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REVIEW ARTICLE

THE BIRTH OF ACCOUNTING STANDARDS IN EGYPT: FROM SOVEREIGN POWER TO DIFFUSION OF POWER

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ABSTRACT

Accounting researchers in the last three decades have come to realise the importance of viewing accounting in the wider context in which it operates. The aim of the paper is to challenge the change in economic conditions in Egypt as the sole driving force behind the shift from Uniform Accounting System to the introduction of Egyptian Accounting Standards. This study is adopting ideas derived from Michel Foucault in explaining the localized power forces and reveal the discourse that may have contributed to the application of accounting standards in the Egyptian environment. It is going to highlights how the mechanism of the change occurred in part of the changing relation between state and civil society. The accounting profession as expertise revive after they were deprived from their responsibilities. The professional bodies in Egypt are not mature enough as their counterparts in US and UK but we cannot compare them to their counterparts as it is a different context. We should compare their role during the introduction of both systems to get a better view of the change. Accounting as knowledge lost its direct link to the state during the introduction of Egyptian Accounting Standards.

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INTRODUCTION

In the last three decades, accounting history had become an important area of research. Researchers in accounting history can be classified into various schools according to the lens that they have used in doing their research. There are different approaches such as Traditional and Neo-Classical Approach, Marxist/Labour Process Approach, the Foucauldian Perspective and Institutional Theory. Researchers use different lenses and the lens used clearly impacts selection and interpretation of events. The ways accounting systems are in action is complex as pointed by Mennicken and Miller (2012):

The realm of technologies refers to the complex of heterogeneous mechanisms and instruments through which political rationalities and programmes of government are made operable. Some researchers on accounting systems in developing countries focus on the changes in the economic conditions to explain the changes in accounting systems. For example, Briston and EL-Ashker (1984) trace the evolution of the Uniform Accounting System in Egypt, which was established in the late 1960s. However they were more concerned about Western influence and describe in detail the content of the System. They share the idea that accounting system must change to respond to the changes in economic

conditions. They state (p.135, emphasis added), “*In view of the urgent need to encourage economic development in the country, a revolution in Egyptian accounting, rather than evolution, was then required*”. Mahmoud (1995) argues that the economic reform program implemented by the Egyptian government requires an improvement in accounting in order to play a role in advancing the rate of economic development. As Mahmoud says (p.534-5, emphasis added):

The economic system in Egypt changed in the late 1950s when socialist policies were implemented and the economy became centrally directed. By the beginnings of the 1990s, the shift from a central planning economy to a market oriented economy and privatisation require parallel changes in the accounting system and hence there is a call for a new accounting system and standards to provide information for the new economic system.

The problem of the simple explanation, progress from socialism to privatisation, is that there was a debate about introducing accounting standards in Egypt when there was no privatisation policy and the Uniform Accounting System is still in use until today despite the abandonment of socialism. Although this study does not deny the importance of economic factors, it refuses to see them as a sole driving force behind the change process. There is no single factor that can adequately explain what subsequently occurs. As accounting cannot be understood in isolation from the context in which it operates, it

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is necessary to explain the various political, social and economic conditions and forces within which different accounting systems have emerged and changed. Although the role of Western influence is not denied, it is important to recognize as Hopwood (1989, p.4, emphasis added) says:

All too clearly international pressures cannot be analysed in isolation of national ones. *Nor can international standardization be seen as a smooth process of harmonization or even a gradual process of encroachment. More active forces are at work whereby national influences permeate and often, in the process, considerably modify, if not change, the international pressures and influences, however real the latter may be.* Interests in new and different accountings, internationally oriented or otherwise, have to confront the nexus of national institutions, regulations and practices.

To reduce everything to economic factors only could provide a misunderstanding of different events. Ricoeur (1986, cited in McSweeney, 1994) states, "it is completely meaningless to say that something economic acts on ideas in a causal way. The economic force of something material cannot have effects of another kind unless these effects occur within another conceptual framework". Farag (2009), in his historical review of the evolution of accounting and accounting profession in Egypt, insisted on the changing in the economic conditions and the development in the public sector created a need for the development of the Uniform Accounting System in Egypt. The development in accounting standards is seen "as the structural adjustments of the economy accelerated, foreign capital inflows increased ... it became necessary to adopt a set of accounting and auditing standards". Even when accounting researchers begin to address accounting change in the Egyptian context in which it operates, for example Hassan (2008), the focus is on the coercive power of the state. Although he pointed to some extent to the role of accounting profession, the study is still grounded in the economic needs of the state. He pointed (p.480, emphasis added):

The development of Egyptian Financial Reporting Regulation reveals the complexity of the institutional change underlying the development of the Egyptian Accounting Standards. However, *the common influential force during the transitional processes is the governments coercive power.* As such, the change in the state philosophy is evident. *The state has transformed from being a controller wherein it tightly controlled Egypt's economic activities to being a regulator whereby it provides legal and political frameworks upon which organizations function.*

This paper is against what is necessary and inevitable in the introduction of accounting standards in Egypt. It is the first study that explains the complexity of the change and the transformation in the accounting system in Egypt using ideas derived for the work of Michel Foucault. The reliance is almost on secondary sources as primary where used as they are available. This study highlights the interplay between different potential power forces and events. The focus will be on the pluralisation of events and forces and not a single origin. Although the role of the state and its sovereignty is prominent in the application of the Uniform Accounting System, the

introduction of the Egyptian Accounting Standards is a different story. The remainder of this paper will address the following issues. Section two proceeds to discuss the power of the Egyptian state in the birth of the Uniform Accounting System utilizing Foucault's concepts of sovereignty of the state. Section three describes the role of different agencies and events in the introduction of accounting standards in the Egyptian environment and argues that state begin to change its view with civil society including accounting profession by presenting the discourse surrounding the introduction of the Egyptian Accounting Standards. The final section summarizes the discussion.

The Birth of the Egyptian Uniform Accounting System:

In Egypt, the Uniform Accounting System was established in 1966 and during 1990s Egyptian Accounting Standards were implemented. Although there has been some research on accounting in Egypt, the focus has been on a single factor that is the change in economic conditions to explain the changes in accounting systems (Samules and Oliga 1982).

