

THE UNIVERSITY OF HULL

ACCOUNTING REGULATION IN EGYPT
IN RELATION TO WESTERN INFLUENCE

being a Thesis Submitted for the Degree of

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By

Metwally Ahmed El-Sayed Kayed

B.Comm., MSc., Ain Shams University, Egypt

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DEDICATION

TO MY WIFE SHOUCK AND MY DAUGHTERS
GHADAH AND SALLY WHOSE PATIENCE AND
ENCOURAGEMENT MADE THIS WORK POSSIBLE

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The characteristics of an appropriate framework of accounting regulation in Egypt are discussed. All improvements must be grounded in the Uniform Accounting System and social accounting rather than traditional accounting theory.

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LIST OF ABBREVIATIONS

AAA	American Accounting Association
AICPA	American Institute of Certified Public Accountants
ARE	Arab Republic of Egypt
ASA	Advisory Shura Assembly
ASB	Accounting Standards Board
ASC	Accounting Standards Committee
ASR	Accounting Standards Release
CA	Chartered Accountant
CAO	Central Accounting Organisation
CAPMS	Central Agency for Public Mobilization and Statistics
CBA	Cost Benefit Analysis
CBE	Central Bank of Egypt
CCAB	Cosultative Committee of Accountancy Bodies
CMA	Capital Market Authority
CSO	Central Statistical Office
CPA	Certified Public Accountant
ED	Exposure Draft
EEC	European Economic Community
EIAA	Egyptian Institute of Accountants and Auditors
ESAA	Egyptian Society of Accountants and Auditors
FAC	Financial Accounting Council
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAIFZ	General Authority for Investment and Free Zones
GDP	Gross Domestic Product

GPC	General Petroleum Company for Exploring and Producing Oil and Gas
GUAS	Government Uniform Accounting System
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales
IDB	Industrial Development Bank
IFAC	International Federation of Accountants
IMF	International Monetary Fund
LE	Egyptian Pound
MNC	Multinational Corporation
NBS	National Balance Sheet
NIA	National Income Accounts
NPA	National People's Assembly
NPB	National Planning Board
OECD	Organisation For Economic Cooperation and Development
PPBS	Planning, Performance and Budgeting System
RP	Review Panel
SAD	State Audit Department
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SPC	Special Permanent Committee
SSAP	Statement of Standard Accounting Practice
UAS	Uniform Accounting System
USAID	United States Agency for International Development

CHAPTER ONE

INTRODUCTION

1.1 Approaches to Accounting Regulation

Many developing countries are becoming conscious of the importance of accounting for economic development policies and some are vigorously attempting to improve accounting at the micro and macro levels. These objectives go beyond enterprise accounting (i.e micro level accounting) to the extent that the accounting role envisaged in many developing nations is broader than that in developed countries (Briston, 1978].

Many developing countries seeking rapid economic growth lack some of the basic mechanisms that facilitate such advancement (e.g. an adequate information and documentation system, qualified accountants and auditors, an adequate education system, and an authoritative set of accounting and auditing standards). Therefore, there is a need for these developing nations to develop an overall accounting system appropriate for their developmental needs.

In their search to improve their accounting systems, developing countries appear to have two major approaches from which to choose.

The first is to follow a " generally accepted principles " approach where flexibility of choice among different accounting procedures for the same economic transactions is sometimes allowed. Under this approach accounting standards are established by the accounting profession. Perhaps the leading examples of this approach are the UK and US accounting systems. Alternatively, a country may adopt the international accounting standards set

by the International Accounting Standards Committee (hereafter the IASC).

The second is to follow a " legal " approach (a uniform accounting system), where accounting methods or procedures are established on a uniform basis and choice is restricted. France and the USSR are the leading countries following such an approach.

It must be made clear that the practices within each approach are not identical. There are a number of differences between the UK and US systems. For instances, accounting standards established in the US are generally speaking more rigid than those found in the UK, in order to leave client companies with less scope for flexibility and manipulation. This is because American CPA firms are much more on the defensive than their UK counterparts due to three factors: monitoring and regulation by the SEC, the constant threat of litigation, and investigation by US-senate Committees [Briston, 1988,p. 12].

Similarly, there are differences among uniform accounting systems, according to the conditions prevailing in the countries concerned. For instance, France basically operates a financial reporting system, whereas the Soviet accounting system is mainly directed towards planning, budgeting and control.

For an accounting system to be categorised within a particular approach there are certain evolutionary factors which dictate its orientation. These factors can be categorised as socio-educational, politico-legal, and

economic influences. Examples of influences from these categories are attitudes toward business and the position of the accounting profession in a society; political direction, flexibility of laws and legal enforcement; the general economic framework and market size and structure.

The UK accounting regulation system has involved a mixture of legal control and self-regulation, which continues to be the dominant underlying approach; namely self regulation within a legal framework [Taylor & Turley, 1986, p. 32]. This system has developed historically as a result of compromise. It remains extremely flexible, as , even where standards aimed at achieving uniformity in financial statements exist, exemptions are provided for certain companies or for certain conditions. Historical factors such as the influence of British auditors sent in the late 19th century to the US to check on the large amount of British investment in US industries have been important for the current orientation of the US accounting system [Carey, 1969, vol. 1, p. 12]. France's trend towards uniformity has also been historically influenced, in this case by the impact of the French commercial code and by German occupation during the Second World War.

The status of professional accountants in a society has had a great impact on the orientation of an accounting system towards flexibility or uniformity. In the Anglo-American approach the accounting profession, dominated by the big eight accounting firms, is very powerful and influential, and the regulation of accounting has tended to

sustain the position of the profession within society.

It can be claimed that the status of the profession is better sustained under the conventional accounting system. For instance, if a society places accountants at a prestigious professional level, a substantial degree of tolerance is shown toward diversity in the accounting system [Al-Hashim & Garner, 1973, p. 68].

However, legal intervention, or any other institutional framework designed to establish accounting standards with a relatively uniform accounting system, would weaken the role of the profession, since there would be less need for the use of judgement and discretion on accounting matters.

The nature of the prevailing economic system in a particular country also seems to have influenced the orientation of its accounting system towards uniformity or flexibility. In a free market economy, people are generally unwilling to accept an authoritative body to govern their activities. In this environment the uniformity concept could not be sustained because information needs are so wide in variety that there is no dominant set of needs to be satisfied and groups of users of accounting data are often rivals [ibid., p. 64].

In a centrally planned economy, in contrast, there is a single authority which can exercise control over accounting information. To be successful, accounting uniformity must be practical. Mueller [1967, p. 99] states that " a complete uniform accounting system is a prerequisite to effective central planning... Of necessity Soviet Union accounting

must be uniform".

The above arguments suggest that accounting is a purposive and evolutionary discipline and is greatly influenced by the environment within which it operates, but that not all environmental factors will have the same degree of influence. Certain very powerful factors such as a strong professional body may have the upper hand in shaping and running accounting systems, despite the influence of other factors towards the opposite direction.

The adoption of a particular approach in a developing nation cannot be isolated from environmental factors. Apart from local environmental characteristics, such as the degree of maturity of the accounting system, the position of the accounting profession in a society, the legal and political framework, the nature of the economic system, etc., there are international pressures such as those stemming from developed countries (mainly the UK and US), international accounting professional bodies, the big eight, and multinational corporations.

The greater the external influences- especially if coupled with an accounting profession oriented towards the UK/US approach, weak legal requirements and absence of effective central planning and control- the greater the likelihood of adopting the " generally accepted "approach. These pressures often carry with them the assumption that the traditional approach which is believed to be satisfactory in those countries is more than adequate for developing countries.

Unfortunately, a number of accounting writers in the West have given theoretical support to this view. Scott argued that developing countries should follow the example of the UK and the USA, and adopt a flexible accounting system. Even Enthoven, who pioneered work on the role of accounting in economic development, has urged developing countries to adopt many aspects of the UK/USA systems on the ground that those countries have well-organised accounting professions with high standards of education and performance; GAAP, it is argued, would encourage capital formation and investment as they have done in the US. Further, he suggests that many developing nations, especially old British colonies, could benefit from UK developments in the areas of financial, cost and government accounting [Enthoven, 1973, pp. 297-302 & see also Briston, 1984, p. 12]. However, he admits that the UK/USA system is not well developed in the area of social accounting.

It could be argued that supporters of the view that developing countries should follow the example of UK and USA overlook two important facts: first, the different economic structure in many developing countries requires an accounting system capable of supplying appropriate data for central planning. The UK/USA system is not capable of supplying this. Secondly, accounting systems evolve under the influence of a range of interacting historical, economical, political, organisational and social factors.

Indeed, it could well be questioned whether the conventional approach (the UK/US systems) is the best for

its own environment, for it could be argued that the conventional accounting system, being mainly concerned with external financial reporting and external auditing, at the expense of other important fields of accounting, does not meet 20th century needs. Indeed, Briston has even questioned whether in the area of financial reporting it truly addresses shareholders' needs (Briston, 1978, p. 107; and 1981, pp.57-59); moreover, since accounting is controlled by auditors (Boland, 1982, p. 125), accounting is geared towards their needs (Briston, 1981, p.59). The accounting profession has been described as a guild, lacking social conscience (Dyckman, 1974), and it has been suggested that is unable to provide a truly independent management advisory service (Shockley, 1982, p. 126). There is a danger that the choice among accounting methods open to management leads to shopping for accounting standards (Dyckman, 1974, p.193), so that this choice may lack objectivity (Lafferty, 1979, p. 51), etc.

The UK/US accounting systems option is thus conceptually and practically deficient for accounting development in developing countries .

The move towards harmonisation in international accounting principles and practices is a major misconception which is inherent in a monolithic concept of international accounting (Fantl, 1971). No two national socio-economic, political, and legal environments are exactly alike, and there can hardly be any two national accounting models that are reconcilable.

Choi and Mueller (1978, pp.108-9) note that so long as multinational differences in accounting standards and practices are justified by social and environmental differences it is unreasonable to refer to one set of worldwide " generally accepted accounting principles". Financial reports across national boundaries should be prepared with respect to the generally accepted accounting principles of a given country, or a regional community.

In the quest for uniformity in international accounting principles and practices, policy-makers must not only be aware of the clearly identifiable differences between countries, but also understand the varying origins and evolution of accounting practices. Furthermore, the perceived success of national accounting principles and practices in meeting the specific needs of their users must be assessed.

The drive for international standardisation of accounting principles and practices assumes more questionable dimensions when evaluated in terms of the applicability of international accounting standards to developing countries, many of which do not at the present time have internal accounting standards of their own. In the case of developing countries, environmental differences are not only more pronounced but also tend to be highly dynamic and fluid. This factor diminishes even further the relevance of the international accounting standards in those countries [Samuels & Oliga, 1982, p. 69].

Furthermore, given that the UK/US accounting system and

practices currently dominate the attempts at standardisation of international accounting standards and that international accounting standards essentially represent "internationalisation" of the national standards of dominant members of international professional bodies [Laughlin & Puxty, 1981], the attempt becomes a one-sided exercise [Samuels and Oliga, p.72], and an approach based on transfer of International Accounting Standards to developing countries is subject to the same shortcomings.

Nevertheless, much awareness of the need to understand the nature of international differences has developed.

For example, several studies attempt to analyse the environmental characteristics which determine the process of accounting regulation in different nations exhibiting different political, economic and socio-cultural systems. Other studies attempt to classify countries into groups based on accounting practices.

The principal purpose of these studies was to analyse empirically the accounting principles and reporting practices in developed countries against the background of their major economic, political, and legal characteristics in order to determine whether underlying environmental characteristics can be used as a meaningful basis for classifying international accounting systems. The primary objective of this classification was to examine the findings resulting from such empirical analysis for the possibility of suggesting a model for decisions regarding the development (and evaluation) of accounting systems in

developing countries.

However, international accounting literature, by reporting only certain environmental factors or by grouping different accounting systems according to these environmental characteristics, offers little to accounting policy-makers in any particular developing country as to the way in which accounting standards should be set or developed. It is conceivable that reasonable differences in environmental factors may well persist among developed countries themselves, or among each group of countries classified in one cluster and believed to possess common characteristics in their accounting system.

Some of the developing countries, owing to their unique circumstances, may defy classification or admit of no commonalities with any one group of countries. This produces a considerable difficulty in attempting any generalisation regarding the descriptive and/or predictive nature of accounting systems and regulatory processes in developing countries.

Moreover, international accounting literature pays little attention to specifying the relationships which exist between particular environmental factors and changes therein, and the regulatory process best suited to the internal environment.

International accounting literature shows that, at present, research worldwide is biased. International accounting professional bodies together with academic researchers are all attempting to standardise and to

classify international private-sector financial reporting.

Thus, it could be claimed that both the traditional accounting system and the international accounting standards are in a state of crisis, which could enhance the argument that developing countries- whose major economic units are often state enterprises and subsidiaries of multinational enterprises, and in which the central authority wishes to play a crucial role in the planning and control of the economy- might benefit if they choose the approach of uniformity.

Developing countries, such as Egypt, which have adopted international accounting standards (in addition to the UK and US procedures of setting accounting standards) have done so for no defensible reason other than convenience. There does not appear to have been any consideration of their overall relevance to the Egyptian environment. International accounting standards are appropriate for industrial countries with a large private sector and a well-developed capital market. The main users of accounting reports in such countries are shareholders, financial analysts, bankers, and other business. International accounting standards, therefore, assist those making decisions at an international level, but within a developing country, such as Egypt, the information required might not be just that relating to financial returns.

In Egypt, national planning has been chosen as the route to economic development. The economy is dominated by a large public sector, so that accountants cannot ignore its

requirements. Social and economic development plans need to be monitored, as does the flow of funds, and it may be that accounts prepared according to international standards will serve the needs of only a small part of the capital market.

The need of the Egyptian private sector to satisfy the government of its contribution to national development plans and economic growth requires different information from that used by shareholders and financial analysts.

Thus it is necessary for the profession to adapt to the internal conditions and problems of their country. In Egypt's case, this would mean establishing an overall accounting system appropriate to economic decision-making.

The accounting profession in Egypt now has the chance to do this. Since 1967 the country has had a standardised accounting system which is compulsory for public sector enterprises and voluntary for private sector firms. In addition, the Ministry of Finance in co-operation with the Central Accounting Organisation has recently produced a Government Uniform Accounting System to be applied by all government institutions and departments and to be integrated with the UAS. A Uniform Cost Accounting System for the public sector is in progress. The accounting profession should now decide that the time has come to join these government agencies in order to bring about an overall improvement in accounting practices at the micro and macro levels rather than importing accounting practices not only irrelevant to Egypt environment but also out of date in relation to their own environment.

1.2 The Nature of Accounting Regulation in Egypt

Economic, political, social and cultural factors have significantly affected accounting development in Egypt. During the 1940's and 1950's, the boom in private sector activities, and the steady development in capital market transactions increased the need for accounting services, accounting laws and regulation, leading to the existence of more local and international accounting firms in Egypt.

However, the socialist policies implemented after the Suez War in 1956 resulted in the development of a dominant public sector, new institutions, new policies, and new ways of allocating resources.

Under these changed conditions, reorganisation of the profession was needed. Central planning requires unified accounting information, and so in December, 1966, the Central Accounting Organisation introduced a Uniform Accounting System, to be used by all economic units under public ownership or supervision with the exception of banks and insurance companies commencing with the fiscal year 1967-68.

During the 1970's, however, the socialist system was questioned and private sector and western influence increased, giving greater importance to international trade. Pressure developed for economic change, including stock exchange regulation, a new Capital Market Authority (modelled on the SEC), and accounting standards for external reporting. It was argued that increasing collaboration with international accounting firms would be

facilitated by accounting reports based on the same standards and practices.

A pressure group consisting of the Syndicate of Commercial Professions, the Egyptian Society of Accountants and Auditors, the Central Accounting Organisation, the Capital Market Authority, academics, USAID, and the UN, among others, called for the creation of a strong professional body to formulate and publish accounting and auditing standards.

From the early 1980's, the Syndicate of Commercial Professions held a number of national and international accounting conferences under the auspices of the Republic's Presidents (Sadat & Mubarak), which led to a recommendation that Egypt should establish a strong accounting profession and adopt international accounting standards as a basis for Egyptian standards. The approach of the accounting profession to standard-setting represented a middle way between the UK and US approaches (e.g. public hearings and exposure drafts prior to statements of standards).

Samuels and Oliga [1982, p. 79], commented that many people in the west welcomed this move towards harmonisation, but asked, " Is it in Egypt's interest?". This is the key question in this study.

1.3 Purpose of the Study

The principal purpose of this study is to illustrate the difficulties and problems which face Egypt in setting up

an accounting system appropriate to its developmental needs and in resisting internal and external pressures to conform to the UK/US accounting systems, or to International Accounting Standards.

The first objective is to provide a better understanding of the development of Egyptian accounting thought and of the environmental factors which have played a major role in its evolution. This should allow a detailed description of the philosophy and structure of the uniform accounting system and an evaluation of the adequacy of that system in meeting the needs of its national and international users.

The second objective is to assess the recent changes in the accounting environment in Egypt and to show how pressure from private sector accountants is currently threatening accounting uniformity in Egypt. This should yield a framework for the purpose of improving the current process of accounting regulation in the country.

1.4 Significance of the Study

Accounting concepts, standards, techniques, etc. are not significant in themselves, but in their role in providing essential information for users.

Accountants, therefore, cannot argue that they are not interested in the impact that financial reports may have on government or on the public at large; they cannot argue that they are reporting only to shareholders; they cannot argue that accounting standards are politically neutral [Samuels

& Oliga, 1982]. Horngren [1973] commented that " the setting of accounting standards is as much a product of political action as of flawless logic or empirical findings". According to Solomons, " The setting of standards is a social decision." [Solomons,1978].

In Egypt, accounting information serves not only national economic and social objectives, but also the managerial and operating tasks of individual enterprises. A free market is not available to ensure efficient allocation and administration of resources, and there is thus dependency upon accounting information to achieve this objective. In essence, accounting calculations replace the market function in the allocation and administration of the economic resources of society.

The proposed study, therefore, should be of value in that:

(1) It identifies the relationship between accounting and its main environmental characteristics-socioeconomic, political and legal. It attempts to reveal how accounting objectives are structured to satisfy the needs and constraints limitations of a specific environment.

(2) It develops a philosophy of accounting thought related to the Egyptian environment.

(3) The study should contribute to the comparative understanding of accounting by reporting the national philosophical and political background of Egyptian accounting. An awareness of the Egyptian accounting model constitutes a goal in itself, for it adds to our

understanding of accounting's functions, scope and potential. In addition, the study may contribute to accounting development in other countries or regions, specifically for Arab countries since many of them are faced with the same social evolution and economic and industrial development, to which their accounting institutions have had difficulty in adapting.

(4) The research provides a model for the study and explanation of accounting systems of other developing countries. An historical view of the development of accounting practices in different countries can sharpen our perceptions of current accounting controversies in a specific national environment, and help us to understand current accounting theory and practice. Studies relating to accounting in developing countries may be helpful for comparative accounting studies. This area is highlighted by Briston, who argues:

"A comparative study of the evolution of accounting under different environments should provide important lessons regarding the true nature of accounting and the extent to which it is possible to separate the fundamental truths from the historical accidents.....On the basis of case studies ...the subject of comparative accounting could begin to evolve on a worldwide context as opposed to the predominantly Western bias which it has so far received." [Briston, 1984, p. 30].

(5) Efforts have been made by international professional bodies and political groups (IASC, IFAC, UN, OECD) and others concerning international standardisation of accounting practices. Accordingly, the more studies

performed relating to accounting practices in any of the developing countries, the more information will be available that is relevant to these accounting policy-makers.

1.5 Research Methodology

There are different methods of compiling field data: documentary sources, observations, internal and external criticism, questionnaires and personal interviews. Each of these methods has its own limitations, and a combination of methods could be used as this may be more appropriate to certain kinds of research.

Several methods were used for gathering information for this study. These include a literature review, documentary sources, personal interviews and a questionnaire (see Appendix 1-1).

1.6 Outline of the Study

The study is divided into eleven chapters.

Chapter one describes approaches to accounting regulation and their merits for developing countries. It also outlines the methodology and purposes of the study and finally the layout.

