up interview other than to seek clarifications (if any) on information recorded in the transcript.

Are there any benefits in my taking part?

There are no direct benefit to you and the institution. However, this research seeks to add to the knowledge regarding the auditing environment in Egypt in general, and specially auditing standards. The research will conclude with recommendations and analysis to the Egyptian auditing standards.

Are there any risks involved?

There are no risks involved to you or the organisation.

Will my participation be confidential?

The data will be retained in compliance with the Data Protection Act/University policy. The information will be stored and remain confidential. Specific responses will be coded and the files will be kept in a password protected folder. The names of the interviewees and organisations will not be mentioned.

What happens if I change my mind?

You can decide to withdraw consent at any time and this will not have an impact on your legal rights.

What happens if something goes wrong?

If you wish to contact the University of Southampton, you can email the research support officer, Angela Faux (risethic@soton.ac.uk) or contact the research support officer, Ying Ying Cheung (risethic@soton.ac.uk) or Head of Research Governance (02380 595058, rgoinfo@soton.ac.uk)

[Date] [Version number]

Appendix B

B.1 Regulations on Auditors` registration

Decision No 33/2009

Dated 28/4/2009

Regulations for Listing and De-listing of Auditors in the Capital Market Authority's (CMA's) Auditors Registry

The CMA Board of Directors

After reviewing the Joint Stock Companies, the Partnerships Limited by Shares and the Limited Liability Companies Law No. 159/1981 and its executive regulations,

The Capital Market Law No. 95/1992 and its executive regulations, and the

Presidential Decree No. 51/1997 promulgating the management regulations of Cairo and Alexandria Stock Exchange and the Financial Affairs thereof, and the

CMA Chairman's decree no 96/2006 issued on 22/8/2006 regarding regulations for listing of auditors in the CMA auditors registry, and the

CMA Board of Directors' decree no 84/2008 approving the establishment and incorporation of the Auditors Oversight Unit, and the

The CMA Board of Directors' approval in session 6/2009 dated 29/4/2009;

The CMA Board of Directors decided the following:-

Article(1) The Capital Market Authority shall maintain a special register to list the approved auditors authorized to perform financial audit services for Listed Companies, Initial Public Offering (IPOs) Companies, Securities Companies as well as Mutual Funds established by Banks and Insurance Companies.

Article(2) Auditors who are not listed in this CMA register are not entitled to perform any of the following services:-

A. Perform financial audit services and issue any audit report on the financial statements of Listed Companies, Initial Public Offering (IPOs) Companies,

Securities Companies as well as Mutual Funds established by Banks and Insurance Companies.

B. Perform financial audit services and issue any audit report on the financial statements of any of the above mentioned legal entities or on any of the companies in which these legal entities owns, either directly or indirectly, 20% or more of its voting rights.

Article(3) To approve registration, the following conditions must be met:

- A. The auditor is registered in the Ministry of Finance's General Registry of Accountants and Auditors (who are authorized to audit Joint Stock Companies) for at least five years period. A certificate to this effect must be submitted.
- B. Submit the original and a copy of the auditor's membership card in the Accountant and Auditing Free Practitioners Division of the Commercial Syndicate
- C. Provide evidence support that the auditor has audited joint stock companies accounts for a period of at least five years provided that during every year of which, he/she should have audited the accounts of at least five companies in accordance with the Egyptian Auditing Standards.
- D. Auditor shall fulfill at least one of the following conditions:
 1. Being a member of the Egyptian Accountants and Auditors Society, or has obtained any other equivalent professional certificates, or has been granted the Ph.D. from a duly recognized university, or
 2. Being listed in the Central Bank of Egypt's - Bank's Auditors Registry provided that he/she has audited the accounts of a Bank in accordance with the Egyptian Accounting Standards for at least one year, or

3. Being listed in the Egyptian Mortgage Finance Authority's- Mortgage Finance Companies Auditors Registry provided that he/she has audited the accounts of a Mortgage Finance Company in accordance with the Egyptian Accounting Standards for at least two years, or
4. Being listed in the Egyptian Insurance Supervisory Authority's- Registry of auditors licensed to audit the accounts of insurance, reinsurance companies and insurance cooperatives provided that he/she has audited the accounts of an Insurance Company in accordance with the Egyptian Accounting Standards for at least two years, or
- E. A certificate that no criminal judgments were rendered against that auditor or any of his executive partners.
- F. A certificate shall be submitted from the Accountant and Auditing Free Practitioners Division of the Commercial Syndicate, stating that no disciplinary judgments were rendered against that auditor.
- G. Meet the capability and professional capacity requirements through submitting evidence as to the existence of the following:-
 1. A task force of at least three people with expertise in accounting and auditing for joint stock companies for at least five years period.
 2. A system in place for quality control and professional independence checks
 3. A system in place to ensure commitments to continuing professional education aimed at exposing the audit staff to various issues relating to challenges and new developments in the Egyptian Accounting and Auditing Standards especially those related to specialized financial industries like Banking Sectors, Insurance Sectors, Securities Companies, Structured Financial Instruments, Contracts and Derivatives

Article(4) The auditors listed in the registry referred to herein above shall abide by the Egyptian Auditing Standards and by the regulations and restrictions set forth by the Capital Market Authority, in order to ensure appropriateness and accuracy of data and information to be made available to the public.