In contrary, this study view the Uniform Accounting System as a system of knowledge. It is argued that the state held all the power in society during the period of the introduction of the Uniform Accounting System. It represented a sovereign power and this is coupled with reason of state as a way of government. The state needed knowledge to govern after nationalization laws in which there was an expropriation of enterprises from their owners and this role was fulfilled by the Central Accounting Agency established in 1964 to control the accounts of public companies. Wahba (1994) states, "the role of the Central Accounting Agency in the formation of a unified accounting is interesting as it gives an insight into the gradual nature of state control over the public sector". The sovereign is concerned with the exercise of his power over his subjects and power in this case "was essentially a right of seizure: of things, time, bodies, and ultimately life itself; it culminated in the privilege to seize hold of life in order to suppress it" (Foucault, 1978). The reason of state is based on a "unity of knowing and governing as embodied in the conception of the state as a Leviathan where all that was happening in society could be maintained by the state" (Olssen 1999). Gordon (1991) points out to the connection between reason of state and science of police and how they are linked to sovereignty. He states (p.14, emphasis added):

Foucault sees the early modern conjunction of *raison d'` et at.* and science of police as momentarily original in both an epistemological and on ethical sense. It constitutes the activity of government as an art with its own distinctive and irreducible form of rationality; *and it gives the exercise of sovereignty the practical form of political pastorate,* a government of all and each for the purposes of secular security and prosperity. The need for intervention and increased state authority describes the mentality of the Egyptian government during the period of the introduction of the Uniform Accounting System. The sovereignty of the Egyptian state manifested itself in some practices and events. These events showed the deduction mechanism and the right of seizure that became a common feature during the 1950s and 1960s. Kazzih (1993) states,

“the Egyptian state had developed an apparatus capable of placing all the major functions and activities of society under its direct supervision and control”.

Nationalization laws were promulgated and many companies were expropriated from their owners and came under state control. The Egyptian government did not only sequester British and French properties, but also confiscated various properties owned by the Egyptians without compensation. Land reform laws were announced during the 1950s restricting land ownership and lands possessed in excess of certain amount was expropriated. Foucault (1978) argues that what he terms the “juridico-discursive” conception of power is a view of power taken as a right. Power in this case is a commodity that a certain person or persons are able to possess. It is exercised (p.84, emphasis added):

From top to bottom, in its over-all decisions and its capillary interventions alike, whatever the devices or institutions on which it relies, it acts in a uniform and a comprehensive manner; *it operates according to the simple and endlessly reproduced mechanisms of law, taboo, and censorship*: from the state to the family, from the prince to the father. During the middle of the 1950s the Egyptian government abolished the press syndicate and the press came under state direction and control. The philosophy during that time was the need of the state to dominate information and communication processes. Dabous (1993) states, “the nationalization measures, the censorship regulations ... became characteristic of the Egyptian government’s relationship with the press in the 1960s”. The government of Egypt nationalized over 80 per cent of the country’s investment during the 1960s. Most companies owned by foreigners and Egyptian private companies came under state control. The public sector began to play the major part in economic activities.

The accounting profession was nationalized alongside the nationalization of business enterprises. The nationalized companies were classified into groups and government state agencies called Public Organizations were established to supervise each group based on the type of industry. The government employed many accountants who agreed to work as government employees but there was a lack of professional standards, requirements and conduct. A Uniform Accounting System was implemented in public sector companies. However, the Big Eight firms left Egypt in 1965 and the number of professional accounting firms was greatly reduced. Foreign accounting firms were prohibited from working in Egypt. Amer (1969) states:

The development of the public sector in the U.A.R (Egypt) undoubtedly led to a decline in the role of the independent accounting profession in that country. This decline might hinder the accounting practitioner from meeting the characteristics of a profession ... members of the Central Accounting Agency and some members of Accounting Control Boards may not be members of the Institute of Chartered Accountants and, hence, they may not meet the professional standards and requirements governing admission to professional institutions.

The emerging “role of the public sector has weakened the public accounting profession and the Egyptian Society of Accountants and Auditors” (Amer and Khairy 1981). It is true that “*the nationalisation programme under President Nasser is said to have put the profession to sleep*” (Renshall, 1981, p.20, emphasis added). Kolleritsh (1965) states:

Gamal Abdel Nasser came to power in 1954 ... Since that time 90% of the industrial complex of Egypt has been directly or indirectly owned or controlled by the government. That such a development was certain to leave a mark on the accounting profession ... Most Egyptian accountants have had no alternative other than to accept government employment. Accounting control boards, run by the government, took over the duties of the independent accountants ... Egyptian accountants are appointed and discharged by presidential decree.

Although the members of the Accounting Control Boards were independent of the affiliated enterprises, they were employees of public organisations, the performance and achievement of which were subject to evaluation by the respective minister. This might have led an Accounting Control Board to manipulate accounting figures or methods to conform to the desired objectives (Amer, 1969). Neither education nor the trade unions nor any of the other professional and cultural syndicates and associations could claim an independent status under the Egyptian state (Vatikiotis, 1978). Moore (1975) argues that the regime during the sixties wanted to control and envelop all groups in Egyptian public life. The criteria for entering the profession were loosened. Every university graduate was enrolled or supposed to be enrolled in at least one of Egypt’s fourteen syndicates. The number of syndicate members exceeded the number of graduates because the syndicate had been opened to non-university technical personnel. Vatikiotis (1978) states:

The primary function of institutions was one of mobilising the masses to adhere to the policies of a political directorate, controlled and manipulated by a supreme autocrat in order to impose the semblance of national unity ... there was no serious attempt to decentralise and diffuse power. Rather the basic formula remained unaltered: that of traditional centralism coupled to the dynamic leadership of a charismatic ruler.