Chapter two examines critically the concept of uniformity in accounting literature, with special emphasis on its ability to serve the various segments of the accounting environment. The arguments relate to both a centrally planned and a free market economy.

Chapter three describes the development of accounting regulation in different parts of the world (the UK, the

USA, France and W.Germany), and international attempts to standardise financial accounting reports.

Chapter four examines in detail the environmental factors which may have generated different accounting regulation systems. Examples include political systems, the nature of the economic systems, legal systems and socio-cultural systems of a country. Having examined the differences in accounting practices against the backdrop of their environmental characteristics, it is then asked whether it is possible and useful to classify countries into groups by these differences. The chapter then discusses the importance of accounting classification and examines classification attempts by different researchers. This is followed by a discussion of the usefulness of these classifications to developing countries. Finally a relevant approach is suggested for developing countries.

A case in point is Egypt, which has been endeavouring to build its accounting system (the Uniform Accounting System) by relying largely on its own efforts for its public sector, which constitutes the major part of the economy. There are , however, many problems and shortcomings. In addition, a pressure group within the country has been become active and begun publishing generally accepted accounting standards. In order to obtain a reasonably comprehensive picture of accounting regulation in Egypt, chapters 5-10 will describe and analyse such regulation.

Chapter five provides a broad sense of the

environmental situation in which accounting operates in Egypt.

Chapter six describes in detail the structure, size, and mechanism of the capital market in Egypt. This is because many authors argue that the adoption of international accounting standards or the UK/US accounting system could be regarded as a prerequisite for the development of a strong capital market and would make foreign companies and institutions more prepared to invest in a country.

Chapter seven deals with the environmental factors- historical and contemporary- which have influenced the evolution and development of accounting practices in general and their influence on uniformity in particular.

Chapter eight discusses the status of accounting education in Egypt and its influence on accounting regulation. It also examines the current status of the accounting profession, and the role of the profession within the framework of uniformity.

Chapter nine discusses the philosophy and structure of the uniform accounting system and highlights the results of the empirical study concerning the adequacy of the system to meet the needs of its users and to serve as a basis for an overall improvement in accounting practices in the country. This chapter also explores the conceptual aspects of performance evaluation in auditing- its dimensions, nature, scope, concepts, and methods as exercised in Egypt- to clarify the need for this type of auditing, and to identify

the requirements for its success in Egypt.

Chapter ten examines critically the new approach to setting accounting standards accepted by the private sector accounting profession and its ability to serve both very large public sector enterprises and very small but rapidly-growing private sector enterprises. In order to appraise further the advantages of uniformity in Egypt, the UK/US approaches are theoretically and empirically criticised in this chapter.

A summary of the research findings, its conclusions and recommendations for future research in accounting regulation in Egypt makes up chapter eleven.

2.1. Introduction

A proper approach to a study of the standard-setting process in accounting should commence with an analysis of the role of accounting in society. Regulation of accounting exists to a significantly varying degree in both developed and developing countries. It is viewed as a means of securing the reliability of accounting reports.

The principal purpose of this chapter is to identify which of the available accounting regulation approaches is better oriented towards public sector accounting information needs, and the development planning process.

Before we can draw any conclusion, however, we should discuss the role of accountants in modern society, whether in the private or public sector. Consequently, the institutional framework for accounting regulation is briefly examined. No lengthy treatment of the flexibility approach is given, because it is well addressed in western accounting literature. However, the case is different with regard to the uniformity approach, and the later sections of the chapter examine the uniformity concept in accounting.

2.2. The Role of Accounting in Society

Accounting has a significant role in society. Its function is to provide quantitative information about economic entities. The information is primarily financial in nature and is intended to be useful in making economic decisions [FASB, 1982]. Another function of accounting, which is "equally important and more fundamental," is the

achievement of accountability [Cohen, 1978, p.3]. It is the latter function, according to Ijiri, "which distinguishes accounting from other information systems in an organisation or in a society" [Ibid]. An effective accounting function is, therefore, not only an important factor in the economic well-being of individuals making economic decisions, but also in the economic well-being of the national economy as a whole.

2.2.1. The Role of Accounting in Economic Development

It is difficult to find an area of economic development in which accounting information does not have a role to play, for it is important in planning for economic development, in formulating and monitoring development plans, in resource allocation, in financing development projects, and in the management of these projects.

A) Accounting and Resource Allocation:

Every society, whether developed or developing, is faced with the problem of how best to allocate its limited economic resources. The welfare of the nation as a whole depends on the decisions made in response to this problem.

Extensive natural resources and wealth in a developing country do not in themselves guarantee sustained economic growth unless they are effectively utilised so as to contribute to economic development. This fact, however, has led most developing countries to strive for the achievement of sustained economic growth through the formulation and execution of development plans. In this context, reliable

accounting information (at both micro and macro levels) is essential, for it indicates the activities which are capable of employing economic resources to the best advantage of the nation.

Good accounting and financial reporting aid society in allocating its resources in the most efficient manner. The goal is to allocate ... limited capital resources to the production of those goods and services for which demand is greatest. Economic resources tend to be attracted to the industries, the areas, and the organisational entities which are shown by accounting measurements to be capable of using more resources to the best advantage. Inadequate accounting and inaccurate reporting, on the other hand, conceal waste and inefficiency and thereby prevent economic resources from being allocated in a rational manner [Meigs et al, 1982, P.2].

This is not to say that the accountant's role in resource allocation is free from problems, especially at the macro level; nor does the accountant's traditional historical cost model adequately reflect "economic cost".

B) Accounting and Economic Development Planning:

Adequate information relevant to decision-making is an essential element in planning. Among the functions of accounting are the measurement and communication of financial and economic data to various users. Thus, accounting is central to economic development planning through the functions of measuring, recording, analysing, reporting and verifying financial data both at the micro and the macro level. Enthoven states:

Accountancy, as a measurement and reporting information system, covers both micro and macro economic activities; it is composed of various subsystems which relate to the planning and

control of economic events and conditions. Therefore, accounting concerns itself not only with the enterprise, but also with government administration and national (economic) accounts; these three systems or branches of accountancy are closely related and to some extent interdependent [Enthoven, 1977, p.7].

To this "traditional" role of accounting in planning for economic development, may be added such accounting techniques as cost-benefit analysis and programme and performance budgeting, which have been increasingly employed by economists for development planning purposes. According to Arkadie and Frank:

The traditional concern of accounting has been to provide an historical record of economic events. The emphasis on providing a reliable and accurate picture of past events has, in recent years, been augmented by attempts to use the accounting framework to plan and project future economic activity. The business firm has become increasingly interested in systematically predicting future costs and revenues. Even more important, governments are increasingly interested in influencing economic performance. For the economist in particular, it is interesting to consider the possibilities of using accounting techniques for planning as well as recording [Arkadie & Frank, 1970, pp.3-4].

Recognising the relationship between accounting and economic development, Enthoven (1965, p.216) has argued that:

"Accountants will have become more aware of the economic meaning and use of accountancy than before, and should be equipped to assist in economic analysis and programming. The role of accountancy in the future might well extend itself to the whole economic sphere, and proper accounting information might even create something of a revolution in our economic thinking and policies. One thing at any rate is sure: a greater exposure of accountants to economic realities, and conversely a better insight by

economists into the nature of accountancy, are among the urgent needs of world economic development."

It would perhaps be true to say that the dominance of the professional accounting bodies and their influence on accounting practices, both in developed countries and in many developing countries, has hindered the development of accounting systems capable of supplying the relevant information to economic development process. A strong accounting profession will aim at a monopoly of external auditing and can also maintain a strong influence over financial reporting through the standard-setting process. As a consequence, it will be overly concerned in its training and educational processes with external auditing and financial reporting. This has led to significant weaknesses in the training and examination of accountants as far as information for decision making and public sector accounting are concerned. [Briston, 1985, p.28]. In addition, the history of the UK/US accounting profession in bringing accounting reports closer to economic reality rather than to legal convenience has not been especially commendable and it is difficult to believe that the profession will not be motivated by self-interest into embracing law rather than economics [ibid].

Recognising this fact, and its effects on economic development, there has been a move among eminent authorities in the field to bridge the gap through socio-economic accounting. Whittington (1984, p. 201) argued that:

"Accountants are, as a result of the changing economic, social and political environment, becoming involved in normative questions. Practising accountants become involved in cost-benefit studies, and there is increasing pressure for companies to extend their reports to deal with their " social performance" which covers a wide range of matters outside the scope of the traditional field of reporting economic performance to the proprietors of a profit-maximising business... Also, the increasing scale and interdependence of business enterprise is broadening the accountants horizon to include an interest in macro economic matters" [Whittington, 1984, p. 201].

C) Accounting and Monitoring Development Plans

The planning and control process is necessary to marshal the economic resources of a nation in a way which contributes to social welfare. Harmony between micro and macro planning can be achieved through consistency in their objectives. To bring this about, a great deal of accounting information about existing and proposed projects is needed, since they form a major part of a country's economic development activities. Moreover, accounting is necessary to meet the changing information needs of the development planning process and to indicate possible divergence between macro and micro objectives.

The establishment and implementation of an accounting system which is capable of generating accurate information concerning the progress of development plans, is an essential element in the monitoring of such plans. This view is beginning to be accepted in some developing countries, e.g. Egypt, Iraq, Algeria, Morocco, Peru, Tunisia, and the OCAM countries: Burundi, Cameroon, Central African Republic,

Chad, Congo, Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Senegal, Somalia, Togo, Upper Volta and Zaire, creating a tendency towards the adoption of an accounting system which is sophisticated enough to generate useful information for planning and control at both micro and macro levels, thus supporting decision-makers in their endeavour to accelerate economic development. The emphasis is on the need for accounting information to be economically realistic and to have a comprehensive standardised content.

D) Accounting and Economic Development Finance

The role of accounting in the finance of economic development is evident in the fields of taxation, capital markets and credit policy. In taxation, accountants play a major role in both the design and implementation of tax systems:

Accounting techniques, such as information accumulation measurement, processing, recording and verification (auditing) are essential to a well designed tax structure and smoothly operating tax administration [Enthoven, 1977, p.32].

With regard to Capital Markets, Enthoven states that:

An effective accounting and auditing profession, as an organised body, will be necessary for developing a sound capital market; stimulating financial institutions; furthering capital formation; education and training purposes; and regulatory requirements [Ibid., 1973, p.204].

To develop a capital market which is efficient in capital formation and funds mobilisation, it is necessary not only to establish accounting and auditing standards, but also to educate and train a sufficient number of

accountants, able to prepare financial reports and qualified to independently examine and verify their fairness and accuracy.

With respect to credit policy, sound financial reporting is necessary both at the national and international levels. International lenders, domestic bankers and other financial institutions commonly require borrowers to submit audited financial reports when requesting funds. Bishop points out that:

There is no other profession on which bankers must rely more heavily than that of the public accountant. One might argue that this reliance is primarily of an indirect nature, but it still does not change the assertion I have just made, for financial reports by public accountants influence to a very substantial degree financial commitments bankers regularly make, with reliance on such reports [Bishop, 1968, p.4].

E) Accounting and the Management of Development Programmes

Most developing nations tend to initiate expensive development programmes, to be executed through the establishment of large-scale, state-owned enterprises. Seidler states:

Certain aspects of today's underdeveloped economy also reinforce this trend to large productive units. New industries are frequently introduced by the government and there appears to be some natural tendency for government industries to be composed of large units [Seidler, 1967, p.77].

The large amounts of the nation's wealth devoted to these government-owned enterprises, highlight the imperative need for skilled management. Accounting is a vital tool for such management:

This pattern of instantaneous creation of large productive units creates equally rapidly a demand for modern management services, including accounting [Ibid].

These state enterprises are primarily established, not to generate profits, but to execute costly development programmes which the private sector may not be financially able or willing to undertake. The discipline derived from the threat of insolvency does not exist in these enterprises, which therefore require full accountability and a strong accounting system for their effective administration.

In some developing countries, such as Egypt, state enterprises are required to have their accounts audited by state auditors. As Briston pointed out:

"In order to compensate for the inadequacy of published accounts it was suggested that the Supreme Audit Institution has a responsibility to ensure that participation is economically viable and represents a satisfactory allocation of national resources, and that the country is not being exploited either economically or physically through the investment policy of the company. None of these functions, it was claimed, can be fully covered by mere examination of published accounts, which are themselves uninformative and are compiled only to meet minimum legal requirement." [Briston, 1978, p.326].

2.2.2 Accounting and Social Responsibility

During the past two decades there has been some debate in the accounting literature, particularly in developed countries, concerning accountants' "social responsibility". This role is discussed under different titles, namely; "socio-economic accounting"; "social accounting"; "social

auditing"; or "the accountant's role in the evaluation of social programmes". This literature presents the view that accountants should go beyond their traditional attestation function, entering into the area of social affairs. It has been argued that accountants can and should play a role in social development, by designing and implementing evaluation systems for social programmes. In support of this idea, Granof and Smith argue that:

The accountant can make a substantial contribution to the evaluation of social programmes as long as their goals are stated operationally. In conducting this review of social programs the accountant may join with persons trained in other disciplines, especially if technical competence in such disciplines is needed. Accountants should by no means "go it alone". But it makes good sense in evaluating social programs to make use of both the analytical skills and the recognised independence of the accounting profession [Granof & Smith, 1974, p.825].

However, the idea of accountants becoming involved in the evaluation of social programmes is still a controversial issue. It would perhaps be true to say that the dominance of the professional accounting bodies and their bias towards external financial reporting and external auditing has largely contributed to this. In addition, some still believe that accountants are not suitably qualified to perform such a task. Francis, for instance, argues that:

....since (a) particularly all data needed for decision making in the social arena are statistics and result from statistical sampling, and (b) the interpretation of statistical data, the analysis of that data, and the method of its collection can be separated from one another, a knowledge of statistics is essential for "social reporting". Statistics is the science and art of dealing with

variation in such a way as to obtain reliable results. To apprehend the rationale of a piece of statistical arithmetic is not synonymous with understanding statistics. Accountants lack that understanding [Francis, 1973, p.257].

Nevertheless, attention is being given to this subject, especially in some developed countries such as Britain, which has "value for money" auditing in the public sector, and France where a "social report" is required by law. The task of evaluating social programmes might become a task which accountants commonly undertake in both the developed world and in developing countries, where the public sector often plays a dominant role in the national economy.

2.2.3 The Auditing Function and Modern Society

It has been stated that the principal reason for the auditing function (whether in the public or private sector) is the achievement of accountability.

"Without audit, no accountability, without accountability, no control; and if there is no control, where is the seat of power?" [Mackenzie, 1974, p.16].

Current accounting literature defines two types of audit, the commercial audit which is used mainly in private companies, and government audit.

It has been generally recognised in developed countries that the attestation function performed by professional accountants offers protection to society and lends credibility and confidence to its enterprises. The expansion of business and industry, and the great numbers of individuals investing savings in enterprises operating on a

national and international level, have created a wide separation between business ownership and management. Thus the need is evident for investors to be protected against misleading financial reporting and faulty conduct of management, and to ensure that those entrusted with the public's savings are made properly accountable.

It is considered that this protection is most appropriately offered by audits conducted by public accountants. Meigs and others argue:

Regular audits by independent public accountants offer the most important kind of protection to the public. Although every investment involves some degree of risk, investors will incur unnecessary risks if they invest in companies which do not have regular audits of their financial statements by independent public accountants [Meigs et al, 1982, p.3].

An enhanced confidence in society's enterprises leads to more economic growth at both the national and international level. Stamp and Marley state:

....no one would deny that the function of the auditor, in lending credibility to financial statements, has been growing in importance rapidly and steadily, over the last fifty years The role of the auditor, in lending credibility to these financial statements is vital in establishing and maintaining confidence in the capital markets; without such confidence the whole basis of our capitalist system would be destroyed. Thus, the continuing importance of the auditor's role is not in dispute [Stamp & Marley, 1970, pp. 168-9].

On the other hand, the growth of government responsibility towards society has encouraged government interference in business activity to control public expenditure, to direct economic activities toward the growth

of the national economy, and to ensure fair distribution of goods and services among the different sectors of society. As a result, the state, in both developed and developing countries, has nationalised certain basic economic activities.

Public sector enterprises have been established primarily to produce goods and services for society within a framework of economic efficiency and social responsibility. The public sector thus owns and controls much of the wealth of the nation, so that the public needs an effective means to satisfy itself that the wealth entrusted to government officials and managers of public enterprises has been utilised in the most effective way to achieve the nation's objectives.

Value for money audit is used to give public bodies a basis on which to make certain important assessments, such as :

1. Could required service levels be met more economically?
2. Is the organisation being managed well?
3. Is the organisation getting what it is paying for?
4. Are all the present services necessary?
5. Do new services and activities need to be developed?
6. Do the performance measurement and budgeting systems provide the policy makers with adequate and timely information to help them achieve value for money? [Butt & Palmer, 1985, p.7].

Thus value for money audit can not only determine what problems exist, but can assess the reasons for them and

recommend ways of correcting or preventing them [Flint, 1978, p.240].

These advantages have been borne out in practice by such countries as the USA, Canada, Australia, Sweden and the UK and more recently in Hong Kong [Miller, 1987, p.37].

If the role of the government auditor, particularly in developing countries, in protecting the public and achieving accountability is so important to society, it becomes necessary for these societies to have a well-organised Supreme Audit Institution that is able to ensure the quality and discipline of its members. In addition, a well-organised Institution is also necessary for establishing standards for the preparation of financial reports and the conduct of public sector audits.

2.3 The Institutional Framework for Accounting Regulation

Regulation of accounting exists to varying degrees in both developed and developing countries. A review of the accounting literature concerning accounting standards [see, for example, Zeff 1972 & Nobes, 1981] suggests that the accounting regulation process used in different countries reflects their differing political, social and economic environment. The advantages or otherwise of accounting standards may, therefore, be conceived differently by various groups in society, including the government [Hassan, 1986].

The methods of achieving regulation have varied from country to country. In some countries, for example, the

accounting profession has instigated the development of accounting regulations. In other countries, regulations are enforced on accountants through legislation. The determining factors as to who actually establishes accounting regulations appear to be the status and the size of the accounting profession and the nature of the users of accounting information.

2.3.1 Self-regulation by the Accounting Profession

In a free market economy, information needs display a considerable variety; there is no single dominant need and the groups of users of accounting information are often rivals, who judge accounting standards and their economic consequences in the light of their utility functions.

In this situation the identification of users' information needs provides the criterion for specifying reporting requirements [Turley, 1982, p.157]. This is the case in many countries where accounting standards are purposely tailored to provide information for specific groups of users. Cook clarifies this by arguing that in countries such as the US and the UK, with highly developed stock markets, published financial statements are regarded as being addressed primarily to shareholders and potential investors [Cook, 1983, p.102].

Nevertheless, the financial accounting standards environment consists of several groups or constituencies, including the government, who have diverse interests and preferences with respect to financial statements. Each

party is motivated to pursue its self-interest in setting up accounting standards, and will try to affect accounting policy deliberations. A strong interest in lobbying activities by a particular group is noticeable wherever there is a benefit to be gained which will be greater than the cost of lobbying.

Thus, enterprises such as banks, are likely to fight against being compelled to disclose certain movements on their reserves, believing such disclosure to be against their interests. Similarly, contractors may have strong views about how they are allowed to measure the profit (or loss) on uncompleted work in progress. As a result, such groups may lobby accounting-policy makers if they believe their existing rights are likely to be eroded. [McMonnies, 1985, p.25].

These conflicts of economic interest make the accounting standard-setting process a political matter. Horngren and Gerboth both suggested that standard-setting is political in most meanings of the word. Gerboth, for example, argued that "the politicization of accounting rule-making is not only inevitable, but just; when a decision process depends on public confidence the critical issues are not technical, they are political" [Gerboth, 1973]. Zeff, in his review of the historical development of accounting standards in five Western countries (Canada, England, Mexico, Scotland and the U.S) concluded that the establishment of accounting standards cannot be achieved by an accounting profession alone but necessarily depends on

the tacit or expressed support of the real "power centres" in an economy, for example governmental agencies, investor groups and their representatives, and industry associations (Zeff,1972).