Article (5) The auditor (including the audit team) should have no direct or indirect interest in the companies or in the mutual funds being audited by him, an interest in the form of shareholding, or certificates or participation in management, pursuant to the provisions of Article (104) of Companies Law No. 159/1981 and its Executive Regulations.

Article (6) Applications for listing in the auditors' registry referred to herein above shall be made in accordance with the procedures and forms approved by the CMA. The CMA shall decide upon the applications within 60 days from the date of submission.

Article (7) The Auditors Oversight Unit will inspect the quality of work performed by listed auditors to assess the auditors' degree of compliance with the implementation of the Egyptian Auditing Standards in connection with the financial audit for Listed Companies, IPOs Companies, Securities Companies as well as Mutual Funds established by Banks and Insurance Companies.

The unit will prepare a report for each individual auditor in which it will document the results of the regular and special inspections performed on the auditors work.

Article(8) The following events are considered violations that requires further investigation and undertaking enforcement actions on the auditor :-

A. Errors, omissions, and misstatements, whether intentional or through oversight, in the submission of any application, data forms and/or reports filled by the auditor to either the Auditors Oversight Unit and/or the Capital Market Authority.

- B. Non-compliance with the standards and codes of audit practice including but not limited to;
 - Egyptian Auditing Standards inclusive of the quality control standards and independence standard
 - The auditor did not verify the clients' compliance with the Egyptian Accounting Standards in the preparation of the financial statements being audited
 - Non compliance with the Code of Ethics promulgated by CMA
- C. Non-compliance with the requirements of Continuing Professional Development (CPD) set forth in the Rules and Regulations pertaining thereto for auditor registration.
- D. Failure to furnish all information requested in connection with the registration or inspection of registrants.
- E. Failure to cooperate with the reasonable requirements of a periodic inspection and/or special investigation of alleged violations.
- F. Material misstatement and/or inadequate disclosure in any financial report(s) issued by a regulated entity and audited and reported upon by a registrant and failure of the auditor to report on such violations/misstatements.
- G. Failure to abide by rulings of the AOB and disciplinary proceedings levied there from.

Article (9) The Auditors Oversight Unit's Board of Directors has the authority to enforce and levy disciplinary proceedings against auditors who violates any of the Professional Code of Ethics, Professional standards, Egyptian Auditing Standards or Listing Criteria. Specifically, the AOB's Board of Directors can suggest and enforce any one or more of the following sanctions:-

- A. Issuing a notice of violation to the auditor indicating the period of time granted to him to provide corrective action and indicate measures taken to prevent re-occurrence.
- B. Requiring the registrant to promote its professional capacity through increasing the number of its professional staff or promoting the staff professional capacity and provide additional professional training for some or all of the designated professionals.
- C. Requiring a registrant to assign a reviewer or quality control supervisor on outstanding engagements,
- D. Prohibiting a registrant from accepting new audit clients (from the legal entities mentioned in article no. 2) until taking proper corrective action to address raised violations.
- E. Temporary suspension of registration for a period that does not exceed 12 month.
- F. De-listing of the registrant from the auditors' registry.

AOB's decisions are issued with the approval of the majority of the attending votes except for the proceedings no. (D), (E), (F) mentioned above, where an affirmative vote from at least five voting members of the AOB is required to decide on initiating these specific disciplinary proceedings.

Article(10) A notice with raised deficiency and the above mentioned disciplinary proceedings will be issued to the registrant. The registrant shall have 30 days to respond to the matter(s) set out in the Notice before being presented for approval by the CMA's Board of Directors.

The CMA's Board of Directors has the right to request further technical investigation on the mentioned deficiency/violation.

And in all cases, disciplinary proceedings and sanctions will not be rendered effective except after the approval of the CMA's Board of Directors.

Article(11) Decree no.96/2006 is hereby cancelled where Decree no 33/2009 shall come into effect starting from the day following its date of issuance.

The auditors listed by the CMA in the current auditors' registry shall be transferred to the new registry referred to herein above provided that the registrants should complete and file the Information Update Sheet within 30 days period from date of notification, and the fulfillment of the professional capability and capacity conditions set forth in item no. (G) from Article No. (3) of this decision within a period that does not exceed two years from date of notification.

Dr. Ahmed Saad Abdel-Latif

Chairman

B.2 Milestones for the Egyptian professionalization project

Milestone	1946	1951	1956	1974	1980's	1990's	2000's	2004	2008	2009	2013	2015
Paper One (Profesionalization)	ESAA was established	Law 133 issued	Nationalization (Departure of Int. firms)	Initiation of the "Open Door" policy	Return of Int. firms to Egypt	Increasing reliance on IMF programs		Failure to pass new profession's law				European project to develop the Egyptian profession
Paper Two (Auditing standards)						Increasing focus of Capital Market re-structure	First ESA issued		Current ESA issued	EFSA was established	New Standards-setting committee established	
Paper Three (Oversight)										AOU was created		

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