It is in this controlling environment by the state that the accounting reports of public sector companies were not made public nor supplied to independent Parliamentary Committees as used to be the case before the implementation of the Uniform Accounting System. There were two reasons for this, firstly, all such information was regarded as sensitive and related to national security, and secondly, the disclosure of heavy losses realized by national enterprises might lead to loss of confidence in the regime’s policies and the management of those companies (Hegazy, 1991). The political regime during the late 1950s and 1960s wanted to control all groups and public life in Egypt. The criteria for entering the profession were downgraded to allow as many members as possible to enter syndicates to be mobilized to support the regime’s objectives. The regime wanted to contain the new middle class of educated people. The syndicate’s members became a

political tool in the hands of the regime (Moore, 1980). Springborg (1978) argues that Nasser used syndicates along with other tools to ensure the acquiescence of professionals to his rule. The government during the period of the late 1950s and the beginning of the 1960s was intervening in all syndicate activities. It made amendments to laws governing syndicates, appointed syndicate boards, relied on professionals with personal ties to members of the elite to control their syndicate colleagues. The view was that syndicates had to be “abolished entirely or suppressed more ruthlessly” (p.284). In order to justify the actions against syndicates, one critic argued, “the historical liquidation of the old class society requires the liquidation of its class organizations, namely, professional syndicates” (Allah 1966, cited in Springborg, 1978). The government moved to decentralize syndicates and undertook efforts to break down membership barriers. The syndicates were forced to lower their requirements for membership. For example, agricultural engineers had to admit graduates of agricultural secondary schools into their syndicate and to abolish the distinction between “A” members who had a university degree, and “B” members who had an agricultural higher institute degree. He said (p.289):

While efforts between 1964 and 1967 to mobilize syndicates, to lower their entrance requirements, and to force their members to join labour unions, caused anxious moments for many professionals, a great threat to syndicate autonomy was passed by the Arab Socialist Union, which, after 1964, manipulated the syndicate’s elections, censored their journals, intimidated their members, and prohibited open debate at their meetings.

One of the factors that contributed to the decline in accounting professionalism in Egypt was the acceptance of members of some jobs to be regarded as accounting professionals. These jobs were known as ‘equivalent’ jobs. The Minister of Finance had been given the authority to decide what jobs could be accepted as a substitution for training in accounting firms. These decisions led to a decline in the prestige of accounting as a profession. The Minister of Finance from 1951 to 1975 issued 25 Ministerial Decrees considering 41 different jobs as ‘equivalent’ jobs. These decrees created an obstacle for having a strong profession in Egypt because it led to the entering of the profession by unqualified people. It had a harmful impact on the Egyptian Society of Accountants and Auditors as a large number of individuals were licensed to be Chartered Accountants without having the training and experience required. The jobs that were considered by the Minister of finance as ‘equivalent jobs’ include (Kayed, 1990; El-Gryany, 1996; El-Nafarwy, 1998).

- Tax authorities and pension funds employees.
- Central Accounting Agency employees and other government employees who are dealing with the preparation of financial statements.
- Ministry of Tourism employees dealing with financial matters.
- Staff teaching accounting or auditing in Egyptian universities.
- Ministry of Commerce employees.

Hegazy (1991, p.74, emphasis added) states that in describing government intervention in the introduction of Uniform Accounting System versus the role played by Egyptian Society of Accountants and Auditors in organizing accounting in Egypt:

While the Egyptian Society of Accountants and Auditors represented private efforts for organising the accounting profession in Egypt, *the Syndicate of Accountants and Auditors reflected government concern over accounting practices in Egypt after the revolution in 1952*, and the inconsistency in the accounting systems prevailing at that time.

Throughout the entire Nasser era, the professional syndicates survived; indeed new ones, notably for schoolteachers, scientists; accountants and musicians were officially recognised. From a political standpoint, these syndicates served to contain and envelop the new middle class of controlled participation supplementing those of the sole political party, Liberation Rally and, subsequently, the National Union, renamed the Arab Socialist Union in 1962. Nasser used the syndicates along with labour, peasants, and other organisations to represent the popular forces to be mobilised to support the regime. The syndicates become a useful instrument of political control (Moore, 1980). Moore (1975, p.67-8, emphasis added) states:

What is purely technical or professional in the eyes of syndicate leaders, however, may have highly political connotations ... The professional syndicates are not usually permitted to act in this twilight zone where much politicking occurs *and where their expertise might have significant impacts*. They are not expected to participate in formulating general government policies, but they are expected to approve and explain them to their constituents. Given these constraints on syndicate activity, it is not surprising that the syndicates have usually failed to arouse much enthusiasm or participation from their rank and file.

After the state nationalized about three hundred companies, it began to extend its control over them. Law 188 for 1964 established the General Agency for Organization and Management with a mandate to reorganize the employment and management system. Presidential Decree 2915 for 1964 instituted the Central Agency of Public Mobilization and Statistics giving it the task of collecting statistical information on all aspects of the economy. Finally, Law 129 of 1964 instituted the Central Agency for Accounting giving it the responsibility of controlling the finances of the public sector and auditing the books of public enterprises and government departments. Hussein AL-Shafei who was the Vice-President of Egypt, headed the Central Agency of Accounting! In describing the power of the Central Accounting Agency. Kayed (1990) stated:

Because of the Central Accounting Agency wide authority and responsibilities it is in a unique position to influence developments in accounting. Its influence arises from the nature of its activities, its size, and its role in the economy. Under the control of the Vice-President of the country, the Central Accounting Agency has the authority to issue

accounting and auditing instructions, which must be followed by organizations, whose financial statements and accounts have been audited by its members.

After the establishment of the Central Accounting Agency, the Accounting Control Boards became directly responsible to this new agency (Amer 1969).

The Egyptian state felt the need for a unified accounting system that would allow them to know what was happening in public organizations (Wahba 1994). It was a response to the "fail for current accounting systems in different organizations to provide the precise information that are reliable and can be trusted and feeling confidence on its results" (El-Rouby 1976). Presidential Decree 2125 of 28th May, 1966, ordered the formation of a committee under the direction of Hussein Al-Shafei, (Vice-President of Egypt), to form a Uniform Accounting System according to the proposal of the Central Accounting Agency. The committee was headed by the Vice-President of the Central Accounting Agency and included one representative or more from each of the following sectors: financial; planning; economic; national guidance; tourism; agricultural; transport; health; and housing sector. All these sectors were under state control and supervision. The committee consisted of 26 members, only two of them were accounting experts, which meant about 7% of the committee. After promulgation of the presidential decree, the work had been completed during six months. Presidential Decree 4723 of 1966 was issued, stating that the system was to be implemented during the financial year 1967/8 (Central Accounting Agency 1976).