Under this type of accounting model, accounting professions stress the gradual development of accounting standards and procedures [Al-Hashim, 1973], and this model is characterised by self-regulation, pragmatism and conservatism [Hassan, 1988, p.12]. Furthermore the strong influence of large accounting firms on the policy-making process is paramount [Ibid.].

In the field of economic planning and in the construction of national accounts, under this traditional accounting system, the government can place little reliance upon published financial statements and has to obtain much of its information from other sources [Briston, 1981, p.60]. In this respect, Hassan states:

"...this pragmatic, narrow, case-by-case approach to standard-setting has contributed to the lack of real contributions to the information requirements of other sectors and levels of the hierarchy of the economy." [Hassan, 1988, p.13].

This approach has also brought with it a number of potential disadvantages arising from the essentially political nature of the institutional forms which have been adopted. Thus, Zimmerman et al (1978, p.13) state:

"The history of the Committee on Accounting Procedures, the Accounting Principles Board and the FASB are replete with examples of management and industries exerting political pressure on the standard-setting bodies".

The writers maintain that these problems will be evident in any body whose role is to draw up standards for practice as a first priority, rather than being able to follow a more normative approach, as by definition such bodies will primarily be concerned with day-to-day events. Only with the most independent leadership will they take a more forward-looking and global view.

In short, it is argued that the current UK/US accounting system is concerned with only a small part of the economic information process and is still geared towards the 19th century capitalism by which it was shaped [Briston, 1981, p.60]. The most prominent features of its environment are: (1) a powerful and dominant accounting profession oriented largely towards auditing rather than accounting, (2) a very strong capital market, (3) the strong influence of the Big Eight on the policy-making process, and (4) a government which is only rarely directly involved in the day-to-day operations of enterprises.

Thus, in the flexible UK/US system, accounting is mainly concerned with financial reporting and external auditing, with the focus on the needs of shareholders, with other user groups receiving little or no attention. Whereas the accounting profession is strong and dominates the running of the accounting system, legal requirements tend to be very weak, concerned mainly with financial reporting and compulsory external auditing. Central planning and control are not regarded as important influences on accounting theory and practice.

2.3.2 Regulation by Statute

In a centralised economy, there is a single authority (usually the nation's national planning board) which exercises control over accounting information. In this case, the government judges accounting policies and their economic and social consequences in the light of specific national goals. In such a situation, the accounting standards set at the micro-level tend to stress national goals. In effect, this is the case in many countries where accounting standards are created specifically for providing information for the Central Authority. In this situation macro-accounting dominates accounting rules at the micro-accounting level [Hassan, 1986].

Accountants under this type of economic system develop accounting policies by establishing a body to formulate an authoritative, comprehensive chart of accounting processes. This was the case in Germany during the pre-war period (in which accounting uniformity was introduced to help the national planning board to control economic activity in that country) and in several present-day communist countries. In France and Egypt external accounting is also dominated by a comprehensive chart of accounts. In Egypt, for example, one must, in published accounts, follow exactly the accounting requirements laid down by the chart. This includes adherence to specified valuation rules.

Furthermore, unlike the generally accepted principles approach, uniformity is often concerned with both cost accounting and financial accounting. The main reason for

such a comprehensive approach is that it is found to be necessary for national planning and control, and increased industrial efficiency.

Consequently, the uniformity approach is likely to have a different set of characteristics. The scope of accounting is wider than financial reporting and external auditing, and it is addressed to a wide range of user groups, e.g. national planners, shareholders, management of various industries, and society at large, as is the case in France. Although there is some management freedom in the choice of accounting methods and procedures, this is limited, as management is only one of the parties with an interest in accounting data. The profession is comparatively weak, accounting being shaped more by legal requirements, and central planning requirements have a major influence on accounting procedures and accounting thought.

The Anglo-Saxon approach in setting accounting standards for financial reporting should be seen as only a small part of the overall accounting system- a system which involves the collection, processing and communication of information for making, implementing and controlling economic decisions in both the public and the private sector at both the micro and macro level [Briston, 1981, p.62].

In contrast, the uniformity approach is a comprehensive system which corresponds to Enthoven's definition of the role of accounting, i.e. to supply information relevant to effective evaluation, decisions about activities and the allocation of resources, and subsequently of the results of

such evaluation and decisions, to decision-makers at both the micro and macro levels [Enthoven, 1973, pp.112-13].

We now consider definitions of accounting uniformity, the ways in which it is, or has been, practised in various countries, and its advantages and problems.

2.4 Uniformity in Accounting

2.4.1 Definition of Uniformity

Uniformity in accounting has been practised differently from one country to another and basically depends on several environmental factors: the nature of economic systems; business organisations and ownership; the influence of legal systems and taxation laws; and the strength and power of the accounting profession. Thus accounting authors define uniformity differently according to the different ways in which it is practised in different environments.

Hendriksen defines uniformity in relation only to the presentation of financial statements as:

"The presentation of financial statements by different firms using the same accounting procedures, measurements concepts, classifications, and methods of disclosure, as well as a similar basic format in the statements" [Hendriksen, 1974, p. 109].

Mueller defines uniformity as:

"the uniform treatment of all accounting methods, procedures and concepts. It includes standardisation of valuation applicable to accounting and specified treatment of accountable events like business combinations, inceptions of private pension plans, or receipt of governmental subsidies or tax concessions" [Mueller, 1967, pp.851-852].

Enthoven defines it as:

"Simplification, unification and specification of domains of the accounting system, the sub-system and related aspects of accounting. It tries to establish methodological standards or rules of general value regarding: terminology; criteria for identification, collection, classification and organisation of accounts; manner of registration; degree of imputation; and processing procedures of financial and cost accounting information" [Enthoven, 1973, p. 236].

Bailey (1973) recognised four degrees of uniformity:

- (1) uniform system applied only in the field of cost accounting;
- (2) uniform system applied in a specific industry;
- (3) uniform system applied on a voluntarily basis; and
- (4) uniform system applied with a degree of flexibility.

Choi and Mueller (1984, p.51-2) define uniformity according to the approach by which it is established. They distinguished three practical approaches to uniform accounting:

1. Business approach

This approach is a pragmatic one which takes full account of the business characteristics and the environment under which the data is collected, processed, and communicated. This approach is oriented specifically to particular users of accounting information and is employed most frequently in the design of sectional uniform charts of accounts, that is, for a branch of an industry or trade. The Swedish "M-Chart" and Railroad or Utilities companies accounting in the US are suggested as examples.

2. Economic approach

The economic approach to accounting uniformity is, in essence, a macro approach, which links accounting to public policy. Public laws and government agencies are used to enforce the system. Technical accounting standards are secondary; national economic policy considerations are uppermost. Nazi Germany between 1937 and 1945 is said to be an example.

3. Technical approach

The technical approach to accounting uniformity is academic, analytical, general, and theoretical in nature. It is analytical in that it seeks to derive a uniform system from the basic concepts of double-entry bookkeeping. It is a general approach because direct attention is given to specific business characteristics of accounting transactions or processes. Lastly, it is theoretical because it attempts to establish linkages between accounts of the same type in order that they can be treated consistently within the overall framework of a particular system. France, Switzerland, Sweden, West Germany, and Austria are said to be examples.

· In Egypt, uniformity is defined as:

"A uniform set of rules and procedures to facilitate recording, classifying, and collection of information. The uniform system consists of: a chart of accounts; definitions of accounting terms; specified valuation and measurement rules; and uniform financial year. It provides regulations for preparing financial statements through a uniform content and format and is considered as an effective device for providing

information for planning and control" [CAO, 1976, 4th ed., p. 11].

A comprehensive definition of uniformity, which would meet the needs of developing countries, should integrate all branches of accounting, all accounting variables, and all levels of the economy into one uniform accounting framework. Such a definition would involve the application of similar accounting standards, principles, methods and procedures at all levels (micro and macro) and would cover all accounting standards, principles, procedures, methods and policies in all accounting branches. Moreover, uniformity could be applied in all fields of accounting (financial, government, cost accounting, and social accounting) or in specific areas. Such a comprehensive view of uniformity would fulfil the definition of accounting as seen by Briston and Enthoven, who are very much concerned with the needs of accounting in developing countries.

2.4.2 Types of Uniformity

Despite the above differences in defining uniform accounting, there seems to be a general agreement (Mueller, 1967; Parker, 1972; and Enthoven, 1973) that internationally there are three types of uniformity in accounting.

2.4.2.1 Uniform Principles or Standards of Accounting

This level of uniformity is limited to the basic concepts, principles and standards of external reporting, giving general and somewhat flexible consideration to the valuation of fixed assets and inventory, and the recognition

of revenues and expenses [Enthoven, 1973, p. 223]. This is the type of system ostensibly applied in the UK and the US, and recommended by the International Accounting Standards Committee. However, the evidence suggests that these countries apply such a diversity of accounting principles and standards that the approach can hardly be said to be uniform. It appears that managements use the available diversity of accounting principles, standards, and methods available for their own ends, rather than to meet the needs of users. Such practices as income smoothing, maximisation or minimisation, for example, are well attested.

Recently, Hopwood and Page have suggested that:

"There has been growing concern by some observers that UK standard setting is dominated by the views of preparers of accounts -companies and auditors..and that the views of users- investors, investment analysts and others- are being increasingly unheard. At the same time it is perceived that the spirit, and often the letter, of standards is being flouted by a growing minority of companies through the use of ingenious loopholes in standards or by outright non-compliance" [Hopwood & Page, 1987, p.115].

It is doubtful, therefore, whether an approach which allows such diversity should be considered as a type of uniformity at all.

2.4.2.2 Uniform Charts or Codes of Accounts

The aim of this type of uniformity is to specify the classification categories either for all economic units or for specific sectors and industries. This may be done on a national basis (as in the case of W.Germany and Sweden) or

on a regional basis (exemplified by the European Economic Community Chart of Accounts). However, Parker has pointed out that:

"...the "chart of accounts approach", found in Germany and in the current EEC harmonisation proposals, where the emphasis is on standardising the content and presentation of financial statements, as well as the main principles and certain practices of measurement and valuation, still allowed a limited degree of flexibility when applying the relevant practices and procedures to implement these principles" [Parker, 1972, p.11].

The Uniform Chart of Accounts is mainly concerned with financial statements at the micro level. However, although this degree of uniformity represents an advance on the previous category, it is still financial and micro-oriented and little concerned with national planning. For developing countries, it is best considered as an initial step in the move towards a complete uniform accounting system.

2.4.2.3 Uniform Accounting System

A uniform accounting system is a comprehensive method of identification, collection, measurement, lay-out of accounts and statements, processing of data, summarisation and reporting of data. Unification is both quantitative and qualitative. Such systems may vary in their degree of rigidity, may be imposed compulsorily or adopted voluntarily, and may be applied nationally or to specific entities. It may include all or only some fields of accounting. Examples of countries currently applying such systems include USSR, France, Egypt, French-speaking Africa and some Latin American countries. The system's orientation

is macro-economic and it supports national economic planning, control, and performance evaluation, with consequent benefits to economic growth.

2.5 Appraisal of Uniformity in Accounting

This section addresses the advantages and problems of establishing a UAS. Arguments against uniformity will be considered, but it is hoped to show that the stronger case lies with those who support such systems.

2.5.1 Significance of Uniformity

Those who favour uniformity have offered many arguments supporting their view.

2.5.1.1 Greater Comparability

A major argument in favour of accounting uniformity is that it makes possible the production of financial accounting information which readily lends itself to comparison- for example between companies in the same sector, between sectors, and between different accounting periods. Moreover, uniformity would help users to understand, compare, evaluate, and analyse financial statements in decision-making on the allocation of economic resources, structural analysis of enterprises, and ex-ante and ex-post investment appraisal.

It has been suggested by those who advocate uniformity that accounting diversity lacks the authority of a generally recognised theory in terms of which investors and the public at large can appraise financial statements. This means that

users such as shareholders, creditors, bankers, suppliers, and customers have to take such statements on trust, and any decisions made, among investment alternatives for example, are not made on the basis of truly informed choice.

It is not only external users who need comparability of information, but also managements of enterprises, central planners and governments. For management, information must be comparable within the firm, and between their own firm and others, to help them maximise efficiency. More unified concepts and measurement guidelines would also aid managers to trace deviations of companies from the national development plan, contributing to a more rational and efficient performance.

At the national level, comparability of information is necessary to planners in choosing investment alternatives, and for the cost-benefit analysis on which economic development projects are assessed.

2.5.1.2 Consolidation and Aggregation

Another advantage of a uniform accounting system is its ability to generate consolidated and integrated data at micro, sectoral, and macro levels according to common classification, valuation, and quantification procedures. Managements of firms usually consolidate the accounts and statements of various branches, departments, and subsidiaries into one integrated statement. Unless the accounting figures prepared for each entity are based on the same set of rules, then their consolidation may be

misleading.

Statistical processes for national income accounts would also benefit from greater uniformity , since some of these accounts are prepared by aggregating the financial accounts of firms. National income accounts, national balance sheets, value added statements and flow of funds statements are derived by aggregating figures from the profit and loss accounts, balance sheets, value added statements, and sources and uses of fund statements of all enterprises. Accounting uniformity is the system best fitted to provide the figures on which such accounts and statements may be constructed.

2.5.1.3 Development of Over-all Accounting Theory

Another advantage of uniformity in accounting is that it would help to develop accounting theory in a uniform and more rational way. If the procedures, concepts, and methods of accounting are unified, then attention can be focused on purely theoretical aspects, rather than on procedural and practical matters [Mueller, 1965, p. 868].

Having said this , it should be admitted that a more urgent need in developing countries is for sound operational accounting. This must take priority over accounting theory.

2.5.1.4 Helping the Introduction of a New Accounting System

Proponents of uniformity assert that countries which are in the process of adopting a particular accounting system will find the time needed for design may be shortened

by uniformity. Training of accountants and transfer of accounting know-how from other countries will also be simplified, and the level of sophistication required will be reduced. Many developing countries have turned to the French model as a ready-made system. The French plan, in modified forms, has been widely adopted in countries, such as Algeria, Morocco, and Tunisia, while the OCAM plan, which is based on the French model, has been adopted by a number of other African countries.

Flexibility in accounting systems lengthens the time spent on design, since different entities would be likely to choose different systems. This would necessitate more sophisticated accountants with more extensive, time-consuming and costly training. Accounting know-how could not be transferred in such a detailed and clear manner as in the case of a uniform system.

2.5.1.5 Helping in Better Allocation Qualified Personnel

Advocates of uniformity argue that a uniform accounting system could facilitate the transfer of personnel from one firm to another or from one industry to another where the techniques of the uniform system are well known by all members of staff. Once a uniform system has been installed, it results in economies in the number of accounting staff required [Most, 1957, p.91].

In addition, advocates of uniformity argue that it would lead to greater co-ordination and better orientation in accounting education and training. Since accounting

curricula could be based on the national uniform scheme, students could be given the necessary technical training to enable them to make the transition to accounting in the real world.

This is indeed a major benefit for many developing countries, which suffer from the lack of qualified persons. In this regard, Enthoven has argued that:

"In developing countries in particular the lack of good accounting personnel poses a serious problem and uniformity procedures would facilitate the training process and transfer of know-how and skills." [Enthoven, 1973, p.237].

2.5.1.6 Helping Economic Planning

An important prerequisite for effective development planning is the availability of information regarding economic performance. The quality of this information depends, to a great extent, on the ability of the accounting system to generate micro accounting data specifically produced for macro-economic purposes. This, indeed, may be considered the main feature of a uniform accounting system. Mueller, G. G. (1967, pp. 97-98) argued that:

"The importance of uniformly prepared accounting data is acute in the central planning function because(1) any plan is only as good as the data on which it is based and (2) there is a high degree of interdependence among firms and among sectors of any economy when all of their respective activities are governed by a master plan. Therefore, a national uniform plan of accounting or complete uniform accounting is a prerequisite to effective central planning".

In view of the above argument, it can be said that the need for a comprehensive uniform accounting system

capable of supplying the accounting data required by central planners is paramount. The system has to be concerned with the identification, classification, analysis, measurement, and evaluation of accounting and economic activities and their communication in the form of direct and indirect socio-economic costs and benefits. It also incorporates the economic activities of each sector in the economy and reflects the interrelations between them for monitoring the achievement of national objectives.

2.5.1.7 Improving the Scope of Auditing

Advocates of uniformity argue that internal and external auditing are greatly facilitated within a uniform accounting system in which terms, rules and codes are simple and clear.

Such standardisation would largely eliminate the problem of differences in opinions between the internal auditor and the external auditor. It would also strengthen internal control, reducing the need for individual discretion. By facilitating the work of the internal auditor, the system would also reduce the burden on the external auditor, freeing him to pay more attention to performance audit, rather than purely technical work.

2.5.1.8 Better Regional Economic Integration

It is also argued that the adoption of a uniform accounting system in countries which belong to an economic Community, such as the Gulf Cooperative Council, the Arabian Economic Community, or the European Economic Community,

would assist economic integration through unification of accounting concepts, evaluation methods, standards, rules, and cost systems.

2.5.1.9 Computerised Accountancy

A uniform system would facilitate the introduction of computerised accounting and would be useful for improving the accounting practices of small firms.

Uniformity could bring many other advantages: for example, it would help the formulation of fiscal policies, price and cost regulation and control, encouragement to small firms, and more equitable economic legislation.

2.5.2 Arguments Against Uniformity

2.5.2.1 Fallacy of Comparability

The comparability offered by uniformity has been questioned by its opponents, on the ground of the differences in the nature of the businesses generating the financial data [Mueller, 1965, p. 870]. These critics suggest that flexibility in accounting practice is necessary to reflect the reality of the economic situation, and that data from diverse sources cannot meaningfully be compared within a single, strict system [Peloubet, 1961, p.40].

Moreover, Keller (1965, p.64) suggested that the term "comparability" is only relative, and that absolute comparability has not, in fact, been achieved. Some would also argue that the important thing is to have consistency in the application of accounting principles and policies

from one period to another, within the same enterprise, and that comparability between firms is less significant [McCosh, 1967, p.700].

These arguments, however, may be challenged. Regarding the relative importance of intra-firm and inter-firm comparison, it may be said that potential investors need a basis on which to make choices among different enterprises. It is not so much comparability between two different periods which is needed, but between firms. This applies equally to private and public sectors, to the stock exchange and to development planning. We would argue that uniformity, rather than flexibility, is best equipped to maintain the necessary consistency in accounting rules, standards, methods and policies.

It is not even certain that flexibility reflects differences in economic circumstances. Chasteen (1971, p.508) examined this point empirically, and found that differences in inventory evaluation methods did not necessarily reflect differences in economic circumstances. In respect of calculating net income, Chambers found that there were over 30 million possibilities for calculating net income for any given enterprise, all resting within GAAP [Chambers, 1965, p.16].

It is therefore suggested that accounting diversity is used, not so much to reflect varying economic circumstances, as to allow management to use accounting alternatives for their own purposes. For financial and economic decision-making, a degree of comparability is required which is best

achieved by accounting uniformity.

In any case, flexibility is irrelevant to developing countries, which need comparable and unified information between their various development projects so that the development planning process can be carried out successfully.

2.5.2.2 Restriction of Management Autonomy

It has been argued that a uniform accounting system inhibits management, in that the imposition of rules for financial reporting would deny management authority to select the most meaningful way of presenting their results [McCosh, 1967, p. 693]. For this reason, it is asserted that management should have the freedom to choose the accounting alternative appropriate to the prevailing economic conditions.

Of course, this view presupposes that management will be governed in their decisions by the best interests of the business and its owners, rather than any vested interest, and that under conditions of free choice, the right alternative to reflect economic reality will be selected. Thus professional prudence, experience and integrity would be inhibited by uniformity.

However, the suggestion that management always acts in the best interest of the business is somewhat naive. Theoretical and empirical evidence exists to show that vested interests may determine the reporting of income. Agency theory maintains that, in the contractual agency

relationship between two or more parties, there is a conflict of interests, the agent seeking to maximise his interest at the expense of the owner. Moreover, some authors have argued that the discretionary power enjoyed by managers of large corporations may be used to divert resources from shareholders [Dhaliwal et al, 1982, p.42].

