

# The egyptian accounting profession

Business



The Egyptian Accounting Profession Shahid (2001) and Rahman et al. (2002) both focus on prevention of fraud and irregularities within Egyptian companies. However, whereas the former focuses on the overall system of accountability and code of corporate governance, the latter focus on auditors and accountants. According to Rahman et al., Egypt has gone a long way since the 1990's in compliance with the International Accounting Standards (IAS). However, application of the rules, including compliance by companies, remains a major problem in Egypt.

Egypt has gone a long way in complying with IAS. Its reforms are a part of a larger economic reform, as Egypt underwent a planned economy system in the 1960's, then liberalized in the 1970's and underwent structural changes in 1991 (Rahman et al. 1). Still, the private sector is given more leeway in terms of compliance with IAS than the public (Rahman et al. 4). Moreover, compliance with disclosure rules is a major issue.

High quality auditors and accountants are in excess demand. Quality of auditors and accountants is guaranteed by the Egyptian Society of Accountants and Auditors (Rahman et al. 5). However, there are a few qualified students due to economic inequalities in the country, and these mostly work for international companies, with only few remaining in the public sector (Rahman et al. 6). Thus, though the government tries to comply with IAS, the work force cannot catch up with the standards. As a result, many companies listed on capital markets fail to live up to standards set by the Egyptian government (Rahman et al. 8).

The enforcement mechanisms are weak as well. The central bank is weak, as it cannot impose sanctions on non-compliers in the banking sector (Rahman et al. 9). The government does not ensure that the auditing reports

are of high quality by being checked by a second auditor (Rahman et al. 9). Since top management controls the company instead of the shareholders, irregularities within a company are shoved under the rug (Rahman et al. 9). Though IAS is to be followed completely in Egypt under all of the regulations, the result is mistrust among investors and a weak legal system (Rahman et al. 12).

Shahid expands on auditing and accounting standards by incorporating them into the wider corporate culture in Egypt and abroad. According to Shahid, lack of standards and accountability leads to financial problems in companies (5). As a result, Shahid believes codes of good corporate governance to be the key to success in Egypt, since they are “ a comprehensive set of norms on the role and composition of the board of directors, relationships with shareholders and top management, auditing and information disclosure, as well as the selection, remuneration and dismissal of directors and top managers” (6 - 7). These codes are to replace the absent legal system (Shahid 7). She believes the Egyptian Stock Exchange should be responsible for enforcing the code, until laws are made. Shareholder activism and education on corporate governance among management are necessary too if the system is to work (Shahid 40).

However, both authors at the time of writing failed to account for hidden corruption in the government. The well known Arab Spring in 2011 unveiled the presence of well hidden corruption in the Egyptian economy. Corruption promoted disregard for disclosure and accountability and encouraged economic inequality, which promoted only elite education. Thus, both authors failed to predict the failure of their recommendations, as the cause of inefficiencies was much more complex, and located in the institutional

design of the government. The government designed laws aiming to implement international standards, but with little regard for their application. As a result, it is no wonder that these standards were not applied. Though the two authors focus on different aspects of standards in Egyptian companies, they both produce recommendations that aim to increase efficiency, transparency and accountability. However, both authors failed to see an even bigger picture.

#### Works cited

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