The profession was another area that the state wanted to control. The syndicates were prohibited from questioning their own technical matters and they became political tools in the hands of the state. They became a form without content. They left technical matters to the central state agencies. El-Rouby (1976, p.20, emphasis added) states:

It should be taken into consideration that accounting uniformity in different countries occur according to recommendations from unions, associations, or accounting syndicates. *Egypt is opposite case since the Syndicate of Accountants and Auditors has no role to play in this matter before the Central State Planning and Control Agencies ordered the uniformity of accounting system.*

The Uniform Accounting System represented the interest of the state. Accounting professional bodies had no role to play in its introduction. The Central Accounting Agency, which is a state agency, created the system and it was intended to provide all the accounting information necessary for planning and control at all levels. The need to create the Uniform Accounting System emanated from a central location that is the state. The professions in general were not participating in the formation or discussing state policies and their only function was to support the political regime and to create supporters for its policies (Moore 1975; 1980).

During the 1960s in Egypt the state held all the power. Professional groups and syndicates played almost no role in

regulating their own activities nor did they discuss any technical issues, their autonomy was threatened and government intervened in their activities. The view during that time was the need to mobilize syndicate members as merely political tools in the hands of the state. The government manipulated syndicate elections, censored their journals and prohibited open debate at their meetings (Moore 1975; Abdel-fadil, 1980). Springborg (1978) states, "A campaign was launched to discredit syndicates, and they were labelled as remains of the pre-revolutionary capitalist society which sought to divide the people". Zaki (1994 emphasis added) states:

Soon after the coup of 1952 it became clear that Egypt's new military rulers intended to maintain tight control on all associations of civil society. *Thus in the early 1960s new legislation permitted pervasive state control of interest groups and sanctioned intervention in their affairs.* The new law and the high degree of centralization and authoritarianism of the Nasser regime completely subdued all significant manifestations of autonomous expression within civil society.

Egyptian State policies began to change after the 1967 war in which the Egyptian army was defeated in just a few hours. This defeat helped to change state and society relationships. The state began to decrease its intervention and welcomed different opinions. Bianchi (1989) states, "The crushing defeat of the 1967 War was a turning point in the authoritarian state's relations with civil society". The June War in 1967 together with the movement towards liberalization in Egypt contributed to the change in the way professional groups were viewed. The following section is going to highlights various forces and events that contributed to the introduction of Egyptian Accounting Standards.

The birth of the Egyptian Accounting Standards

The state intervention in professional associations and syndicate activities began to change during the 1970s and 1980s. The Egyptian government recognized that its way of ruling prior to the 1967 war had led to a disaster and that this was the time to re-think its policies. The introduction of Egyptian Accounting Standards is viewed in the context of the national and local conditions under which it introduced. Egypt is conscious that liberalization policies require a comprehensive structural reform program with a financial regulatory system (World Bank, 2002). In the case of accounting, various forces contribute as well as accounting conferences were held in which debates were generated on the need for changes in the Uniform Accounting System. Since the implementation of the liberalization policies during 1970s, "civil organizations have gained importance and acquired more influence" (Leenders 1996).

Accountants began to debate different issues and made recommendations about the need for change. Although these debates between accountants and the conferences organized by them may seem obvious or normal situation, this was not the case in Egypt. The conferences organized by Egyptian accountants are considered a "landmark in the development of Egyptian accounting profession" (Renshall 1981). Bianchi (1989) states:

Egyptian interest groups have evolved as a combined product of spontaneity and contrivance. Many organizations that originated as voluntary groups or popular movements have been reshaped into semi-official appendages of the bureaucracy. Many others were conceived by the state as instruments of economic regulation and social control but then gradually took on a life of their own to become virtual veto groups in key areas of policy-making.

Foucault's notion of liberalism is considered as a critique of reason of state and this is coupled with bringing forms of government detached from totalising forms of sovereignty (Osborne, 1996). In this case "the role of knowledge and expertise is also transformed under liberalism; knowledge loses the direct link to government intervention that it possesses in police science" (Osborne 1996). Barry *et al.* (1996 emphasis added) state:

Far from seeing liberalism as an absence of government, or of a lessening of political concern with the conduct of conduct, histories of the present draw attention to the intellectual and *practical techniques and inventions via which civil society is brought into being* as both distinct from political intervention and yet potentially alienable with political aspirations.

In contrast to the birth of the Uniform Accounting System that was imposed by the state over Egyptian companies to serve national purposes, the Egyptian Accounting Standards grew from the roots with the movement towards liberalization and changing relation between Egyptian government and civil society. The Egyptian Accounting Standards did not emanate from a central location that was the state. The Central Accounting Agency which is a state agency represented one force among many that contributed into the introduction of accounting standards. This situation was different from the introduction of the Uniform Accounting Standards in which the Central Accounting Agency was the sole force behind its introduction. Foucault in an interview (1991) introduced the term eventalization which means rediscovering "multiplication or pluralization of causes". The Egyptian Accounting Standards unlike the Uniform Accounting System "developed by the profession, discussed and adopted by a ministerial committee, and issued by ministerial decrees ... the Egyptian Society of Accountants and Auditors has the main responsibility for drafting accounting and auditing standards"(World Bank 2002).

It is this pluralisation of causes and forces that this section is trying to highlight. Various groups had participated in the debate about introducing accounting standards and they create a discourse about this need as part of changing relation between civil society and the state. These were the Syndicate of Commerce Profession, Egyptian Institute of Accountants and Auditors, Egyptian Society of Accountants and Auditors, Central Accounting Agency and Capital Market Authority as well as the collapse of Islamic Investment Companies which may highlight the absence of acceptable financial regulation and the need for the change. Bianchi (1989) states, "The most important new professional syndicate created during the Sadat era was the association of commercial employees". Stewart (1992) points out that:

The attraction of Foucault to accounting historians and theorists is in the conceptual lenses he has provided, particularly as an antidote to positivistic/scientific explanations of accounting ... Accounting has not been created just by capitalism or industrization or ownership or organizational structures. Rather, the emergence and functioning of accounting in its various contexts is a complex phenomenon, due to the interplay of many different influences.