Managers may be motivated to maximise reported income by a type of contract which formally bases part of the executive compensation on company profits [Kaplan, 1982, pp.566-70], while executives will be keen to enhance their reputations, in order to retain security in their positions [Horwitz & Kolodny, 1982, p. 37]. As these will depend on the profit figures, the choice of reporting method will be a matter of concern. Thus, as Watts and Zimmerman (1978 & 1986) have shown, manager-controlled firms are more likely than owner-controlled firms to choose accounting policies resulting in higher reported earnings.

Ronen and Sadan (1981) summarise over 30 empirical studies examining large numbers of firms, to test the hypothesis that management attempts to smooth the reported earnings series. The main development of this research has been increasing recognition of the many ways management can affect the reported earning series; for example, via transactions with suppliers and creditors, via decisions regarding discretionary expenditure items, such as R & D and exploration expenditure, via the accounting methods adopted, and via the classification of expenditures as ordinary or extraordinary. There is therefore ample evidence to suggest

that management does not necessarily select accounting alternatives in the best interests of the business and its owners, but, if the opportunity is available, will use the diversity of accounting methods as a tool to maximise its own interests and cover up inefficiency. This being the case, accounting information provided under the flexibility approach will not always reflect economic reality in the manner required for planning, control and evaluation.

The idea that accounting uniformity would hinder the freedom of management is thus, in some respects, an argument in its favour, rather than otherwise. The imposition of a uniform accounting system is more likely to eliminate income manipulation of the kinds described above, ensuring that economic reality is reflected by reported data, so that information serves the interests of users and provides a sound basis for development planning and control throughout the economy.

2.5.2.3 Detrimental Effect of Uniformity on Accounting Development

Those who oppose uniformity suggest that it may be too mechanistic, stifling the development of new ideas [Enthoven, 1986, p.11], and preventing experimentation with accounting ideas which may prove more effective. For example Parker (1964, p. 859) attacked the European plan of accounting, on a number of grounds, one of them being that it would force accounting into a specific mould so that it would be unable to respond to new situations and needs.

Others have argued that accounting is still in the

development stage, and that it is too early to fix and codify accounting principles and methods. If we codify accounting standards and policies, this will take us back to the Roman "corpus juris" [Brown, 1966, p. 44]. However, Spacek points out that no empirical evidence has been presented to show the validity of the different interpretations of a given set of facts which would result from the application of alternative accounting policies [Spacek, 1962, p.392].

Nor is it certain that uniformity hampers accounting development. Countries adopting uniformity, e.g., France, the USSR, and Egypt have monitored its progress, and by setting up bodies of experts, have provided a mechanism for problems to be identified and solved, and adaption made to new needs or changes in circumstances. Thus uniformity need by no means be static.

Indeed, the improvement of French and Egyptian economic planning suggests that uniformity has responded to the needs of its environment, facilitating economic and accounting progress. It could also be argued that the stabilisation of accounting principles, methods and policies saves the time otherwise spent on discussion and clarification, thus leaving accounting theorists free to concentrate on the development of accounting theory.

Diversity, on the other hand, has been used as a cover-up for irregularities, thus preventing real progress, according to evidence cited by Spacek [1961,p.43]. Moreover, the use in the UK and the USA of practices dating

from the last century, does nothing to support claims that diversity is more dynamic than, uniformity.

2.5.2.4 Cost of Uniformity

One of the arguments against uniformity is that a system of such detail and complexity would be very costly for any firm, and prohibitively so for smaller firms [Mueller, 1967, p.113].

The accounting manual would have to include a uniform chart of accounts with instructions on how to calculate cost, determine market values, allocate costs between cost centres, products and periods, and determine depreciation rates for all categories of assets, etc. Some argue that it would be difficult to achieve this, and again, excessively costly [Grady, 1965, p.34].

However, there is evidence that this view is unduly pessimistic. If uniformity were really so much more difficult and expensive than diversity, would such a high percentage of French and German firms, irrespective of their size, have voluntarily adopted it? That such has been the case is attested by Grady, 1965, while Enthoven has reported a favourable reaction to the French plan on the part of French firms [Enthoven, 1973, p.302].

Indeed, it is likely that uniformity would actually cut costs, because it would reduce the number of accounting systems to be implemented. Whereas an industry comprising 50 firms could, under diversity, have 50 different accounting systems, in the case of uniformity only one system is

needed. This would also cut training costs, as trainees would only need to be familiarised with a single system. With the flexibility approach, accounting trainees would need more extensive training to enable them to cope with the various systems they might encounter in their work. In the case of computerisation, hardware and software costs would also be lessened by standardisation.

Far from saving expense for small firms, flexibility may actually create cost. In view of the possibility of income manipulation discussed above, which carries with it costs to firms and users of accounting information, and the economic consequences of changes in accounting policies, it may be deemed advisable to monitor management in its choice among accounting alternatives. This could be very expensive [Verrecchia, 1986, p.177]. On the other hand, if management is not monitored, manipulation may occur to maximise management interests at the expense of users. Holthausen (1983) describes a number of empirical studies supporting the view that diversity can in fact carry considerable costs [Holthausen et al, 1983, pp.77-117].

From the evidence available, it therefore appears that uniformity is not excessively costly, even for small firms. Indeed, it can actually save on such costs as training, software, monitoring, and remedial action necessitated by costly management choices.

Having considered the various arguments put forward by opponents of uniformity: the fallacy of comparability, restriction of management freedom, stifling effect on

accounting development, and excessive cost, it appears that none of these can in fact withstand close scrutiny. Theoretical and empirical evidence points to the conclusion that uniformity makes possible the kind of comparability needed for decision-making by investors and planners; that any restriction of management freedom is beneficial rather than otherwise, in that it may eliminate undesirable manipulation activities; that it is capable of development in response to changing needs; and that, as compared with flexibility, it may save, rather than create costs, for firms of all sizes. Thus, like Enthoven, (1986) we may conclude that any disadvantages of uniform accounting systems are outweighed by their advantages.

2.6 Summary and Conclusion

This chapter has shown that the generally accepted principles approach in setting accounting standards is just one part of the economic information process, and that financial standards in the UK and USA are inadequate to meet the needs of many users. We have also found that the UK and the US approaches are investor-oriented and may well be inappropriate for developing countries, where the major economic entities are public enterprises, where there is often no stock exchange, and where the government wishes to play a positive role in the planning and control of the economy.

In contrast, however, a uniform accounting system could be designed to serve both private and public sector users,

its objectives ranging from the financial analysis of micro-level entities to macro economic planning and control. A comprehensive uniform accounting system covers uniform definition of accounting terms, principles, standards, procedures, a standard chart of accounts, and standardised models for financial reporting. The system need not be inflexible and could be applied by small firms or large scale enterprises.

All in all, the advantages of the uniform system far outweigh its disadvantages. In particular, it is very useful for developed and developing countries which are adopting central planning as a mechanism of economic development and where the public sector is sizeable and dominant.

3.1. Introduction

International accounting regulations are concerned primarily with the removal of differences in accounting practices between countries. In addition to the diversity of practices employed in the preparation and presentation of financial statements, there are also major differences in the underlying systems of regulation found in individual countries. It is interesting to consider, not only how the system of regulation varies internationally, but also why such differences exist, and to describe the effect of such regulations in developing countries.

The principal purpose of this chapter is to study and to compare the manner in which financial reporting is controlled and regulated in four countries.

The reporting systems in this group of countries are outlined, illustrating a range of different approaches to accounting regulation. Two of these countries, the US and the UK, are of an Anglo-Saxon background whilst the others, France and Germany, represent the Continental European tradition.

3.2 Accounting Regulation In The United States

3.2.1 Review of Standard Setting

At the present time, the body which is charged with setting accounting standards is the Financial Accounting Standards Board (FASB). When the Board formulates new rules, it follows a set of due procedures. This involves

circulating exposure drafts of proposals to interested parties. Responses to these proposals are received in both written and oral form and are utilized by the Board in their attempts to reach a conclusion. One of the precepts used by the Board is:

to weigh carefully the views of its constituents in developing concepts and standards. The ultimate determinant of concepts and standards, however, must be the Board's judgement, based on research, public input, and a careful deliberation about the usefulness of the resulting information. [FASB, 1985, p.1].

In recent years the formulation of accounting theory and standards has become increasingly deductive. It is generally accepted that the information generated by accounting reports affects economic behaviour; consequently, accounting standards should be established in a more participative manner. Horngren states:

The setting of accounting standards is as much a product of political action as flawless logic or empirical findings. Why? Because the setting of standards is a social decision. Standards place restrictions on behaviour; therefore, they must be accepted by the affected parties. Acceptance may be forced or voluntary, or some of both. In a democratic society, getting acceptance is an exceedingly complicated process that requires skillful marketing in a political arena [Horngren, 1973, p.61].

Since its inception, the FASB has also adopted a deductive and a participative approach to the formulation of accounting principles. The FASB has tried to develop a theoretical framework, and has tried to consider the interest of various groups, the contributions of which are required for the general acceptance of new standards. The

FASB demonstrates its awareness of this new situation:

The process of setting accounting standards can be described as democratic because, like all rule-making bodies, the Board's right to make rules depends ultimately on the consent of the ruled. But because standard-setting requires some perspective, it would not be appropriate to establish a standard based solely on a canvass of the constituents. Similarly, the process can be described as legislative because it must be deliberative and because all views must be heard. But the standard setters are expected to represent the entire constituency as a whole and not be representatives of a specific constituent group. The process can be described as political because there is an educational effort involved in getting a new standard accepted. But it is not political in the sense that an accommodation is required to get a statement issued [Financial Accounting Foundation, 1977, p.15].

The political process of formulating accounting standards is also expressed by a report released by the Senate Subcommittee on Reports, Accounting, and Management, entitled "The Accounting Establishment". The report, known as the "Metcalf Report", has charged the "Big Eight" accounting firms with monopolising the auditing of large corporations and controlling the standard-setting process [Belkaoui, 1985, p.45]. Congressional hearings that were started on March 6, 1985, under the chairmanship of Congressman John D. Dingell, continued to question the influence of the accounting profession on the standard-setting process.

In the USA there is a mixture of public and private sector regulation of financial reporting. More specifically, the responsibility for the setting and issuing of accounting standards rests primarily with two

organisations: the FASB, and the Securities and Exchange Commission (SEC), which is a Federal Government Agency established in 1934 to administer the Securities Acts of 1933 and 1934. US Companies' Laws do not normally embrace the content and form of financial statements nor are audits required by laws enacted in individual states. The US legislature has not taken a direct interest in accounting matters except on infrequent occasions. It has usually relied on the SEC to protect the public interest.

Since its formation, the SEC has issued a great many documents on regulatory and accounting matters through its Accounting Series Releases. By the beginning of 1982, it stopped issuing ASR's and started a new series of accounting releases; Financial Report Releases.

These generally relate to security regulation rather than general accounting matters. Companies with equity or debt securities quoted in the USA must file annual reports with the SEC on form 10-K and quarterly reports on form 10-Q. Although regulation 5-X contains rules for the preparation of financial reports by listed companies, the SEC has, from its very inception, followed a general policy of support for the professional accounting bodies to play a major role in the establishment of standards and guidelines for accounting and auditing [Evans et al, 1985, p.26] .

3.2.2 The FASB

The FASB is at present the chief agency within the private sector to promulgate accounting standards. It was

formed in 1973, and is the third in a series of bodies established under the auspices of the AICPA to resolve conflicts which arise in accounting and financial reporting.

The Board is an independent private body financed by contributions from accountancy firms and industry. It has seven full-time members who are remunerated for their services. Originally four members were drawn from the profession and the remaining three members from other backgrounds, but this structure has now been dropped, so that the seven members are appointed irrespective of their background [Evans et al, 1985, p.27]. Each of the seven members has a full-time technical adviser. In addition, a director of research and technical activities is appointed. The FASB is operated by the Financial Accounting Foundation which is a non-profit making corporation organised by the AICPA and co-sponsored by four other private organisations: the Financial Executives Institute, the National Association of Accountants, the American Accounting Association and the Financial Analysts Federation. The Financial Accounting Foundation performs the following four major duties:

1. It appoints the members of the FASB;
2. It appoints the members of the advisory council;
3. It arranges for the financing of new operations; and
4. It reviews the basic structure of the standard-setting process.

The Foundation is comprised of nine trustees who are selected from the five sponsoring organisations. The AICPA

nominates five of the nine trustees and the other four organisations nominate one trustee each. Eight of the nine trustees nominated must be members of the AICPA. The FASB has a Financial Accounting Standards Advisory Council which consists of twenty members who are appointed to work with the FASB in an advisory capacity. The members of this advisory council are appointed by the Financial Accounting Foundation to serve on a voluntary basis for a period of one year. Usually they are drawn from all fields of business and professional life. In short, the organisation of the FASB consists of three units: the FASB, the Foundation and the Advisory Council.

The FASB produces and issues: Statements of Financial Accounting Standards (SFAS's), Statements of Concepts (general concepts used in the development of standards) and Interpretations (to extend, explain or provide clarification of SFAS's). The Board has its own due procedure which is followed when issuing new accounting standards.

The FASB has no legal power to compel compliance with its standards; however, it receives its power from the SEC which requires all registered companies to comply with the FASB directives.

The staff of the SEC regularly monitor the activities of the FASB and on occasion have intervened in the development of accounting standards on controversial topics (for example, oil and gas accounting and the disclosure of

replacement cost information) [Carsberg & Eastergard, 1981].

The performance of the FASB has been the object of some criticism. In theory, it is independent, but in practice this is not the case. A study carried out by the Subcommittee on Reports, Accounting and Management of the Committee on Government Operations of the United States Senate, found that:

...the "Big Eight" accounting firms, the AICPA and , to a lesser extent, the other sponsoring groups have control over the operation of the FASB. Such control is exercised in terms of money, personnel and organisational support [Metcalf Committee, 1976].

Some accuse the FASB of having failed to identify the problems which led to the original demand for such standards. It is further argued that the lines of communication amongst preparers, users and the standards-setters should be broadened and regularly maintained. Others argue that the FASB lacks the power of enforcement of its standards which could be subverted by the SEC or other governmental agencies and may be ignored or circumvented by corporate executives or even the AICPA. In addition, it is claimed that the financial structure of the FASB is questionable as it is based on contributions and donations from organisations in the private sector. These include certain firms which may discontinue their financial support if the FASB disallows the amount of reporting flexibility which is desired by these firms [Ibid, pp.87-88].

3.3 Accounting Regulation in the United Kingdom

In the UK, like the USA, there is a mixture of public and private sector regulation of accounting and auditing matters. However, in the UK, there is a twofold source of accounting rules: Companies Acts and the Accounting Standards Committee (ASC).

3.3.1 The Legal Framework of Accounting Regulation in Britain

The history of legal regulation of accounting in the UK contains regular changes and improvements, not only in the content of accounts required by law, but also in the emphasis and objectives of the statutes [Taylor & Turley, 1986, p.34]. In the UK, company affairs are primarily governed by statutes termed "Companies Acts".

These Acts have tended to avoid the detailed prescription of accounting rules and regulations on the form and content of the annual reports [Taylor & Turley, p.34].

The 1981 Act contains detailed requirements concerning precisely what accounting records must be kept by firms. These records must be sufficient to explain a firm's financial position, in order that the "true and fair" concept can be realised. It is stated very clearly in Part 1, section 3 of the Act that the true and fair view overrides the requirements of the uniform layout of the accounts "and all other requirements of the Companies Acts 1948 to 1981 as to the matters to be included in a company's accounts or in notes to those accounts".

In addition, as a member of the EEC, the UK legislation must incorporate EEC directives. Of significance to the UK accounting is the Fourth Directive since it has moved the UK to the chart of accounts system with greater uniformity in the terminology and the presentation of financial statements.

Furthermore, the Companies Act of 1989, was precipitated by the need to bring into UK legislation two other EC company law directives, namely, the Seventh Directive on consolidated accounts and the Eighth Directive on company auditors. In addition, however, the Act provided the UK Government with an opportunity to make wide-ranging reforms to existing companies legislation. The most notable issue in the Act is the changing environment of the statutory audit. Until now the accounting profession in the UK has been entirely self-regulating; however, the Eighth Directive changes this: statutory audits may only be performed by properly qualified persons who are approved by the authorities of the member states. This means that the accountancy bodies will need to seek approval under the new Companies Act and may have to modify their rules in order to comply with the new legislation.

Overall, it can be said that the 1981 and 1989 Acts produced a compromise between the approach to reporting followed in the UK and that present in some of the other EEC member countries.

3.3.2 The Private Sector Professional Body (The ASC)

In the absence of an effective legal approach to accounting problems of all kinds, the process of standards setting in the UK has become the responsibility of the professional accounting bodies, and particularly of the ICAEW.

The ICAEW first become involved in standards setting in 1942. Between 1942 and 1969 the ICAEW produced a series of Recommendations on Accounting Principles. However, as authoritative statements on best accounting practice, these recommendations suffered from a number of deficiencies. Compliance with the recommendations was not mandatory, much time was expended in their production, alternative approaches were frequently permitted, and no provision was made for consultation with interested parties.

The need for change in this system was highlighted by a number of financial scandals in the 1960's which revealed the unacceptable diversity of accounting practice, harming the image of the profession, and leading to fears of government regulation. In 1970 the three Chartered Institutes set up a joint Accounting Standards Steering Committee (ASSC). By 1976, the other three major bodies had joined. These six governing bodies work together through the Consultative Committee of Accountancy Bodies (CCAB), formed in 1974. In February 1976, the ASSC was renamed the Accounting Standards Committee (ASC) and was reconstituted as a joint committee of the CCAB, equivalent in function, in

US terms, to the old Accounting Principles Board.

The structure of the ASC has changed since its establishment. It originally consisted of 11 members, but as the other professional institutes became involved this number increased. Also, whereas the ASSC in its early years derived its members exclusively from the governing bodies, this is no longer the case, although members of the institutes still provide the majority of members. The following point set out the composition of the ASC [ASC Constitution, Paras 7-14]:

- (1) The Committee shall have not more than 20 members. They are appointed (not elected) annually from 1st July. Up to five of these places may be reserved for users of financial statements, who need not be members of the governing bodies. There must be at least one member from each of the governing bodies.
- (2) Two additional non-voting representatives of government may be co-opted.
- (3) Members are appointed for a three year term initially, with the possibility of reappointment for a further three years, but no longer.
- (4) The power of appointment is vested in the CCAB.
- (5) The chairman is also appointed by the CCAB, for a period of up to three years, with the possibility of reappointment.

Members of the ASC are part-time and unpaid, and the committee normally meets monthly. It is supported by a small full-time secretariat. This presents sharp contrast to the position of its American counterpart, the FASB which has seven full-time members, appointed irrespective of background, is supported by a large supplementary staff and research establishment, and has an annual budget of several million dollars.

However, the whole structure of accounting standard-setting process in the UK will be changed by August 1990. In December 1988, the Accounting Standards Review Committee, chaired by Sir Ronald Dearing, reported to the Consultative Committee of Accountancy Bodies, making some fifteen principal recommendations on the accounting standard-setting process. According to the Dearing Report, the accounting standards-setting process would rest with a tripartite structure: (1) The Financial Accounting Council (FAC), (2) The Accounting Standards Board (ASB), and (3) a Review Panel (RP).

The report recommends that a FAC should be created, whose chairman would be appointed jointly by the Secretary of State for Trade and Industry and the Governor of the Bank of England. Its main responsibility would be:

- (a) To guide the standard-setting body on work programmes and issues of public concern.
- (b) To see that the work on accounting standards is properly financed.
- (3) To act as a powerful pro-active public influence for securing good accounting practice.

The task of preparing and issuing accounting standards would rest with the ASB, which would consist of not more than nine members with a full-time chairman and technical director. Its work would cover both public and private sectors and it would have a specific responsibility to express a clear view on the extent to which an accounting

standard should apply to small companies. In addition, a principal recommendation is made for the establishment of a RP to examine repeated departures from accounting standards by large companies. Appointments to the RP would be made by the FRC.

The ASC issues its accounting standards in two stages: first as Exposure Drafts (EDs) and then as Statements of Standard Accounting Practice (SSAPs), which are standards for external financial reporting only.