With the decrease of state intervention, the role of the accounting profession in regulating their technical matters began to be realized. As Foucault (1984 emphasis added) states:

It is here that the question of liberalism comes up. *It seems to me that every moment it became apparent that if one governed too much, one did not govern at all-that one provoked results contrary to those one desired. What was discovered at that time-and this was one of the great discoveries of political thought at the end of the eighteenth century-was the idea of society.*

During the 1970s, the Egyptian society changed dramatically. The introduction of liberalization policies encouraged the investment of foreign capital and many foreign companies were actively encouraged to invest in Egypt. The denationalization program provided a major stimulus for private sector accountants. Many of the foreign companies investing in Egypt insisted on local auditors in independent practice as opposed to subjecting themselves to government audit (Briston and Al-Ashkar 1984). Consequently, many accounting firms were formed and grew rapidly.

New pressure groups were founded. The "professional accounting organization grew in importance and stature" (Samules and Oliga 1982). The profession was revived and by the end of 1980s they reached their "golden era" (Kayed 1990). Many joint ventures were formed as a result of the liberalization policy and accepted local auditors. The effect of this on the profession was energising (Renshall 1981).

The Uniform Accounting System was coming under attack. Although it was considered important for national purposes, it was hindering the development of the accounting profession. Accounting practices had been changed into something very routinized with no room for mental innovation or new initiatives. The development in accounting in different parts of the world was not taken into consideration because the Uniform Accounting System was dominant and there was a feeling that there was no need to change (Hammad 1991; Tawfic, 1991). Metwally (1998) stated:

The Uniform Accounting System was applied in July 1967. The Central Accounting Agency was concerned with auditing all public companies. There were no companies left for private sector accounting except individual companies, which were not required to be audited. The accountants left their offices and some left the country to work in Arab and foreign countries. The Central Accounting Agency dominates accounting in Egypt.

By the mid-1970s many accounting firms had become correspondents for foreign companies. The largest firm was H. Hassan had offices in Alexandria, Beirut and the Gulf. This firm was the Egyptian correspondent of Peat Marwick Mitchell, while the second largest firm, Mostafa Shawki, was associated with Arthur Andersen (Renshall 1981; Briston and El-Ashker 1984). In 1991, Egypt had a total of fifty-four partners in major international accounting firms, of whom forty-one were associated with members of the Big Six. The Government while moving to liberalize the economy established a Public Enterprise Office with private consultants to help in the valuation of firms to sell them in its larger program of privatization. The major accounting firms had much to offer in such an environment (McKee *et al.*, 1999). A number of national and international accounting conferences were held in Egypt during the 1980s and 1990s in which various debates were generated about different issues. The need to develop the accounting profession in Egypt as well as the regulation of the accounting system was among the topics discussed at these conferences. Accounting professors, accountants and auditors, members of the government and Central Accounting Agency, intellectuals and economists, attended these conferences.

A national conference was held from 14th to 16th of June 1980. This was organized by the accounting division of the Syndicate of Commerce Professions. This Syndicate is a professional body in Egypt and it is a vast organization for which Britain has no parallel. It has five divisions including insurance and management. It has subdivisions for auditors and it is affiliated to the International Accounting Standards Committee. It had an active president, professor A.M. Hegazy, who has a PhD from Birmingham University and for some years was Prime Minister of Egypt. The main recommendations of the first national conference included the need to organize audit as a profession and to establish accounting and auditing institute for training accounting practitioners (Syndicate of Commerce Profession, 1980a). The most important recommendation is the formation of a committee in which there are representatives of the accounting division of the Syndicate of Commerce Professions, Central Accounting Agency, the Egyptian Society of Accountants and Auditors and accounting academics in Egyptian universities to set accounting standards to be applied in conformity with generally accepted international principles.

One of the issues that arose in this conference was the need for changing an article in the Egyptian Law No.133 of 1951 for practicing accounting in Egypt. The law required firms to practice in the name of individuals and not the name of a firm. This article hindered the growth of firms and created unnecessary complications for companies in assigning the audits from the name of a deceased auditor to another, most probably in the same firm. The accounting and auditing division of the Syndicate of Commerce Professions was campaigning for amendment of this article of the law to allow the appointment of auditors in the name of corporation (Baxter 1981; Renshall 1981). The debate about organizing the profession and accounting continued at an International Conference held in December 1980. Over three days 25 papers and discussion sessions were introduced by leading Egyptian

and foreign speakers. Visiting speakers included W.T. Baxter of the London School of Economics and J.M. Samules of Birmingham University. It also included speakers from leading Egyptian and international firms such as Marwick Mitchell and Arthur Anderson. One of the principle topics discussed at the conference was the education and training of accountants and the qualifications of auditors. In 1980, any person with a commerce degree specializing in accounting and auditing after three years training in a practicing firm was entitled to be entered into the register of accountants. After five years of further practical work, they were entitled to act as auditors of joint stock companies (Briston and Al-Ashkar 1984). There were proposals and a lobby to alter the law relating to auditors' qualifications so that they must have passed a professional examination before being admitted to register for auditing joint stock companies. The conference gave strong support to this measure (Renshall 1981). There was also a consensus in favor of enhancing the position of accounting firms. These changes included granting members of the Egyptian Society of Accountants and Auditors the sole right to act as independent auditors and required independent auditors to pass a professional examination before registration was permitted. In conclusion, after the three days of discussions the conference approved some recommendations (Syndicate of Commerce Professions, 1980b). The most important recommendation is the necessity to formulate an accounting and auditing standards committees to prepare accounting standards to be adopted in Egypt in the preparation of financial statements and to define auditing standards and guidelines which should be applied in auditing in Egypt. These standards should be based on International Accounting Standards and to take into consideration the circumstances of the Egyptian environment.

After a long sleep and the application of nationalization, the profession began to debate these issues and to seek help and experience from international specialized agencies to improve their situation. It appears that they have been revived from death. In 1980, Egypt became a member of the International Federation of Accountants and the profession began to enter a new era. The efforts made at these two conferences created a debate about the need to regulate accounting practices in Egypt and to organize private sector companies more generally. In 1981, the government promulgated a new Companies Act, which replaced the Companies Act of 1954 (Hegazy 1991). The Companies Department of the Ministry of Economy and Foreign Trade regulates Egyptian companies in accordance with the Company's Law 159 of 1981, which contains rules, procedures, accounting and reporting requirements. Financial statements that needed to be prepared are: balance sheets, income statements and statements of changes in financial position. Company's Law 159 additionally contained recommended income statement format and content. Any departure from these recommendations must be disclosed. The focus of the law was on the format of statements and the type of reports that needed to be disclosed. However it is "permissive as to accounting principles" (McKee *et al.*, 1999). Any generally accounting principles could be used and this left great freedom for managers to manipulate accounting figures. A diversity of practices was used which resulted in loss of confidence in financial reporting in Egypt. Accounting pronouncements by the American Institute of Certified Public

Accountants, the Financial Accounting Standards Board, and the International Accounting Standards Committee were all acceptable for use in preparing financial statements in Egypt. However, the Egyptian Society of Accountants and Auditors had a project, in which it is reviewing various generally accounting principles towards the end of establishing accounting standards for Egypt.

As a result of one of the recommendations of the first national and international conferences in 1980, the Egyptian Institute of Accountants and Auditors (EIAA, here after) was established. A group of Egyptian chartered accountants formed the institute. The USAID granted the Egyptian government 2 million pounds to set up the institute. The agreement was signed in September 1983 and the institute started its work in 1988 as an independent body but related to the Syndicate of Commerce Profession. The institute was managed by a board containing representatives of the Syndicate of Commerce Professions, the Egyptian Society of Accountants and Auditors, the Central Accounting Agency, accounting and auditing offices, accounting departments of Egyptian universities, the Ministry of Finance, the Capital Market Authority, the Arab Society of Costing and the Society of Financial Management. The general purpose of the institute was to advance accounting and auditing in Egypt through the improvement of the professionalism of accounting practitioners (EIAA 1998). In the opinion of some (Hammed, 1991) the establishment of the Egyptian Institute of Accountants and Auditors represented a focal and a landmark point for accounting and auditing in Egypt.

In December 1986, the Egyptian Society of Accountants and Auditors (ESAA, hereafter) held the Second International Conference on Accounting and Auditing in Cairo from 13 to 15 of December. At this conference the debate was heated on several accounting issues. One of the debated points was whether the profession should develop or set accounting standards in Egypt or should they be left to government agencies. Another point was whether Egypt should develop its own standards or use the international accounting standards as they were. At a meeting of the Permanent Technical Committee which is a committee formed by the Central Accounting Agency to make recommendations for the changes needed in the Uniform Accounting System from time to time, it appeared that it's members were realizing the importance of the Institute of Accountants and Auditors in the preparation of standards. They stated (Central Accounting Agency, 3 May, 1992, p.11, emphasis added):

It is important to send a copy of the decision of the Head of the Central Accounting Agency, which is under preparation about accounting treatment of building and housing projects *to the Egyptian Institute of Accountants and Auditors*. It may help the Institute in its task of studying the accounting standards, which will be applied in Egypt.

The diversity of accounting practices in Egyptian private sector companies led to a loss of confidence in Egyptian financial statements. Although there had been a recommendation from the First International Conference on the preparation of accounting and auditing standards, there was

little action until the second conference in 1986. It was argued that the adoption of international accounting standards would improve disclosure and international companies working in Egypt would more easily accept it. It would also help to increase reliability of financial reports as well as make it easier to compare performances of different companies (Chaplin, 1986). Samules and Oliga (1982 emphasis added) stated:

With the "opening up" of the economy in the 1970s, international trade and international business were assigned increasing importance. *The accounting profession, responding to changing circumstances benefiting them, wished to improve reporting practices and saw the advantages in adopting international standards ...* The increasing collaboration with international audit firms and multinational business would be much easier if accounting reports could be based on the same principles and practices.

One of the factors that may contribute to the introduction of accounting standards in Egypt was the collapse of Islamic Investment Companies as it highlights the weakness in the financial regulation system. These companies appeared in Egypt at the end of the 1970s and beginning of the 1980s. They used the term Islamic because the use of it in the Arab World at least, makes "good business and political sense" (Springborg, 1989). There were three big companies who dominated the market, the Al-Rayan, Al-Sherif and Al-Saad Companies. They collected money from the public in Egyptian and foreign currency and promised a return over 20 per cent. This high return, (banks at the time were giving only 9 percent), was attractive to Egyptian workers abroad as well as the general population at home. Because this new enterprise represented yet another means whereby Egyptian workers' remittances remained outside the state's financial institutions, these firms succeeded in motivating ordinary citizens to commit their savings, which the government had never done wholly successfully (Zohny, 2000). The focal point of opposition to Islamic Investment Companies within the government was the Central Bank of Egypt and, in particular it's Governor, Ali Nigm. He identified the need for regulation of these companies as one of his top priorities. Nigm in 1985-86 alerted depositors to the perils of entrusting their savings to companies that were not subject to supervision. He emphasized that depositors had no legal protection if they placed their money with the investment companies. The companies responded by advertising in different newspapers and showing a long list of projects they said they were undertaking, but which in fact existed only on paper. Nigm's warnings did not prevent the occurrence of Egypt's most damaging financial crisis in recent times, as the collapse of the Islamic Companies turned out to be a truth. This crisis showed the weaknesses in the Egyptian financial regulation system. The fact that such companies were allowed to be established, operate, collect vast amounts of deposits, open up branches around the country, advertise misleading financial statements without any bases, speculate in some of the riskiest financial instruments around the world, and also to use the Islamic banner to motivate customers, were all signs of an unprecedented absence of regulation, and in the opinion of some, of massive corruption (Bahaa-Eldin 1998). The companies did not possess sufficient liquidity and faced the

prospect of being legally forced to sell their assets in order to meet outstanding obligations to small investors (Al-Sayyid, 1990).