The process is thus confined to standards setting for a very restricted area of the accounting field, namely audited external financial reports addressed to shareholders who are often uninterested [Briston, 1981 a, p. 62].

Finally, the standards setting process has been subject to pressures from various groups which have, for example, led the ASC to revise its standards. Property companies, for example, obtained exemption from the requirements of SSAP 12; and the aircraft industry modified the original proposal on R & D to permitting the capitalisation of development expenditure [Solomons, 1983, p. 113; Hope & Gray, 1982, p.551].

3.4 Accounting Regulation in France

Accounting policies in France have followed the legal approach to accounting regulation [Hassan, 1986]. The structure of financial reporting, therefore, has been

influenced by numerous sources: the commercial code, social law, company and tax law, accounting standards from the accounting profession, the EEC, the Stock Exchange, and the National Accounting plan [Collins & Pham, 1983]. At present, a set of generally accepted accounting principles does not exist, and reference must be made to a variety of sources, both legal and regulatory. The most important, however, is the "plan comptable" [Hassan, 1986].

For micro-accounting to be helpful in national planning and control, it must be linked to macro-accounting systems, and in France, this has been accomplished by means of an accounting plan. The plan was formulated in 1947 by the French Government as an attempt to standardise accounting. It was revised in 1957 and 1979. The latter revision incorporated the EEC Fourth Directive.

3.4.1 Environmental Influences

3.4.1.1 Political and Economic Background

France's general economic policy has traditionally balanced free enterprise and government intervention. The government has always used every possible means, including aid in times of crisis, to regulate State business.

This intervention started to increase in the post-World War II period, as a reflection of socialist ideology. In the immediate post-war period, the government opened its administration with a new programme of nationalisation, including that of 36 banks and 5 major industrial groups [Ernst & Whinney, 1983, p. 4]. State-owned enterprises have

lost some of their former independence in decision making, on the ground that technological development will only be achieved with greater government involvement. This, in turn, has necessitated increased accounting information to enable government to exercise the desired control over the economy.

3.4.1.2 Types of Business Enterprises

In France, in addition to the state owned enterprises, there are two kinds of limited liability companies- the societe anonyme- SA "public company", and the societe a responsabilite limitee-SARL "private company"; the societe en nom collectif, or "partnership" is also common in France. On January 1st, 1987, there were 129,499 SAs and 420,054 SARLs in France [INSEE, 1987, p.359]. Companies Law No. 66-537 of 24th of July 1966, Decree No. 67-236 of 23rd of March, 1967 and subsequent modifications apply to each of these forms of company. This legislation did not affect the Plan Comptable, but it did require further disclosures from companies and laid down more demanding requirements for statutory auditors.

3.4.1.3 Taxation Laws

French accounting is subject to considerable influence from taxation. The requirement that tax accounts are identical with the financial accounts presented to shareholders effectively means that socio-economically directed tax laws focused on the corporation, directly affect the form and content of financial statements. All taxes are regulated by the Code general des impots (the

General Tax law), the corporation tax law of 12th of July, 1965 together with interpretations and related jurisprudence.

Under French income tax law, expenses are only deductible to the extent that they are recognised in the financial accounts. For instance, a company's commitment to an employee investment programme is tax-deductible if the amount committed is shown as a liability in the balance sheet. Transfers in and out of reserve accounts occur as a result of the tax laws. If allowable depreciation exceeds the amount which would normally be charged (because of the tax use of an accelerated method), the allowable amount must be shown in the income statement [AAA, 1976, p.180].

Thus, the tax laws followed by French companies create an important influence on accounting.

3.4.1.4 The General Accounting Plan

In France, both accountants and the state have recognised the need for effective comparability of financial data by company and industry, and the country has favoured the establishment of a uniform accounting system applicable to all industries. Before the Second World War, accounting rules were contained in the commercial code and company laws of 1867 [Most, 1971, p.16].

Under German Occupation, however, France was introduced to uniform accounting. Between 1942 and 1944, the Ministry of Finance set up a Rationalisation Committee to

develop a standardised system of accounts. The Committee prepared a uniform system with a standard accounting classification and a decimal system for coding accounts and made recommendations for its application [Mueller, 1965, p. 865].

A Ministerial Commission appointed in 1946 to consider further the possibility of introducing uniform national accounting, produced after a year's deliberations, the Plan Comptable General. In the same year a Conseil National de la Comptabilite (National Accounting Council) was founded. The council, which has guided French accounting ever since, is a governmental body linked to the Ministry of Finance. Its 100-plus members are accountants, industrial experts, and civil servants.

The plan was in operation without substantial change (although minor changes were made in 1950) for ten years, after which it was revised on the basis of experience, together with comments from abroad. The 250-page text includes: a national chart of accounts; definitions of accounting terminology; data classification, explanations of the forms of entries, recording and summarisation, accounting records, valuation methods and a model for financial statements. The focus of the Plan is financial accounting, and the choice of cost accounting system is left almost entirely to the discretion of the firms concerned.

A 1966 statute made adherence to the Plan compulsory for state-owned companies, large private companies and

businesses in receipt of government subsidies. It is also used for government accounting at national and local levels and for the production of detailed national statistics. Many other companies have adopted it voluntarily. Even prior to the 1966 statute, about 80-90 % of large companies, 60-80% of medium companies and 40-60% of small companies applied the Plan [Mueller, 1967, p.108], more than 45,000 copies of the Plan were sold to the public, and numerous text-books were written about it [Most, 1971, p. 20]. This widespread acceptance may be ascribed to the favourable fiscal laws, the fact that it was taught to many who are now practising accountants, and its practicality and convenience.

In fact, Mueller has high praise for the success of the French plan.

...the French experiment with rather rigid uniformity seems to have produced desirable results as well. Present day French Accounting appears to be an important improvement over anything that ever existed in France before." [Mueller, 1967, p.114].

By 1970, economic development necessitated further revision of the plan. Better linkage was needed between private and national accounting; and some revision was needed for purposes of computerisation. However, as the Minister of Economy and Finance emphasised, at a formal meeting of the CNC in 1971, the original plan was considered to be soundly based, and there was therefore a reluctance to make sweeping changes [Kerviler, 1980, p. 114].

It was actually 1979 before a comprehensive revision,

which took into account the EEC Fourth Directive, was made to the plan. The new plan complies with all European requirements, and its application has, since the beginning of 1984, been mandatory for all industrial and commercial enterprises. The new plan up-dates the previous plan's definitions of accounting terms, codes of accounts, valuation rules and the formats for required financial statements.

A number of accounting principles are incorporated in the new plan: (a) the "going concern" principle means that unless a comment to the contrary is made in the financial statements, it can be assumed that the company is a going concern; (b) "consistency"; i.e. the same rules should be applied in order to ensure comparability of the accounts from one year to another; and (c) "prudence"; attention is paid to the prudence principle in valuation. The revised plan also stresses the importance of compliance with accounting regulations and the principle of fairness.

The revised plan also requires substantial disclosure in the notes to the accounts. Items which must be disclosed include: any departure from generally applied principles; the valuation rules adopted ; details of provisions and any revaluations, changes in fixed assets and depreciation; details of the impact of tax law on financial statements; and appropriation of profit or loss. Considerable attention is paid to currency translation, but the plan does not deal with the effects of inflation.

Oldham (1987, p.145) lists the stated objectives of the plan as follows:

- (1) To promote more reliable national economic and fiscal policies.
- (2) To assist in eliminating fiscal inequalities.
- (3) To minimise social misunderstanding by informing the public of the true distribution of national wealth.
- (4) To provide data for the study of market trends.
- (5) To improve healthy competition.
- (6) To aid in the development of fairer taxation.
- (7) To provide shareholders, suppliers and bankers with an opportunity to exercise their judgement more satisfactorily.
- (8) To aid governmental authorities in exercising controls.
- (9) To provide a clear and prompt view of financial results.
- (10) To permit analysis and comparison of manufacturing costs.

The plan is not simply a chart of accounts, but a comprehensive and integrated accounting guide. It is a feature of accounting education at all levels, and the subject of many text books. It largely determines the requirements of the annual tax returns, and is used by government to control and plan the economy.

Many authorities admire the French plan, and it has become the basis on which accounting systems have been designed for some western countries, e.g. Belgium, and for many developing countries, e.g. OCAM countries-Burundi, Cameroon, Chad, Congo, etc.. The OCAM plan, which follows

the French model, has been taught in many developing countries in different parts of the World: India, Iran, Pakistan, Syria, Algeria, Tunisia, and Latin America.

Enthoven describes the French Plan as follows:

Its major characteristics are a uniform terminology; a uniform classification of accounts; a standardised method of registration; and generalized rules of valuation, albeit on the historical cost basis. It is designed to improve fiscal administration, to provide systematic information for social accounting, and to standardize company rules on the presentation of financial statements. Not only has the system proved extremely useful for social accounting and public administration but it has also been of great benefit to French national economics planning; to industries and industrial associations in making necessary economic analysis and forecasts for structural analysis and for measuring and comparing industrial productivity; and, generally, for improving efficient enterprise administration [Enthoven, 1986].

Furthermore, Most has stated that:

"France presents us with a good example of the use of accounting for economic development...We can only point to the fact that there has been, and still is, a widely held belief on the part of competent officials that accounting does have a significant part to play in the economic development of the modern state." [Most, 1971, p.15].

Overall, the success of the French model in developed countries (France, Belgium), developing countries (Algeria, Peru, Tunisia, OCAM countries), free economies (France, Belgium) and in a centrally planned economy (Algeria) suggests that a uniform accounting system based on the French model is indeed relevant to the needs of accounting information by developed and developing countries in either

a free or centrally planned economy.

3.4.2 Setting Accounting Standards in France

Accounting in France is little influenced by the profession, though its status has improved considerably in the last twenty years. The French profession is relatively young, in that it was not till the mid 1940's that a national professional body was successfully founded. This delay may be attributed to the control of accounting regulation by fiscal and legal laws. However, the position of the accounting profession in France is notable because of the separation of the auditing and accounting activities, decreed by law in 1966. The auditing profession is organised under the Ministry of Justice whereas the accounting profession comes under the auspices of the Ministry of Economics and Finance [Oldham, 1987, p. 143].

Four main bodies are involved in setting accounting standards in France, two of which are governmental bodies (CNC and COB) and two professional bodies (OECCA and CNCC). It is the government agencies which have the authority to establish accounting standards. The professional accounting bodies have important disciplinary and administrative roles to play in regard to their own members, but are not as influential over accounting regulation as the ASC in the UK or the FASB in the USA. The main tasks of the accounting profession are to ascertain compliance with accounting regulations laid down by government bodies and to make recommendations on matters where regulations are lacking

[Taylor and Turley, 1986, p. 177].

The main bodies responsible for issuing standards are:

**(1) The "Conseil Nationale de la Comptabilite" (CNC)
(National Accounting Board)**

This was established by the government in 1945 to administer the introduction of the Plan Comptable, and then to review and revise it. The Ministry of Finance and Economy appoints the Board's chairman and pays its expenses [Taylor and Turley, 1986, p. 177]. The board members are selected from different backgrounds, including accountants, industrialists and Civil Servants.

The CNC is responsible for publishing recommendations on points of theoretical or technical difficulty, updating the French General Chart of Accounts ("Plan Comptable"), centralising knowledge, initiating studies and disseminating information on the teaching of accounting in schools and colleges. It also advises on proposed accounting rules and recommendations made by the "Ordre des Experts-Comptables et des Comptables Agrées" (OECCA) and other International Accounting Committees. [Binder Dijker Otte and Co., 1986, p. 4]. Moreover, the CNC is required to propose any measures that would enhance the use of accounts by companies and professional business associations and by those who prepare national statistics, budgets and economic accounts.

(2) The "Commission des Operations de Bourse" (COB):

The COB was formed in 1968, primarily to control information published by listed companies, and to ensure

their compliance with financial reporting requirements.

The Chairman of COB is appointed by the President of the Republic [Taylor & Turley, p.177], and the COB is "comparable to the SEC" [BDO, 1986, p.4]. Its wide responsibilities include supervising the public issue and trading of securities, and overseeing the operations of the stock exchange.

When a company seeks to issue new securities, the COB has to approve a compulsory document which gives information to the public. It may approve a proposed audit programme in these circumstances, and also inspect completed audit files.

The COB has made significant efforts in the improvement of accounting standards by persuading listed companies to publish consolidated financial statements.

(3) L'Ordre des Experts-Comptables et des Comptables Agrées (OECCA)

This body was formed in 1945, and is the professional body of accountants, as distinct from auditors, with membership restricted to those in public practice. Specific government control of the profession is through this body, membership of which is compulsory. Members must be French nationals of at least twenty-five years of age. They must have undertaken a professional course of study and have passed the necessary qualifying examinations.

The Ordre issues recommendations on accounting, auditing and disclosure matters [BDO, 1986]. The ethical

rules and the organisation of the "Ordre" are defined in the members' handbook ("Encyclopedie Permanente") [Ibid., p. 5]. Although the Ordre issues recommendations on accounting and auditing standards, and the COB issues ethical and technical standards and pronouncements on accounting procedures, these are only recommendations, and are not binding.

Membership of the Ordre, like the CNCC, requires success in a three-part examination, and service of three-year apprenticeship, at least one year in the office of an expert comptable. A thesis on an approved accounting topic is also required. Both of these professional bodies are supervised by the Ministry of Finance.

(4) La Compagnie Nationale des Commissaires aux Comptes (CNCC)

This body was formed in 1969; its members are authorised auditors who conduct statutory audits.

Although French auditing is regulated in detail by statute, the Compagnie issues ethical and technical standards, and recommendations and guidelines on auditing matters [BDO, p. 5]. It tends to be dominated by small firms, of which there are many; it represents the French accounting profession in their dealings with other international accounting bodies [Ibid., p. 4].

Auditors must not only determine whether the financial statements are fairly stated, but must also report to the Board of Directors on any irregularities discovered, make

recommendations on accounting principles, and report to legal authorities on any misdemeanours discovered. Failure to fulfil these responsibilities can lead to disciplinary action by the CNCC (including withdrawal of the right to practice) or legally imposed fines and/or prison sentences.

3.5 Accounting Regulation in W.Germany

Accounting in Germany, as in France, is influenced to a great degree by legal prescription which governs Company financial reporting [Beeny, 1975]. In fact, most accounting principles and procedures applied in Germany are prescribed by law. Detailed provision of accounting requirements by legislation has a long history [Macharzina, 1981], both for companies generally and for special categories of company, and relies on the application of a standardised chart of accounts [Taylor & Turley, 1986]. At present, there is no set of generally accepted accounting standards, and reference must be made to different sources. These sources of accounting regulation can be found in the commercial code (Handelsgesetz), the Corporation Act (Aktiengesetz), the limited liability Company Act (GmbH Gesetz), the Publicity Law (publizitätsgesetz), the Cooperatives Act (Genossenschaftsgesetz), and other laws related to specific types of business (Al-Hashim, 1980), and the Uniform Accounts Plan.

3.5.1 Environmental Influences

3.5.1.1 Political and Economic Background

The German economy is noticeably capitalist in

orientation, most commercial and industrial companies being privately-owned, though they are much influenced, and sometimes controlled, by the major banks, which have considerable power and influence on a company's financial decisions.

German banks, unlike their Anglo-American counterparts, provide a complete range of financial services. They handle stock exchange dealings and provide most of the capital for industry. In effect, the banks have the triple role of commercial bank, investment bank, and investment trust [Price Waterhouse, 1988, pp. 49-54]. The system is supervised by the Bundes bank (the central bank) and all activities controlled by a Federal Bank Supervisory Agency. Banks participate in both commercial and industrial companies and are entitled to vote. They are represented on the supervisory boards of most big companies [Lafferty, 1975, p. 42]. Because of the dominant role of the banks, which obtain the information they need through their own channels, for example their own audit firms, until recently there has been little pressure to make the published accounts more useful to a wider range of users. Nevertheless, because there are comparatively few listed companies, the government has recognised the responsibility to require public or listed companies to publish detailed, audited, financial statements [Nobes & Parker, 1988, p. 33].

3.5.1.2 Types of Business organisations

Companies in Germany fall mainly into two categories,

the Aktiengesellschaft (AG), often called "stock corporation", and the Gesellschaft mit beschränkter Haftung (GmbH). These are equivalent to the UK public and private companies respectively. Although the GmbH is the most popular form, the AG type is more important. Both types are governed by the Corporation Law of 1965, discussed below. Between 1965 and 1987, the number of AG companies dropped from 2,530 to 2100, mainly as a result of mergers. In contrast, the registered number of GmbH increased from 50,275 in 1965 to 200,000 by the end of 1987.

There are also various types of limited and unlimited partnerships, for instance, the KG which is a limited partnership, the SG which allows sleeping partners and the KGaA, a limited partnership with shares.

3.5.1.3 Taxation Laws

German accounting is significantly influenced by the tax laws. Taxable profit is derived from the commercial accounts, which must reveal any particular accounting treatments claimed for tax purposes. Particularly influential are the tax law (EStG) and the tax regulations (EStR). These prescribe many detailed valuation rules and book keeping procedures: for example, the lowest of cost, replacement cost or realisable value is to be used in valuing fixed assets. The same is applicable to inventories and the weighted-average method is also permitted. For depreciation, the straight-line basis and the reducing balance method are allowed.

Any tax allowances claimed (e.g. depreciation) must be disclosed in the annual accounts. A company's profit, is judged by the tax authorities on the balance sheet rather than on the profit and loss account. Tax law defines profit as " the difference between business assets at the end of the year end and the business assets at the end of the previous year" [Beeny, 1975, p.12].

A separate balance sheet, the Steuerbilanz (tax balance sheet), is used to calculate corporate tax. It must be prepared in accordance with the tax law and regulations, and is usually based on the Handelsbilanz (published balance sheet). The published balance sheet must not show a higher valuation than that of the tax valuation.

Companies' annual accounts are usually subject to audit by the tax authorities, though it may be several years before they can visit and check the accounts of every company. A thorough audit is carried out, covering compliance with taxation requirements and most activities of the company including the books of accounts, are investigated.

3.5.1.4 The Corporation Law of 1965

A strong legal background exists in Germany. The Corporation Law or Companies Act of 1965 and the Commercial Code lay down rigid accounting principles, valuation rules, and rules for income measurement and the format and content of the financial statements as well as principles of proper bookkeeping.

The Corporation Law contains many accounting provisions, the object of which is to prevent overstatement of net assets and income. The structure and layout of the financial statements are specified in detail, and there is a compulsory format of balance sheet and profit and loss account.

Certain minimum accounting requirements are laid down, though it is permissible to go beyond these. German accounting leaves few options available. The financial statements must disclose the information required as set out by the Act, and on the face of the accounts, rather than in the notes to the accounts. Should problems of interpretation arise, they are resolved by consultation and study among accountants, lawyers, academics and other parties. There is little scope for the accountant's own judgement.

The EEC Fourth directive has caused some conflict in Germany, partly due to the close relation between accounting law and taxation rules, which means that any reforms in accounting have an impact on taxation. A further reason may be concerned with auditing. The EEC Directives would also require the audit of many additional companies, though tax advisers as well as international accounting firms may be allowed to conduct audits [Wenig, 1982, p. 86]. Moreover, the "true and fair" concept is not applicable in Germany, in the sense that German law leaves no room for accountants' judgements, and companies have very few options, especially for the creation and release of

provisions, reserves, and hidden reserves.

3.5.1.5 Uniform Accounting

Uniform accounting has been a feature of German accounting ever since its first introduction in 1911 [Nobes & Parker, 1988, p. 54]. After World War I, uniform cost systems were established by several industry groups, while uniformity in financial accounting for tax purposes was also encouraged. Uniform accounting was advanced with the development of the first national chart of accounts, designed by Professor Eugen Schmalenbach of Cologne University in the late 1920's. Schmalenbach's book Der Kontenrahmen (The framework of accounts) which he published in 1927, proposed a form of national uniform accounting [Filius, 1983, p.13]. His chart of accounts has been described as the most important contribution to the development of German and European accounting [Abel, 1971, p. 36].

In 1937, uniform accounting was made compulsory in Germany, with about two hundred uniform charts of accounts and compulsory rules of bookkeeping [Lafferty, 1975, p. 51]. Uniformity, a complete national system enforced from above in the early 1940's, was compulsory not only in Germany itself, but also in most German-occupied countries, including France and Belgium [Nobes & Parker, 1988,p 54].

The Nazis' main interest, however, was not so much in the published accounts as in industrial cost comparisons, needed for the rigid price control system and other economic

controls adopted by the regime.

Abel has argued that:

"The case of Germany in the thirties was presented in an attempt to illustrate this point of view. The political ideology and its economic ramifications prevailing in the country at that time clearly imposed some extraordinary challenges to German accountants of that day. This writer believes that this challenge was met with a high degree of original thinking and with considerable vigour in attempting to implement the uniform cost accounting scheme that was developed.

Yet it is contended that in its own environment it was an appropriate response to the needs for accounting data in a totalitarian state running a war-directed economy." [Abel, 1971, p.47].

After the fall of the Nazis, compulsory uniformity was abandoned, although many sectoral charts continued in use on a voluntary basis. In the late 1940's, industries made many attempts to develop a uniform chart of accounts, and a uniform chart, similar to that of 1937 based on Schmalenbach's work, was published and used by many industries as a basis for designing their own charts. However, many problems arose in relation to the application of the chart, and in 1965, the Corporation Law was introduced, prescribing a uniform format for financial reporting, in addition to many new disclosures which were not included in Schmalenbach's system.

At present, Germany does not have a compulsory uniform accounting plan as in France, but many recommended uniform charts are used on a voluntary basis. However, the main features of the German accounting are still those of macro-

economic accounting as well as of uniform accounting.

3.5.2 Setting Accounting Standards in Germany

Formally, there is no official professional body which has the authority or responsibility for establishing accounting and auditing standards in Germany [Taylor & Turley, 1986]. However, over the years, the accounting profession has established "principles of bookkeeping" [Al Hashim, 1980, p.51]. These principles are not equivalent to the "generally accepted accounting principles" in the USA or the "true and fair concept" in the UK, for German accountants are more concerned with complying with laws prescribing accounting rules and procedures than with establishing proper accounting standards and procedures. In other words, in Germany, "generally accepted accounting standards" refer to those principles and rules which are prescribed by law [Ibid, p.52].

There are two professional bodies: Institute der Wirtschaftsprüfer; (IWP) (Institute of Auditors) which was established in 1932; and the Wirtschaftsprüferkammer (Chamber of Auditors). Since accounting practices and principles are prescribed by law, accountants are largely concerned with interpreting this law. However, the German accounting profession has a reputation for rigorous education and professional training [Wolfgang Luck, 1984, p.335]. The IWP must meet strict educational and business experience requirements, including passing a written and an oral examination. Entry to the profession is very

restricted, and few qualify before they are in their thirties [Wenig, 1982, p. 83]. Membership of the profession is very small and increasing only slowly; by 1984, there were some 4,500 members [Hutcheson, 1984, p.12]. Germany has no free capital market on the UK/US pattern. The stock exchange is government-controlled and it is mainly the banks which deal in securities. The stock exchange thus has little effect on accounting. Nor do accounting academics have much impact, despite their considerable influence earlier in this century.

3.6 International Aspects of Accounting Regulation

An important influence on both the legal and professional regulation of financial reporting in recent years, has been international pronouncements concerning financial reporting.

Taylor and Turley argue that international accounting regulations can have an influence on national accounting practices in a number of ways [1986, p. 141]:

(1) The chance for comparison of existing domestic accounting practices with those in other countries can lead to a reassessment of current practice or the development of new regulation. For example, the US experience concerning the standardisation of oil and gas accounting may have been influential in the drafting of a standard on the same subject in the UK.

(2) The accounting profession has become increasingly

international and has developed its own international organisations, such as the International Accounting Standards Committee (the IASC hereafter). These bodies increase both the opportunity and pressure for national regulations to be influenced by what is happening elsewhere in the world. The growth of the activities of the 'Big Eight' and formal links between firms in different countries have also helped the transfer of ideas and practices.

(3) A number of other international political and economic organisations, for example the UN and the World Bank, have become involved in the preparation of pronouncements and recommendations on accounting disclosure and the promotion of these at an international level. These types of recommendation are often aimed at multinational corporations, but tend to influence accounting practices in individual countries.

3.6.1 Harmonisation vs Standardisation vs Uniformity:

"Harmonisation", "Standardisation" and "Uniformity" are terms which appear to be synonymous. However, in reality, the latter is produced from a synthesis of the others. Samuels and Piper explain this notion as follows:

"Uniformity - is a condition in which everything is regular, homogeneous or unvarying. It implies sameness, and in this context means that all accounting principles and practices are the same.

Standards- are an authorised model of a unit of measures. So attempts in accounting to standardise are attempts to introduce uniformity in accounting methods. The model that is to be used for measurement being the authorized version.

Harmonisation - is the attempt to bring together different systems. It is a process of blending and combining various practices into orderly structure, which produces a "synergistic result". It first involves examining and comparing the different accounting systems in order to note points of agreement and disagreement, and then working towards bringing these different systems together. Those who believe that uniformity is desirable, would as a first step need to compare the different systems, then they would need to persuade others that some measure of agreement would be advantageous. They would then work towards harmonisation, attempting over time to remove differences. They would be working towards the acceptance of some authorised model, a set of standards, which when achieved, would result in uniformity. The steps in the process would therefore according to the normal usage of the words appear to be: comparison > move towards harmonisation > producing agreed standards > uniformity. It is possible of course to stop at any point in this process" [Samuels & Piper, 1985, pp.56-57].

Harmonisation of accounting standards is not, therefore, necessarily viewed as a process of comprehensive standardisation. It is a process of reducing differences in accounting principles and practices. This concept has become a major concern for certain bodies set up either by the various governments (for example, the EEC, the United Nations, and the Organisation for Economic Co-operation and Development) or by certain independent professional accounting bodies (for example, the IASC, and the IFAC).

3.6.2 Organisations that are Involved in the Setting and Development of Accounting Standards.

A wide range of international organisations and committees are involved in attempting to promote regulations for accounting and disclosure [Brennan, 1981]. Some are global organisations whilst others are concerned with a

particular region; some are professional bodies whilst others are public organisations [Samuels and Piper, 1985, pp. 109-19]. Three such organisations which may be discussed here, because of their status as international public bodies, are the International Accounting Standards Committee (IASC), the United Nations (UN), and the Organisation for Economic Co-operation and Development (OECD).

3.6.2.1 The IASC

The IASC has emerged as a leader in the process of the setting and the development of international accounting standards. It was established in June 1973 as a result of an agreement by leading professional accounting bodies in nine countries.

Recently, the IASC has changed its policy in favour of developing countries so as to include a minimum of three of these countries in its board. The business of the IASC is now conducted by a board of 13 countries and a full-time secretariat located in London. Moreover, the standard-setting process is not entirely the prerogative of accountants; hence there are places on the Board for non-accounting organisations with an interest in financial reporting [Cairns, 1986]. The committee represents 95 member accountancy bodies in about seventy countries. All of these are consulted by IASC and a total of thirty-five countries have been directly involved in its technical steering committees [Ibid.].

Although the size of the IASC has expanded, much of the power within it remains with the founder members as they provide a majority of the committee's board. [Taylor and Turley, 1986, p. 154].

The IASC is financed partly (90%) by the board's member bodies and partly (10%) by the International Federation of Accountants (IFAC), which collects subscriptions from all member bodies. IFAC, which represents all the professional accounting bodies in the IASC's board, works closely with the IASC, but tends to cover different functional areas of accounting. The IASC has been responsible for establishing accounting standards whilst IFAC has confined its task to auditing standards, professional ethics and management accounting [Ibid.].

The role of the IASC is to contribute to the development and adoption of accounting standards which are relevant, balanced and comparable internationally and to encourage observance of these standards in the presentation of financial statements. More specifically the objectives of IASC as set out in its constitution are:

(a) To formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their world wide acceptance and observance.

(b) To work generally for the improvement and harmonisation of procedures relating to the presentation of financial statements [IASC, 1985, Appendix 2].

However, the IASC has no power to enforce its

standards, and must work through national standard-setting bodies and professional groups. The application of international standards, therefore, depends on the willingness of the national standard-setting bodies to promote them, and also on the authority of those bodies in their national environment [Taylor & Turley, p.154].

Every one of the member accounting bodies of IASC has committed itself to support it, "The way in which this commitment is met varies considerably, often reflecting the way in which national accounting standards are developed and the standard-setting resources available in individual countries" [Cairns, 1986].

In many countries, the accounting bodies are not the standard-setting bodies, and accounting practices are subject to tight legislative control - France, Germany and Japan are examples. Hence, the professional bodies must use their best endeavours to persuade the standard-setting bodies that financial statements should comply with international accounting standards [Ibid].

On the other hand, in those countries where the profession is strong and has traditionally had a major role in regulating practice, it is also possible that the IASC will have little impact. This is because it is these professional bodies which have the strongest influence on the development of standards. The content of a standard, therefore, may be little different from existing national

practice [Taylor & Turley, p.155].

The above remarks should not be taken to imply that the IASC does not have any significant role. A considerable amount has been achieved since its establishment in 1973, both in the development of standards and in the promotion of their acceptance [Taylor & Turley, p.155]. Furthermore, Hepworth argues that "IASC has established beyond doubt that the writing of international accounting standards is possible, which not only have significantly improved the presentation of financial statements, but also have raised the standards of many small and developing countries" [Hepworth, 1980, p.77].

In practice, however, the adoption of IASC standards differs internationally. It has been suggested that although the Committee has published an impressive number of statements, the adoption of these standards is not uniformly high. Only three countries- Malawi, Malaysia, and Zimbabwe have adopted IASs as national standards. Pakistan has incorporated the standards that are relevant in its particular environment within its law. Egypt, India, Kuwait, Nigeria and Singapore are using individual international standards as the basis for equivalent national requirements [Cairns, 1990, p. 83].

3.6.2.2 Other Organisations

The United Nations, its agencies, and associated organisations, have taken an interest in the need for international financial reporting standards since the early

1970's. In 1976 it established a group of experts on international standards of accounting and reporting to review the existing practice of reporting by multinational corporations and disclosure requirements of different countries, to identify gaps of information in existing corporate reporting and to examine the feasibility of various proposals for improved reporting. The group submitted its recommendations in a report a year later. In 1979, another working group of experts was established with the objective of improving "the availability and comparability of information disclosed by transnational corporations" [UN, 1982, para.38], and to report on "future steps to be taken in the field of international standards of accounting and financial reporting" [Lafferty & Cairns, 1980, p.81]. In 1982, the group presented a report providing guidelines intended to be acceptable to delegations from both developing and developed countries. The report endorses the principle of appropriate disclosure by multinational enterprises and contains minimum lists of financial information to be disclosed, as well as extensive requirements for non-financial information. It is unfortunate that this group did not fully agree on the report. In 1983, another Working Group was established for the same purpose but progress has been slow, perhaps partly because of differences of stance towards multinationals between host and parent countries [Nobes, 1985, p. 344].

It is clear that the main emphasis of the UN in the

area of accounting is on increasing disclosure as a means of ensuring the accountability of giant transnationals. In addition, the UN, like the IASC, has no power to impose its standards and recommendations.

The Organisation for Economic Co-operation and Development (OECD), was formally established in 1960. Its main objects are to increase co-operation among the member countries, and to improve the foreign investment climate through the encouragement of the multinational corporations. In 1979, the OECD established a Working Group on Accounting Standards. The main task of this group was to develop accounting standards for corporate reporting and to pursue greater harmonisation and comparability of accounting and reporting throughout the world.

The UN and OECD are more notable as political organisations than as accounting bodies and this is reflected in the development of and reaction to their recommendations [Taylor & Turley, 1986, p. 162]. For instance, there is conflict between developing nations and developed countries as regards the activities of multinational and the use of accounting standards to control them. In addition, the working groups for both bodies are intergovernmental, which means that usually delegations are composed of high level civil servants [Samuels & Piper, 1985, p. 73].

3.7 Summary and Conclusion

This chapter has shown that perhaps the most interesting element in the comparative analysis of different national frameworks for accounting is the diversity which exists with respect to the relationship between the law or government and the accounting profession. Accounting practices have been regulated by the accounting profession in some countries, by legislation in others, and in still others by both. The status of the accounting profession in a country seems to play a major role in determining the regulation of accounting; for example, the low status and relatively small size of the profession in some countries of Continental Europe have led to the establishment of accounting standards by the governments concerned.

In contrast, in those countries which share an Anglo-American background, the formal role of public sector regulatory bodies has been much less, and greater reliance has been placed on the profession as the appropriate body to regulate and oversee the development of accounting practices. However, the study of accounting regulation in the USA and the UK suggests that the private sector regulatory bodies lack authority on accounting matters and are increasingly dependent on some form of legal backing. As stated by Zeff, " In most capitalist countries with active standard-setting programmes, the formulation of standards occurs in the private sector, although government plays the combined role of stimulus, critic, and enforcing

agency" [Zeff, 1986, p.1]. Moonitz has also argued that standard setters require the assistance of "allies" in both the public and private sectors when pronouncing on controversial topics.

Probably the most effective ally which US private sector standard setters have had is the SEC [Enthoven 1986]. In its Companies Act 1981, the UK adopted the EEC Fourth Directive, which introduced accounting measurement standards into UK Company Law. Previously, UK Companies Laws were largely concerned with disclosure.

International precedents may also provide some innovations in future accounting regulation throughout the world. A wide variety of agencies have become involved in issuing guidelines or recommendations concerning accounting. Some, for example, the UN and OECD, are concerned primarily with disclosure by multinationals. Others, such as the EEC and the IASC, are attempting to improve the consistency of accounting reporting more generally.

Up to this point, the major conclusion which can be reached is that accounting has developed differently in different countries. As a consequence, there have been considerable international efforts to harmonise these practices or to reduce differences between them. However, the critical question would be: why has accounting developed differently in different countries? This question will be the subject matter of the next chapter.

4.1. Introduction

This chapter starts by discussing the importance of environmental factors as influences on accounting practices, and identifying some of the major factors which interact with and affect those practices. Secondly, alternative strategies for establishing relevant accounting systems in developing countries are considered.

4.2 Environmental Influences

In order to understand worldwide accounting practices and the reasons behind the considerable differences among them, one must first understand the differences in international environments. The US Accounting Principles Board long ago supported this view in its statement that:

Environmental conditions, restraints, and influences are generally beyond the direct control of businessmen, accountants, and statement users. Understanding and evaluating financial statements requires knowledge of this environment and of its impact on the financial accounting process. Aspects of the environment are reflected in the basic features and basic elements of financial accounting and in generally accepted accounting principles [FASB, 1982].

The impact of the environment on accounting can be traced through several illustrations. For example, in both the US and the UK, accounting is directed mainly towards serving the needs of investors. This has occurred because the capital market in those countries contains millions of investors who need financial information to assist them in making investment decisions. On the other hand, in West Germany where the stock market is small, relatively inactive and dominated by a banking industry which is heavily

involved in extending credit to business, corporate accounting is mainly directed towards serving the needs of creditors. In centrally-planned economies, accounting practices vary dramatically from those in free-enterprise nations simply because of differences in economic and political environments.

These environmental influences on accounting can be direct or indirect. Some influences, such as tax law, have a direct impact on accounting standards and practices. Indirect influences can be attributed to the attitudes, values, and perceptions of a society. For example, in some strict Muslim countries, such as Iran, the charging of interest is prohibited. As a result, the Iranians tend to play down the significance of interest in making economic decisions both at the macro and micro levels. Thus, to attempt to harmonise accounting standards based upon Anglo-Saxon practices, which are heavily influenced by the concept of interest, would be inapplicable to the environment of strict Muslim countries.

4.3 Causes of Differences

In this section, attention is focused on some of the more specific environmental factors which influence accounting practices, both directly and indirectly. Several studies, academic and professional, over the last two decades, have highlighted these factors.

A review of these studies indicates that accounting practices differ substantially from country to country.

Several environmental factors seem to explain this. The main factors which are seen as influencing accounting development include: nature of economic systems; political systems; cultural environment; legal environment; educational environment; and the strength of the accounting profession.

These factors are not mutually exclusive or collectively exhaustive. For example, the type of economic system a country has may be the result of the values and norms of its political ideology. Also, the legal environment of a country is a by-product of its cultural and political circumstances.

4.3.1 Economic Environment

The economic environment has a great impact on accounting development in any country. It has been common practice to classify economic systems according to political ideology and ownership of the factors of production. The scale ranges from almost complete reliance on free market forces (e.g. Switzerland) to almost complete central planning (e.g. Russia). Between these extremes, governments are involved to varying degrees in the control of their economies; thus different accounting systems are needed to reflect these variations.

Neuberger and Duffy developed a classification scheme which has great relevance to accounting. It is based upon the command of information as a means of decision making. Using the decision-making and information structure, they classified economic systems into four basic categories, (1)

traditional economy (2) market economy, (3) planned market, and (4) planned economy [Neuberger & Duffy, 1976, p.114]. The decision-making structure in the traditional economy is completely decentralised. The information structure is quite primitive and serves to transmit traditional rules and customs; motivation consists not so much of material incentives, as of adherence to the normal customs.

In a free market economy, economic resources are allocated by market mechanism, such as supply and demand, profit maximisation by companies, and utility maximisation by consumers. Information communicated between buyers and sellers usually relates to prices and quantities; and each agent must make decisions based on a forecast of the actions of other agents and the trend of prices. In such systems, private property rights and individual freedom are preserved, yet orderly economic organisation is also possible. It has been argued that under this economic system, accounting is used as a tool for: (1) management of business enterprises; (2) economic productivity; and (3) distribution of products and services.

In a planned system, decision-making is concentrated in the hands of a few people who form what is called the National Planning Board (N.P.B) or the Central Planning Authority. The informational needs of the NPB are tremendous because they concern all aspects of the state's economic activities in regard to capital, equipment, inventories, labour force, etc.

The role of accounting in a centralised economy is more

important than under the free market economies because the system of prices and costs is established through accounting procedures and information rather than through market forces. As a result, the burden of making all decisions is placed on the shoulders of the NPB who make all decisions related to demand and supply, prices, costs, investment, expansion, and others. These decisions are based on accounting records, statistics, and political commands from higher levels. There is considerable formalisation of accounting procedures, standards, rules and legislation, which are uniform and centrally controlled. Accounting returns are used in the evaluation of operating organisations, in the resource allocation process and in the implementation and monitoring of the social and economic development plans. As Lenin stated, "accounting and control - these are the main things required for the smooth working, the correct functioning of the first phase of a communist society [Gambling, 1974, p.15].

The basic objective of accounting in a free market economies is similar to its objective under the centralised economies, i.e., to provide relevant and prompt information for decision-making. The essential difference, however, is that under the decentralised economy command over information is distributed among numerous groups and individuals, and "no agent has any information about the internal conditions of any other agent and does not know... about the prospective actions of any individual agent" [Neuberger & Duffy, p.55].

In the free market economy, therefore, the extent of environmental uncertainty is tremendous; thus decision makers use accounting information primarily to reduce the degree of uncertainty (in predicting the amount and certainty of cash flow from a prospective investment, for example). In centralised economies, however, the degree of environmental uncertainty is kept to a minimum through government decrees and regulations.

The two systems described above represent two extremes, and most countries work under a mixture of these systems. The planned market systems which are the middle ground between highly decentralised decision-making under the free market economy and highly centralised decision-making under the planned economy, were developed after World II in France, Japan, the Scandinavian countries and the reformed centrally planned economies in Hungary and Yugoslavia. The National Plan is normally used as a coordination device for broad and vital decisions. Implementation of the Plan is achieved by a feasible set of acts open to private enterprises; it provides incentives which affect the consequences of the acts [Ibid, p.231].

Some Scandinavian countries, for example Sweden, use accounting standards both to serve the informational needs of individual firms and their investors and as tools for implementing national economic policies. For example, if the national aim is to achieve a given rate of economic growth, the contribution of accounting is made through depreciation adjustment procedures among the firms or

industries which are likely to be major contributors to the economic growth rate [Choi & Mueller, 1984, p.39]. A policy focused on achieving full employment by avoiding business cycles, can be aided by income smoothing over the length of the typical business cycle [Ibid]. Anglo-Saxon accountants would view these practices as an unacceptable distortion of accounting information. To ensure that accounting contributes to national economic policies, in Sweden, a flexible uniform accounting system called "M-Chart of Accounts", has been installed, providing national economic policies with comparable data at the industry level.