Mostafa (1992) argued that the government was changing its policies and decreasing the role of the public sector and establishing a strong private sector. One of the requirements for strengthening market mechanisms is information and specially accounting information. The forces that organized the Egyptian economy found themselves in a position that required the production of standards. He said (p.53, emphasis added): One of the dangerous problems that is facing the Egyptian economy is the sudden insolvency of some big public and private companies as well as some banks. *The main reason for this situation is the absence of Egyptian accounting standards.* The increasing of this situation in the meantime will convince the forces that are regulating the Egyptian economy of the need to produce standards in one way or another.

In 1988, the government of Egypt froze the assets and economic activities of a large number of Islamic investment companies. To this day, some depositors have failed to recover their money, and the loss of confidence that resulted has remained. Their rise and fall prompted a wide debate over how such a catastrophe was allowed to occur in the first place and how it could be prevented from happening again. It is in these circumstances that Law 146 of 1988 concerning investment companies and Capital Market Law No.95 of 1992 was enacted, this made it obligatory for companies to prepare their accounts according to International Accounting Standards (Kazziha 1993; Bahaa-Eldin, 1998).

Although Law 146 of 1988 tried to improve the disclosure of financial reporting, it remained inadequate, as it did not identify the principles upon which the reports were to be prepared. Law No.95 of 1992 overcame this shortage. Tawfic (1991, p.152 emphasis added) claimed:

The last period from (1988-1990) showed the liquidity problem that is facing public companies and companies operating in the field of receiving funds for investment. *Due to the absence of accounting standards and the framework that it must be based on, the financial statements are suffering from shortage in disclosure.* The problem of investment companies together with the absence of standards had a bad impact on practicing accounting in Egypt. There is a loss of confidence in financial reports.

Another event that may contribute to the introduction of accounting standards in Egypt was the re-emergence of the capital market in Egypt. The Egyptian stock exchange was active until the nationalization policies of the 1960s when the state controlled and operated most companies in Egypt. The stock market went through a period of stagnation and recession. The trading volume collapsed and only about 30 companies remained listed as compared to 925 in the late 1950s (Incelor, 1994). There was a severe deterioration in the transactions in the capital market. The nationalization process resulted in exclusion of all the stocks of nationalized companies from trading.

With the adoption of the liberalization policies by the government during the 1970s, serious steps were taken towards improving the capital market. Law No.43 in 1974 was issued to encourage the investment of Arab and Foreign capital. Law No.32 amended this law in 1977, which allowed shares of joint companies, especially with capital in foreign currency to be accepted for listing and negotiation in the Egyptian Stock Exchange. Decree No.520 of 1979 established the Capital Market Authority. The goals of the government in establishing this authority was to develop, organize, activate and control a systematic capital market in Egypt and to create a suitable climate for investment. The main objectives of the Capital Market Authority were regulate the market and to ensure disclosure of information (Capital Market Authority, 1983).

Although the Capital Market Authority had been established in 1979, the reactivation of the capital market was delayed until the beginnings of the 1990s. This may have been due to: firstly, there was a bias in the minds of the Egyptian economic policy makers during the early stages of liberalization towards foreign direct investment as the main vehicle of raising capital rather than capital market financing. There was an assumption that there would be insufficient local investors with sufficient funds to invest in the capital market. Secondly, with the absence of privatization plans and the early trend of establishing new projects between a limited group of partners who were related or otherwise known to each other, it may not have seemed at this stage, that a great need existed for a capital market (Bahaa-Eldin 1998). In connection with the financial reform program, Law No.95 of 1992 was promulgated to re-organize the capital market, this included tax exemptions on securities, liberalization of interest rates on bonds, establishment of mutual funds to attract small investors and regulation of the companies dealings in securities together with brokerage operations (Incelor 1994). The Capital Market Law made the Capital Market Authority the sole body responsible for regulating and rationalizing the legal, institutional and operational aspects of the securities market. It is responsible for ensuring the disclosure of adequate information by the market and increasing transparency. In 1993, Executive Regulations of Capital Market Law 95 of 1992 were issued. Statement No.58 includes the obligation for listed companies to prepare financial reports according to International Accounting Standards, they have to be prepared according to certain formats. The statements must be submitted regularly to the Capital Market Authority. If the Capital Market Authority requires any additional information, it must be submitted within a certain time period (Road 1997).

El-Torgman (1999) argues that it is very important to organize the capital market and to provide the necessary information for investors. There is an urgent need to qualify accountants and auditors to cope with the changes in the capital markets. A law has been proposed to the government that would exempt companies' profits from tax as well as the case for individuals making profits in the market. This would lead to a huge increase in transactions and trading. El-Torgman says (p.9):

The success in capital market in Egypt depends on the development in the accounting sector especially in preparing

financial statements. It is important to show their positive and defective points. Accountants' training is a focal point and accountants are going to play a significant role. The success of the capital market will rely on their efforts and their work.

At another conference, the Second International Conference, recommendations were presented about the introduction of accounting standards (Egyptian Society of Accountants and Auditors, 1986). These recommendations were as follows:

- The speedy formation of an independent board to formulate, publish and monitor accounting standards and auditing guidelines. It should set priorities for the issue of statements on accounting and auditing standards, and should expose the drafts to open discussion within the profession and interested parties before final approval.
- The formulation of accounting standards issued by this board should be based primarily on the accounting standards published by the International Accounting Committee after taking into consideration the existing economic and social needs of the Egyptian environment.

The Egyptian Institute of Accountants and Auditors started its work in 1988 by forming three committees. The members of these committees are accounting academics, professional accountants and auditors, their job is to study accounting and auditing standards and professional ethics. The work of the committee concerned with accounting standards was presented at four national conferences attended by about 850 accountants and auditors. The work of the committee was reviewed by discussion and recommendations were given at these national conferences (EIAA, 1998). By the end of 1992, after several discussions and taking responses from different interested parties the Egyptian Institute of Accountants and Auditors issued 20 accounting standards.