4.3.2 Political Environment

A wide range of political systems exist throughout the world. In democracies, private sector enterprises tend to play an important role in the economy, whereas in totalitarian regimes virtually all means of production are state owned. These differences need to be reflected in the choice of accounting system.

A further political aspect is the export and import of accounting systems from one country to another, not because of a similar environment, but simply because one country has strong political ties with another. Traditionally, this has occurred through colonisation, as countries like Britain, France, and Spain have transferred to their colonies many business practices, including accounting.

Although direct colonisation no longer exists, political relations between nations have heavily influenced

accounting systems. For example, the USSR has influenced the accounting systems and practices in different parts of the world. Another example is found in the strong political, cultural, and economic ties amongst Western European countries which have motivated them to form the European Economic Community, which seeks to standardise many business, accounting and financial reporting practices.

4.3.3 Cultural Environment

As Gambling pointed out, there is a significant interrelation between cultures and accounting practices. [Gambling, 1974, p.107]. The term culture encompasses knowledge, law, morals, customs, etc. which man acquires as a member of society [Kroeber & Kluckhohn, 1974, p. 107]. Accounting theory is much concerned with such concepts as 'income', 'expenditure', 'profit', and 'wealth' which must be seen in relation to the cultural values of societies, for their meanings differ in different countries.

Arpan and Radebaugh (1985) identify, among the environmental factors influencing accounting, cultural factors including conservatism, secrecy, attitude towards business, and attitude towards the accounting profession.

In addition, Mueller (1968), Zeff (1972), Alhashim (1973), Jaggi (1975), Nobes and Parker (1981), Schoenfeldd (1981), Bromwich and Hopwood (1983), Renshall (1983) and Choi and Mueller (1984) also view culture as influencing accounting development.

Gray (1985) attempted to identify the relationship

between societal values and the accounting subculture. Four accounting values, related to societal values, were recognised, namely professionalism, uniformity, conservatism, and secrecy. Gray linked these accounting values to individualism and uncertainty avoidance in society, as set out in Figure 4-1.

FIGURE 4-1
Direct Association Between Societal
and Accounting Values

Value of Accounting Subculture	Relationship with Societal Values	
	Positive	Negative
Professionalism	Individualism	Uncertainty Avoidance
Uniformity	Uncertainty Avoidance	Individualism
Conservatism	Uncertainty Avoidance	Individualism
Secrecy	Uncertainty Avoidance	Individualism

In addition, power distance and masculinity vs. femininity also affect accounting values. For example, collectivist countries always show large power distances; i.e., in developing countries, power distance has a negative relationship to individualism and a positive relationship to uniformity, conservatism and secrecy. Regarding uncertainty avoidance: in large power distance societies, because of the emotional need for security for people without power, power distance has a positive relationship to uncertainty avoidance, indicating a negative relationship to professionalism and positive relationships to uniformity, conservatism and secrecy.

Masculinity vs. femininity is positively related to individualism, indicating a positive relationship to

professionalism and negative relationships to uniformity, conservatism and secrecy, while there is a negative relationship to uncertainty avoidance.

4.3.4 Legal Environment

The influence of the legal environment on accounting is found in all countries. It is the degree of this influence which varies. In some countries, the accounting methods and standards used for tax purposes must also be used for financial reporting. In the US, this rule is applied in certain cases. For instance, if a company uses LIFO for tax accounting it must be used for financial reporting also. In W. Germany, the tax regulations are the accounting rules, so that financial accounts are the same as the tax accounts. In Egypt, the government regulations require that any allowances claimed for tax purposes must be charged to the annual accounts. In addition, depreciation methods and rates are prescribed.

The valuation of fixed assets is also influenced by taxation. For example, though it has always been possible for French companies to revalue assets, extra taxation might be entailed.

In contrast, in the UK, the content of financial statements prepared for external parties is affected little by tax rules, and adjustment for tax purposes is done separately.

Other than tax laws, the influence of a country's legal system on its accounting practices is apparent. For example,

a distinction is often made between Common Law and Romano-Germanic Law. In the former system, statutes are supplemented by a limited amount of case law, and the aim is the solution of specific cases rather than the formulation of general rules. [see David & Brierly, 1978].

The impact of this system on accounting is seen in the Companies Acts. In the UK, for example, prior to the EEC Fourth Directive and the subsequent 1981 Companies Act, many accounting details were not prescribed by legislation. The existence of a strong and influential accounting profession in the UK was mainly responsible for this situation.

Other countries have Romano-Germanic law based on the Roman *ius civile*, compiled by Justinian in the sixth century and developed by European universities since the twelfth century [Nobes, 1988, p.30]. Such systems derive doctrine from concepts of justice and morality. Accounting rules and reporting standards are consequently laid down in greater detail. Company legislation in Germany, for example, is mainly political, so that accounting changes tend to be determined through a political legalistic process [Derrett, 1968, p.42]. In other countries, notably the communist bloc, but also in France and Egypt, for example, direction goes further and there is an attempt to control the economy. In such countries, accounting plans may be found, and companies follow a uniform system of accounts enacted and enforced by law. Thus it seems that a country which follows the code law system is likely to adopt a more legalistic approach to accounting than is a country which has a common

law system such as the UK or the US.

4.3.5 Educational Environment

In economies with low literacy rates, accounting is little more than simple book-keeping. Historical cost-based data are recorded for control purposes, but such information is rarely used for decision making. Governments often issue commercial laws, partly to regulate accounting and auditing practices, or even adopt pre-prepared standard forms, which reduce the need for trained and sophisticated accountants.

Farmer and Richman described the effect on management of the lack of educated, literate staff and workers.

Any control system which regulated lower level personnel to fill out forms, use written instructions, or report in writing to supervisors would be unworkable because the bulk of workers would be unable to read or write.... Communication techniques become oral, not written. Frustration of managers and employees remains at a high level when communication presents difficulties. Such a labour force is usually sick much of the time, and low time horizons combined with lack of stamina results in high turnover and absenteeism with corresponding impacts on firm efficiencies [Farmer & Richman, 1971, pp.80-1].

The literacy level is not the only factor influencing accounting. The type and quality of higher education, and the number of employees who have benefited from it, are important, as is the cultural attitude toward education. However, education alone may not increase a country's economic growth. Special training, particularly in management, is required.

In an illiterate society, external usage of accounting reports is beyond the understanding of the general public,

while internal usage is hindered because of the limited ability of employees and management to prepare and understand these reports. Improved general education reduces these problems, so more sophisticated and extensive accounting reports become possible. It is particularly helpful if a country has a reasonable percentage of people who have graduated from schools of business. In some countries, the business related professions are considered less prestigious, so able students prefer to graduate in other fields.

4.3.6 Accounting Profession

The development of a country's accounting profession will be related to the various factors outlined above, while the types of accounting they have helped to produce also play a role. For example, in countries where there are comparatively few shareholders and private sector companies, (e.g. France, W. Germany) there is less need for external auditors than in the UK and the USA. Indeed, in France, the small size of the profession, and the comparative unimportance of external auditing, have contributed to the dominant role of the government in making rules and controlling the economy.

In contrast Russia has no accounting professional body comparable to those of the Western countries, though all workers within a particular ministry are represented by a union.

In developing countries, the level and extent of

accounting skills are less than in the developed world. Usually there is no stock exchange, the public sector dominates, and the economy is subject to government planning and control, so external financial reporting and auditing, which are associated with the private sector professional body, are relatively unnecessary. Consequently, the accounting profession is undeveloped or non-existent.

4.4 Alternative Approaches for Developing Standards

Most developing countries, depending upon their historical background and state of economic development, lie within one or more zones of accounting influence. A knowledge of the origins of accounting practices in a country will facilitate a set of potential improvements and changes in its system. This section, therefore, is devoted to a brief discussion of the efforts which are being made to improve accounting systems in developing countries.

4.4.1 Characteristics of Accounting In Developing Countries

While it is true that the extent to which good accounting is regarded as a key-stone in the growth of business and economic development has not been yet empirically proven, it can be claimed that accounting plays a recognisable and vital role in economically advanced countries [AAA, 1976, p.70]. In addition to identifying the problems of non-availability of proper and prompt accounting information, the study by the AAA Committee on Accounting in developing countries also rates "lack of adequate financial

and reporting " as extremely important [The AAA, 1976, p.203].

Some leading accounting authorities, for example Scott (1970, p.iv) have suggested that economists in developing countries are insufficiently aware of the potential role of accounting for economic development. He argued that:

"Development economists are not aware of the importance of accounting to economic development; or that accounting is thought to be in some sense "given" in that it is considered unalterable, or is assumed to be either adequate, or will be adequately elicited as development proceeds".

Conversely, lack of understanding of economic development requirements on the part of accountants in developing countries, has led to deficiencies in their work. Most developing countries still need to forge and enhance the relationship between accounting and economic information, to streamline accounting information at various economic levels ,and effectively to use this information for micro and macro economic development purposes.

This situation has created other problems which have influenced economic performance, and subsequently economic development. Darmanin (1985, p.2) outlined these problems as follows:

1. poor financial and management accounting systems in business enterprises;
2. inadequate accounting education of primary users of the information;
3. weak legal and professional control;
4. deficiencies in accounting education and research;

5. lack of sound accounting systems in the public sector and government institutions;
6. lack of parent framework of accounting for a linkage between micro-accounting and macro-accounting for the purpose of development planning.

Having accepted the lack of adequate accounting systems in developing countries, a great deal of attention is being paid by Western researchers and international professional bodies to helping these nations to develop their own accounting systems.

4.4.2 Alternative Strategies for Establishing Standards in Developing Countries

4.4.2.1 The Evolutionary Approach

In the case of this approach, accounting and reporting standards would be developed through gradual evolution in isolation from accounting influences of other developed nations [Scott,p.10-12]. Choi and Mueller have added that, in an evolutionary approach, accounting may be viewed as a service function of business, and therefore it can construct for itself a meaningful framework which is derived essentially from the business process it serves [Choi & Muller, 1978, p.41-44]. According to this approach accounting simply becomes an independent discipline, where no conceptual support from other disciplines is needed.

Under such a pragmatic response to the practical needs of the business community, the only possible solution for developing and establishing accounting standards is a

piecemeal approach [Amenkhienan, 1986,p.22-23]. Accounting development in the US, and the UK, has been characterised by this pattern. Scott noted that accounting development in these countries has been sporadic, haphazard, and sometimes unsatisfactory. This approach should not be followed by a given developing country, because it is also generally agreed that the rate of development should be more rapid than that experienced by advanced countries [AAA,1976,p.70].

4.4.2.2 Development Through Transfer of Accounting Technology

Accounting technology may be transferred to developing nations through two important channels: (1) the activities of international accounting firms, many of which have branch offices in developing countries; and (2) international cooperative arrangements and aid packages from the advanced nations.

Scott considers these channels the most important vehicles for the transfer of accounting technology to developing countries at the present time. Enthoven (1983, p. 112) argues that US accounting has already had a great impact on accounting practices in many developing countries through the activities of US multinationals and US accounting firms. He suggests the establishment of a US accounting-assistance body, for the purpose of aiding developing nations in the development of their own accounting practices.

This approach would inevitably mean that some aspects of accounting practices would be transmitted from a

developed nation to a developing country even though they may not be relevant. In observing the negative role of international accounting firms operating in developing countries, Enthoven states:

" In many [developing] countries, foreign accounting firms operate. They tend to follow foreign accounting/auditing pronouncements, which may not help develop useful local standards. In general, accounting firms are not involved adequately in social and economic programmes; nor do they assist sufficiently in fulfilling the accounting needs of smaller firms, either directly or through development institutions" [Enthoven, 1981, p.235].

This led some authors to conclude that accounting standards and practices should not be imported indiscriminately from developed countries [Amenkhienan, 1986, p.24].

Scott, however, has observed that such indiscriminate borrowing is likely, because in developing countries, the accounting professions may not have the level of accounting sophistication needed to enable them to identify the accounting characteristics which are relevant to their developmental needs and those which are not [Scott, p.12]. Further, the import of technology may slow down the process of learning by experience or may cause local institutions to be regarded as weak substitutes for their foreign equivalents. Accounting, in particular, suffers from these tendencies, as local professional bodies in developing countries tend to work within the IAS framework at the expense of innovation or original thinking [Perera, 1989, p.21].

4.4.2.3 Adoption of International Accounting and Auditing Standards

It is argued that the application of international accounting or auditing standards, would similarly, not be suitable. International Accounting Standards are not determined with the specific needs of the developing nations in mind. Murray (1981) makes similar observations:

This is one of the faults of the International Accounting Standards Committee which, perhaps by default, has oriented itself to serve the needs of multinationals. There is thus a void which requires to be filled to suit the needs of developing nations.

Accordingly, some argue:

The case against the adoption of international accounting by developing nations as an alternative to developing their own local standards is a conclusive one. Accounting in each country should develop in a manner relevant to the needs and objectives of that country [Amenkhienan, p.24].

4.5 Towards the Establishment of A Relevant System

So far, no developing nation has been able to establish a system of accounting designed primarily to meet its own information needs [Briston, 1978, p.116]. An ideal approach would be one based on consideration of the economic, legal, cultural, and political environment within which the accounting system operates, followed by a comprehensive analysis of the evolution of accounting systems and practices under different environments to ascertain how the universe looks.

It has thus been argued that the first step in accounting development for a given country should be the determination of an accounting system that will serve both

macro and micro-accounting purposes through the provision of effective and useful information, and which reflects socio-economic relationships.

If accounting is to serve the economic development process of a developing country, it is essential to have reliable information which is economically meaningful and useful for cost-benefit analysis, planning, control, decision-making, and which supports the integration between macro and micro economic activities.

As far as the traditional accounting approach is concerned, Briston argues that the flexibility still permitted within the UK/US systems, notwithstanding the implementation of accounting standards, is also an expensive luxury [Briston, 1986, p.29].

Accordingly, there has been a call in many developing countries, for the adoption of a uniform accounting system which facilitates the provision of the information needed for sound decision-making at the enterprise level and for planning, control and evaluation of economic policies and performance at the aggregate level.

4.6 Summary and Conclusion

This chapter has shown that accounting is a by-product of politico-socioeconomic environments. Each country has its own political, social, economic, and cultural characteristics; it is therefore likely that the objectives, and thus the information needed by business and government, will differ from one country to another.

Obviously the range of user-groups for accounting information has a significant impact on the development of the rules of accounting practices. In Egypt, the communist countries and many of the continental European countries, the government has had a major role in controlling the economy, through planning, finance, using information, and following up the implementation of economic development plans. This has led to the adoption in such countries of a uniform accounting system, and law, commercial code, and tax rules play a dominant role.

In contrast, in the UK and the USA, it is the profession itself which has ultimately controlled accounting practices. Shareholders and creditors have been, and continue to be the main users of accounting information, and this fact has influenced the practices developed by the profession.

The chapter has also shown that the influence of the underlying economic, political, legal and socio-cultural factors on the differing national accounting practices must be considered.

It has also been suggested that case studies would provide an appropriate kind of research into the objectives of national accounting systems and the alternative approaches which might be adopted in order to achieve these objectives. Although such studies may be unglamorous and very time-consuming they are potentially very useful if they uncover what actually happens in various parts of the world as opposed to what is claimed to happen.

5.1 Introduction

This study is primarily concerned with the idea that national accounting systems should be studied and established in accordance with the needs of the individual country. This chapter serves to explain the environmental background against which accounting and auditing operate in Egypt, while the influence of this environment upon the accounting system will be dealt with in the following chapters.

5.2 The Political Structure

The current formal name of Egypt is " The Arab Republic of Egypt " (A.R.E.), which came into being as a socialist country in July 1952.

In 1971, however, Egypt became a democratic socialist country as defined by the 1971 Permanent Constitution, amended in the May 1980 referendum.

Egypt has an Executive head of State, the President, who is elected for six Gregorian years , and for not more than two successive periods. The President appoints Vice-Presidents, a prime minister , his cabinet, and the governors of Egypt's twenty-six governorates or provinces. He is popularly elected after nomination by the parliament. In addition to his power of veto, the president has emergency powers to issue binding decrees whenever parliament, by a two-thirds majority, delegates such authority. In practice, virtually all important decisions in

domestic and foreign affairs are made by the president and his staff.

The Legislature is composed of two bodies: the National People's Assembly (448 members, including ten appointed members), and the Advisory Shura Assembly (210 members, including ten appointed members). The Judicial Authority is independent.

The organs through which the people exercise state power are the National People's Assembly (NPA), the Advisory Shura Assembly (ASA), and the Local People's Congresses. These organs operate at different levels : Governorates, Cities, Towns, and villages. The members of the NPA and the ASA are called the People's Representatives (Delegates). Like the People's Congresses they are all popularly elected.

Because the NPA and the ASA are instituted through democratic election, they are explicitly made responsible to the people and are subject to their supervision. No organisation in Egypt enjoys more power than the National People's Assembly (the parliament), which may amend the constitution; make and amend laws; nominate the president and then refer the nomination to the people for a plebiscite; declare war and make peace; and approve the national economic social development plan, the state budget and the final state accounts. The NPA holds its plenary session once a year and its representatives are elected for a term of five years.

Parliament has played a larger role in political life since the introduction of a multi-party system in Egypt in 1974. The Assembly's investigatory role has been particularly important. However, despite this role, parliament has little jurisdiction in major policy decisions.

At present, there are six political parties, each representing a specific segment of the population. The current ruling party is the National Democratic party, with 348 seats out of 448 seats.

5.3 Social Variables and Cultural Attitudes

The dominant variables which influence the attitudes, values, and beliefs of the Egyptian people are their religion and family interrelationships.

5.3.1 Religion

A major influence on the attitudes, values, and beliefs of the Egyptian People, of whom 95% are Muslims, is their religion, Islam .

Islam literally means submission to the will of God (**Allah**). The " Quran " revealed by Allah to his Prophet, Muhammad and the " explanations and illustrations furnished by the prophet" (**sonna**) together constitute the basis of the **Shari'a** (Islamic Laws). The **Shari'a** is not, therefore, a constitutional system but an ideal of conduct to be followed by Muslims and a legal code which deals with everyday life. This means that Islam is a religion, a culture, and a state

(Berger, 1970, p.2].

Islam makes no separation between religious beliefs and practices, and political activities. Since a Muslim is considered as God's "vicegerent upon earth," (Khan, 1962, p.77), an Islamic political leader (*Khalifa*) speaks with the authority of God, and thus demands the loyalty of Muslims. However, the concept of *Shura* (like democracy in developed countries) requires the Islamic leader to be elected by all the Muslim community (*Umma*). The *Khalifa* is immune from judicial action in respect of the discharge of his public duties, but in his private capacity as a citizen, he is subject to the same judicial process as any other Muslim [Ibid., p. 160].

According to Islam, absolute ownership of everything belongs to God alone [Khan, p.150]. Legal ownership by the individual, that is, the right of possession, enjoyment, and transfer of property, is recognised, but all ownership is subject to the moral obligation to share wealth [Ibid.]. Zakat, a kind of wealth tax, is largely enforced, but Islam also encourages voluntary sharing of resources.

Various kinds of trade and business organisations are permitted, but Islam regulates their conduct. A major feature is the prohibition against interest on loans, though interest-free loans *quroud hassanh* are encouraged. Profit-making is not frowned on, and work is encouraged.

5.3.2 Family Interrelationships

As in most agrarian societies, family interrelationships play a fundamental role in the culture. The father, as the head of the family, is responsible for the family's welfare and ultimate authority rests with him. This authoritarian role has influenced attitudes to both age and rank, leading to dependence on superiors in decision-making [Berger, 1962, p.135].

Family wealth and prestige are important in obtaining jobs, as in many other areas. Thus, managerial positions are not always filled on merit but by those with social and political power.

5.3.3 Cultural Attitudes

Egypt's culture has traditionally encouraged fear and blind obedience of superiors, with top-down management structures, and curtailed initiative at the lower level of the organisational hierarchy [Sheriff, 1967, p.5].