The Scientific Society of Accounting, Systems and Auditing while it is not a professional accounting body played a role in the debate about introducing accounting standards in Egypt. It organized a conference in April 1993 entitled 'Horizons of Accounting Development in Egypt'. Among papers that presented at this conference was that of Elawa (1993) who pointed out some of the problems in the accounting system in Egypt, which included the absence of Egyptian Accounting Standards and the practicing of accounting in the name of individuals and not firms. It became urgent, he said, to consolidate efforts to issue accounting standards that should be obligatory. Atrias (1993) had another focus; he argued that there was a great probability to implement unacceptable accounting policies in the absence of approved Egyptian Accounting Standards. Many of the users of financial statements may not have sufficient idea about different accounting policies. This would lead to a harmful impact on the decision they would take based on ill prepared financial statements. Another problem was the difference between profit numbers on the financial statements prepared by companies and the way of calculating profits by tax authorities. At the same conference, Shawky (1993) argued that the work of the International Accounting Standards Committee had given an opportunity to Egypt and other Arab Countries to see the importance of having national accounting standards to suit

their own circumstances. He made the following recommendations to make the accounting system in Egypt capable of facing contemporary international challenges. These were as follows:

- It is important to change the Charter of Accounting and Auditing to allow accounting to be practiced accounting in the name of firms and not persons to allow the continuity of work and to provide stability in working conditions.
- Prevent foreign firms from practicing accounting in Egypt in order to provide opportunities to Egyptian accounting offices to dominate the accounting market.
- Improve the qualifications and training of accountants to raise their level of professionalism.
- Formulation of different accounting institutions to help achieve the third recommendation. Although the work of the Egyptian Society of Accountants and Auditors, Egyptian Institute of Accountants and Auditors and The Egyptian Society of Taxation are well acknowledged, it would be better to broaden the base of these institutions, which could help in qualifying accountants and auditors.
- Try to benefit from the work of international specialized institutions in accounting and auditing.

Another conference organized by the Scientific Society of Accounting, Systems and Auditing was held in September 1994. It was entitled 'The needs of the Labor market for Accounting Education in 2001'. At this conference 20 papers were presented by accounting academics and accountants. It discussed several points among them; the importance of international accounting and privatization, the bases used in evaluating companies, the accounting education needs of banks and financial institutions, cost accounting and the taxation system in Egypt and its impact on investment and the role of accountants in accounting disclosure and in improving the performance of capital markets (Al-Abagy, 1994). The efforts to qualify accountants and auditors in Egypt continued by collaboration between the Egyptian Society of Accountants and Auditors and the Egyptian Institute of Accountants and Auditors. Between 1990 and 1998 the Institute conducted 170 programs and the number of accountants practicing in these programs reached 2734. They were prepared to enter the middle and final exam to gain membership of the Society of Accountants and Auditors. These programs resulted in increasing the number of accountants and auditors with membership of the Society (EIAA, 1998).

Although the Egyptian Institute of Accountants and Auditors made undeniable efforts to introduce accounting standards in Egypt, it's lack of enforcement meant that standards were not still totally acceptable by the whole community of accountants. However, many accountants were using them before they became mandatory. Hassen (1999) states:

The Society of Accountants and Auditors is working, according to a delegation from the Ministry of Economy, to form auditing standards after it had shared in preparing Egyptian Accounting Standards. It should be noted that some of Egypt's accounting offices were concerned to apply International Accounting Standards even before they became obligatory. All accounting offices should develop themselves

and to have multi skilled employees who can carry out the necessary work with efficiency such as financial analysis and valuation of companies.

The Minister of Economy issued Decree No.323 of 1996 concerning the formation of a permanent committee to issue accounting and auditing standards with the chairman of the Head of the Capital Market Authority and include the following participants (Shawky 1997): Head of the Egyptian Society of Accountants and Auditors or a representative, Head of the Egyptian Institute of Accountants and Auditors or a representative, Head of the Arab Society of Cost or a representative, representative of the Central Accounting Agency, representative of the Egypt Central Bank, General Authority of Investment representative, representative of the Capital Market's Authority, a member of the Syndicate of Commerce Profession, three members who have practiced accounting for at least 20 years, a representative from accounting departments in Egyptian universities, two members from big companies. The chairman can add to the committee any experts who can help the committee in its tasks. The committee should suggest accounting standards and expose drafts to open debate between interested parties before final approval. It can seek the help of research centres to aid it when necessary. Finally, it should put the standards in a comprehensive format. In the opinion of some (Shawky 1997) the formation of the committee represents a "new beginning point in preparing and publishing accounting and auditing standards that is compatible with our environment and our economic and social circumstances".

In 1997 the Minister of Economy issued Decree No.503 concerning Egyptian Accounting Standards. Article 1 of the Decree replaced Article 58 of the Executive Regulations concerning the application of International Accounting Standards for listed companies. It states (Egyptian Wakayeh, 1997):

The preparation of the reports related to the activity of the joint stock companies, the partnership limited by share companies, and their operational results, together with financial statements thereof, shall take place in accordance with the standards of Egyptian accountancy, and the specimens of the financial statements indicated under addendum No.3. Finally after a long debate and many conferences and talks, the Egyptian Accounting Standards were put into operation. Many interested groups participated in their formation. They were formed within the umbrella of International Accounting Standards.

Conclusion

Unlike the Uniform Accounting System, which was imposed by the state over Egyptian companies to serve national purposes, the Egyptian Accounting Standards grew from the roots to meet the needs of liberalization policies. Various groups participated in the debate and they highlighted several issues. Those are the Syndicate of Commerce Profession, Egyptian Institute of Accountants and Auditors, Egyptian Society of Accountants and Auditors, Central Accounting Agency and Capital Market Authority. The accounting

profession in Egypt revived and began to play a role in regulating their own technical matters. The relation between state and society changed. The government shifted its policies and attitude, which extended to different areas. One of the areas that witnessed change is the accounting area. The state became one force among many after the 1967 war. This war was considered a turning point and the beginning of liberalization in Egypt. The government recognized that its way of rule prior to the war had led to a disaster and that it was the time to re-think its policies. The role of different associations increased and it is hoped this will continue.

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