The tremendous demand for managers since 1952 was met largely by recruiting army and police officers who lacked training and experience. Civilian managers were chosen for their political loyalty rather than for their managerial ability [Langenderfer, 1965, pp.47-50]. If any conflict arose between loyalty and efficiency, loyalty was preferred [Barker, 1978, p.180]. This selection of inefficient management personnel has been detrimental to Egypt's economy and created dissatisfaction amongst the educated. In the

early 1970s, a serious campaign led to the adoption of the maxim, " The right man in the right place".

The Egyptian social environment has influenced attitudes toward work in other ways. For example, an Egyptian engineer hesitates to work in the field where he might need to wear overalls and dirty his hands, even though such work requires his skills.

Fatalism has also hindered individual and national economic achievement, creating a belief that future planning is unnecessary. However, more recently, high growth rates and social mobility have given rise to new classes, mostly from humble origins, who are much more conscious of the value of time, have more respect for manual labour and much greater admiration for modern technology [Meed, 1987, p.43]. Thus genuine economic progress is now possible.

5.4 The Economic Structure

Egyptian economic and social progress is founded on popular control over all means of production, by which it is hoped to increase the standard of living, and build a prosperous, just society. Such control can be achieved in two ways: the creation of an efficient public sector, capable of bearing the main responsibility of the development plans; and the existence of a private sector which would, without exploitation, participate in the development and execution of these plans.

Economic planning in Egypt aims to increase national

income at a rate which exceeds the natural growth of population, to broaden the scope of heavy industry , and to extend agriculture.

5.4.1 Historical Economic Features

Egypt's major strategy for development is the "big push". Whereas the "incremental pull" relies essentially on free markets and the price system, the "big push" favours government intervention in the allocation of resources, in the belief that the price system is not an effective means of rapid economic development. Egypt has committed itself to governmental intervention of this kind, and to a series of comprehensive five-year development plans.

The first major planned development effort began in 1957. Its primary objective was to dispense with foreign borrowing and achieve a balance-of-payments surplus, and to increase the annual rate of growth of industrial production from 6 per cent to 10 per cent per annum over the plan period. Unfortunately, however, these objectives were not attained because of deep-seated economic and administrative problems, and the burden of wars. Egypt is still heavily dependent upon foreign borrowing. The current plan covering the period 1987/88-1991/92, seeks primarily to strengthen its sources of foreign income and to reduce its external borrowing. To achieve this, the Plan assigns top priority to six major areas:

(1) Achieving the maximum possible growth rate, consistent with the objective of reducing the imbalance in external

equilibrium.

(2) Supporting the balance of payments to prevent further deterioration to the external equilibrium, through the control of domestic demand, increased exports, and import substitution efforts.

(3) Assisting leading non-petroleum sectors in an attempt to adjust the national product structure.

(4) Improving production, with more reliance on efficiency and utilisation of idle capacity, in order to achieve targeted growth rates.

(5) Encouraging participation of the private sector.

(6) Increasing the efficiency of social development services.

The economy at present has too many bottlenecks and too few financial resources. It is burdened by a severe trade deficit, a low rate of domestic savings, a rate of domestic growth inadequate for the rapidly increasing population, a very heavy external debt service burden and a chronic shortage of foreign exchange, all of which hamper the import of intermediate goods needed to stimulate the industrial production central to Egypt's development plan.

The current five-year plan aims at achieving an annual growth rate of 5.8%, compared with the 8% of the previous plan. It also calls for gross domestic product to increase to L.E. 54,400 million in 1991/92 from L.E. 40,800 million in 1986/87. Total investment over the life of the plan is projected to reach L.E. 46,500 million, including L.E. 18,000 million from the private sector.

The plan has encountered serious problems through its inability to raise the finance for its projects.

It is imperative, therefore, that the country strengthens its foreign exchange earning capacity in order to overcome its external debt problems and to meet the needs of its heavily subsidized domestic economy.

5.4.2 An Overview of Some Major Development Aspects Between 1952 and 1973

5.4.2.1 Agriculture, structure and policy

After 1952 the Revolutionary government was concerned to improve the Egyptian economy through an increase in agricultural production to be achieved by some important changes such as land reform, and the High Dam project.

There were several aims behind the land reform law. Primarily it aimed to correct imbalances and redistribute land ownership in Egypt, while economic development requirements necessitated land reform to increase agricultural output in order to permit the industrial sector to develop.

Particularly significant in the 1960's was the High Dam project which greatly changed the agricultural system in Egypt. The Egyptian government began to build the Dam in January 1960 with technical and financial assistance from the Soviet Union. The Dam produced an additional 1.2 million feddans of agricultural land, changing irrigation systems especially in the Upper Egypt from a basin to a permanent

system, and increased the cropped areas by nearly 850,000 feddans.

In 1958 the government created the General Co-operative Organisation, consisting of co-operatives organised and supervised by the Ministry of Agriculture [Issawi, 1963, p.163]. The important activities of these co-operative societies for the farmers are: (1) providing loans, seeds, fertilizers, livestock; (2) introducing new methods of production and marketing; and (3) modernising social services in the rural areas.

However, in spite of the significance of the agricultural sector which accounted for 30 percent of GDP, the real rate of growth of production in this sector was estimated at only 1.7 percent per annum between 1965-1973 [Saliman, 1976, p.582]. Also the total increase of land cultivated was estimated at 10 percent while, the total population increased by about 80 percent (18 million) during 1952-1976 [El-Gritly, 1977, p.295].

5.4.2.2 Industrial/Economic Growth and Nationalisation

Although the government gave particular attention to the agricultural sector in the first stages of the revolution, industrialisation was also viewed as the solution for economic problems. The Government, therefore, redefined its industrial objectives in the first Five-Year Plan of 1959-1965. To quote the five year plan:

While agriculture is considered as the framework of the whole of production, industry is considered

as the only path to economic progress and continued development.

By 1972 the output from industry was estimated at L.E. 1,876 million, a rise of 3.6 percent over 1971, brought about by increases in manufacturing, petroleum and electricity output of 3.6 %, 5.4%, and 0.7 % respectively.

Economic growth was unstable between 1956 and 1973 as a result of the 1956 crisis and the 1967 war which caused sharp declines in the rate of production in the agricultural and industrial sectors. This fluctuating economic growth also resulted from nationalisation policies, which started after the 1952 revolution in the agricultural sector. However, the nationalisation of the Suez Canal Company in 1956, was followed by laws which Egyptianized, in terms of both capital and management, the major commercial banks, insurance companies and commercial agencies of foreign trade.

In July 1961, laws 117, 118 and 119 nationalised a considerable amount of the non-agricultural sector including all remaining private banks, insurance companies, shipping companies and other basic heavy industries [Mabro, 1974, p. 73]. There had been 925 joint-stock companies. This was reduced by the nationalisation laws to only 30 companies. Equally significant was law no. 110 of 1961 whereby no individual could own more than L.E. 10,000 worth of shares in some 147 companies listed by law. Shares in excess of that amount would revert to the state [Salem,

1984].

To sum up, the government's economic influence in the period between 1952- 1973, can be divided into several stages. In the post-revolution stage, the government was passive and the economy was dominated by the private sector. A few years later the balance changed and the private and public sectors participated in economic development until 1959/1960. After 1960, the balance changed again, for the government then controlled most of the economic sectors through the nationalisation programme. Between 1967 and 1971, government policy changed with the aim of giving more chance to the private sector and to foreign investment through the adoption of new liberalization policies intended to improve the economic system and to establish the development process [Mabro, 1974, p. 77].

5.4.3 Developments From 1973 To The Present (The Period Of Liberalization)

From 1971, economic liberalisation accelerated and, following the October War of 1973, an " Open-Door Policy" was officially declared.

Its main outlines and objectives were to increase economic development through improvements in the public sector and the encouragement of the local private sector, as well as by foreign investment; to develop the economic structure through the adoption of scientific planning and modern technology; to modernise the administrative system and to reform the management of the public sector to

encourage local and foreign investment. The improvement of the legal environment and the provision of legislation to serve the new socio-economic strategy, the development of the education system in order to prompt and sustain the local manpower as well as improve other domestic services and ensure the basic needs and other social goals are fulfilled, were also major goals.

5.4.3.1 Changes in the Political Environment

Certain major factors stimulated the Egyptian government to adopt the liberalisation policy, *Al infitah*.

A. International Factors

After the October War of 1973 and the oil crisis, and also after Sadat expelled Russia's experts from the country, the USA tried to renew its influence in the Middle East generally. This new relationship between Egypt and the Western countries brought with it other economic cooperation, including, for example, the financial support of some international agencies, such as the World Bank and the International Monetary Fund (IMF). [Ayubi, 1982, p. 350]. That cooperation increased, especially after the peace agreement between Egypt and Israel in 1978 which encouraged the inflow of foreign capital and led MNCs to invest in Egypt as a consequence of its political stability.

B. Regional Factors

After the October war of 1973 and the oil boom in many Arab countries which increased their income from oil

revenues, Egypt was able to benefit from that "sudden wealth" to alleviate its economic crisis [Ayubi, p.350]. This was done through Arab aid and the encouragement of Arab investors to invest in the country. At the same time, the oil boom in some Arab countries led to an increase in their ability to attract and absorb more Egyptian workers and professionals to work there, their pay remittances also assisting in the recovery of the Egyptian economy.

C. Domestic Factors

The October War changed the Egyptian environment politically, economically and socially. Politically, the crossing of the Suez Canal into Sinai, encouraged the Egyptian leaders to take further steps towards a peaceful settlement in the Middle East.

Internally, the Egyptian government adopted its liberalisation policy to try to come to grips with a range of problems: growth of population, unemployment, inadequate housing, low income and standard of living, lack of infrastructure, bureaucracy, the increasingly alarming balance of payments and trade deficit, etc.

5.4.3.2 Changes in the Legal Environment

After Sadat's election in 1971, the government declared a "rectification movement" to strengthen links between the government, state and the people, stressing the "sovereignty of law", "individual freedom", and "the rule of law" [Roy, 1978, p.4]. All of these expressions, or more precisely, the

government's adoption of them, were aimed at encouraging both local and foreign investors to invest capital in the country.

The first of the new laws was law No. 65 of 1971, the main features of which were the encouragement of the private sector and foreign investment by provisions such as: (1) allowing capital repatriation after five years, in the original currency and at the prevailing exchange rate ; (2) allowing remittance of profits at the prevailing exchange rate; (3) allowing increases in foreign currency earnings to be used for payments for other imported material and machines; (4) granting tax concessions in relation to profits in the first five years; and (5) guaranteeing fair compensation in the event of nationalisation.

The General Authority for Investment and the Free Zones (GAIFZ) was established to study and investigate investment projects and their priorities for the country, to ascertain investors' needs, and to provide other information and facilities. The investment fields included in this law were tourism, advanced technical projects, housing, patents or trademarks, and services.

However, the most significant step was Law No. 43 of 1974 and its amendements in Law no. 32 of 1977. This prevented investment projects from being nationalised or confiscated, and extended tax exemption on capital and profits from five years to eight years.

5.4.3.3 Spheres of Economic Activity

(A) Industrial Activity and the Public Sector

The prospect of competition from foreigners and the private sector encouraged the government further to reform the public sector. It allowed the sale of shares up to 49% of the public sector companies, to improve their capitalisation, and dismantled the mu'assassat, the supervisory bodies that ran entire industries, to increase flexibility.

(B) Agrarian policy

The government policy also invited foreigners and Egyptians to invest in land reclamation as well as capital-intensive crops.

There was also an effort to allow free reign to market forces, various efforts were made to free land transactions, to raise rents and to make it easier to evict defaulters.

(C) Import policy

The government's increasingly liberal economic approach allowed an explosion of commercial activity, requiring the termination of government intervention in public and private sector operations.

Thus, to the aspiration that Egypt become a financial centre the government added the aspiration that it become a commercial centre.

(D) Housing and Construction

Rent controls were lifted, the general exemptions for

foreign investment extended and other concessions made on the repatriation of profits.

5.4.3.4 Evaluation of Economic liberalisation

So far the open door policy has produced few of the benefits the government projected but most of the negative impacts predicted by its opponents. On the side of production and investment, there was a shrinking of industrial activity as a percentage of economic activity. Arabs rushed into financial activities, tourism and luxury construction. Egyptians shifted their activities into the free zones to escape the socialist laws and into commercial activities to service the expanding international trade. Little industrial activity, let alone advanced technology, was even contemplated.

On the side of consumption, there was a rapid expansion covering all commodities, especially consumer goods which inundated the market. Since output was not adequate to meet the increasing demand, the operation was financed through deficits—first at home, then abroad. By 1987/88, the trade deficit was running at about one third of the GDP and debt service alone came to almost 66.2 per cent of GDP.

This appalling economic performance shocked even strong supporters of the policy.

(A) Investment and Production

Clearly the central focus of economic activity conducted under the liberalisation policy was anything but

industrial activity. Table 5-1 shows the distribution of foreign investment approved under the 1974 law.

Table 5-1
Investment In Egypt Under the Law 43 of 1974
at the mid of 1987

Type of Economic Activity	Location & Amount (000,000 LE)		Total Investment	
	Inland	Free zone	capital	%
Housing & building materials	1193	—	1193	16.2
Tourism	740	—	740	10.1
Finance projects	1750	425	2,175	29.7
Transport & storage	35	146	181	2.5
Textiles	276	21	297	4.1
Engineering & Metals	562	44	606	8.3
Chemicals	587	46	633	8.6
Mining	34	—	34	0.5
Food	282	22	304	4.2
Wood & Furniture	34	6	40	0.5
Agriculture	357	—	357	4.8
Services	540	229	769	10.5
Total	6,390	939	7,329	100.0

The table indicates that about 26.3% of inland and free zone investment, was in housing, tourism and construction. Financial undertakings accounted for another 29.7 per cent. Transportation and storage projects aimed at serving international trade accounted for another 2.5 %. Although such investments might provide some additional hard currency, they would not solve Egypt's economic problems.

Investment in industrial projects that might really affect the economy was minimal. Chemicals, engineering, etc., accounted for 17 % of the total, textiles for 4.1%, and food production for 4.2 % . .

As predicted by opponents of the open door policy, the Arabs engaged in financial activities, tourism, construction and building materials, while non-Arab capital was approximately the same in industrial and commercial activities, accounting for only 8 per cent (see table 5-2).

Table 5-2

The Distribution of capital
Registered in Egypt (the Mid of 1987)

	000,000 L.E.	%
Egyptians:		
Industrial	1769	27.7
Commercial & other activities	2721	42.6
Subtotal (1)	4490	70.3
Arab		
Industrial	230	3.6
Commercial & other activities	648	10.1
Total (2)	878	13.7
Foreign:		
Industrial	470	7.4
Commercial & other activities	552	8.6
Total (3)	1022	16.0
Grand Total (1+2+3)	6390	100.0

Egyptians, too, were attracted to commercial more than industrial activities, such as small transportation, storage and commerce projects intended to service the expanding international trade. A list of the companies formed by Egyptians by mid 1987 gives an indication of this bias:

Table 5-3
Projects Established under the 43 Law and
fully-owned by Egyptians at mid-1987

	Inland No.	Free zone No.	Total No.	%
<u>Industry:</u>				
Textiles	25	5	30	4.3
Engineering & Metals	37	7	44	6.2
Chemicals	34	7	41	5.8
Food	53	10	63	8.9
Wood & furniture	5	1	6	0.9
subtotal	154	30	184	26.1
Mining	3	—	3	0.4
Housing, Construction & Building materials	150	—	150	21.3
Tourism	53	—	53	7.5
Transport & Storage	2	76	78	11.1
Financial Projects	109	4	113	16.1
Agriculture & Animals	56	—	56	8.0
Services	55	12	67	9.5
subtotal	428	92	520	73.9
Total	582	122	704	100.0

Of 704 companies formed, only 26.1 percent were industrial. At least one-quarter and probably more than one half of the companies were concerned with internal commerce, tourism, and services. Of particular note is the absence of food companies. They account for less than nine percent of all companies and only one-third of the industrial companies. Thus, neither foreigners nor private sector Egyptians offered a solution to the problem of food production and processing.

Overall, there seems to have been a serious stagnation in output. Major industrial products such as textiles grew only slightly, while staple crops, such as cotton, beans, and millet were static or declined in production and

productivity increased little, if at all [CBE, 1988]. Moreover, export performance was poor. As a percentage of GDP, exports rose from 12.9 % in 1970 to 16.9 % in 1974, then fell back to 11.5 % in 1976, and rose again to 14.2 in 1988 [Ibid]. Little progress was made in manufactured exports, which remained a constant percentage of the total. Egypt's economy diversified a little, exporting fruits, vegetables, and petroleum as well as cotton, but the improvement was not great.

(B) Consumption and Imports

Modest increases in output were set against the more rapid expansion of consumption. Hence, the bulk of the increase in consumption had to be from imports (see table 5-4). Between 1973 and 1988 imports grew almost four-fold, rising from about 10 % of GDP to over 30 % .

Table 5-4
Total Imports, 1973-1988 (000,000 LE)

	1973	1978	1983	1988
Imports:				
Grain	68.2	309.4	695.2	1361.2
Other food	35.8	194.6	401.7	1145.1
Subtotal	104.0	504.0	1096.9	2506.3
Durables	7.3	173.4	476.9	690.1
Other	25.1	243.3	725.3	1041.5
Subtotal	32.4	416.7	1202.2	1731.6
Raw material & capital goods	237.0	1711.5	4893.6	12071.1
Total imports	361.1	2632.2	7192.7	16309.0
GDP	3611.0	9771.5	22225.0	46550.0
%	10.0	34.1	37.1	35.1

(C) Inflation, Finance, Foreign Debt and Fiscal Crises of the State

Lagging production and expanding consumption led to inflation and a massive deficit. Official figures on inflation (between 5% and 10% per year) are far too low. By 1986, the National Bank of Egypt abandoned the official figures; thus the consumer price index showed a rise in rural areas of 23.1 per cent and in urban areas of 27.9 percent. The National Bank's Consumer Price Index shows an average annual inflation rate of more than 17 percent for 1980-1987 (see table 5-5). The Economist estimated a rate of inflation somewhere between 25 per cent and 35 percent [The Economist, 1988, p.21].

Table 5-5
Annual Prices Changes (1980/1987)

Year	Consumer Price Index		Wholesale Price Index
	Urban	Rural	
1980	20.7	25.1	16.9
1981	10.5	13.6	9.1
1982	14.8	14.0	11.9
1983	16.1	30.0	11.6
1984	17.1	8.0	14.1
1985	18.0	14.3	13.4
1986	27.9	23.1	16.8
1987	13.5	8.7	9.4
Total	138.5	136.8	103.2
Average	17.3	17.1	12.9

Source: National Bank of Egypt, 1988.

By the middle of 1976, the external debt had become debilitating. The bulk of it was in the balance of trade deficit, which was 22 % and 17% of GDP in 1975 and 1976

respectively. In 1988 it became 8.9 % , the reduced imbalance reflecting a transformation in the structure of receipts. Invisibles, which were 27.2% of total receipts in 1972 and 31.9 % in 1974, rose to 75.6% in 1987 and 65.2% in 1988. A dependence on invisibles to close the trade gap is a difficult path for nations in strong positions, while Egypt was extremely "weak".

Even these figures do not fully reflect the magnitude of the problem. First, there was an asymmetry in payment and receipts. The majority of exports were to Eastern-bloc countries, while most imports were from the Western-bloc countries. Second, and partly as a result of this, Egypt was heavily in deficit in the short-term money market, particularly suppliers' credit. As a result, direct long-term investment from abroad was very small, estimated by the IMF to be less than 10 per cent in 1986/87. A significant part of Egypt's government-to-government loans were the worst type, short-term credits. Moreover, these figures did not properly reflect the magnitude of Egypt's military debt, possibly around two-thirds of the non-military debt. This may well have been consuming the apparent trade surplus with the eastern bloc, the primary supplier of weapons.

5.4.4 The Increasing Role of the Private Sector

5.4.4.1 The General Economic Policy

According to the Permanent Constitution of 1971 (amended by the Referendum of 1980) the economy of Egypt is one based on socialism, with the people controlling all means of production. In practice this means that the government

owns or controls practically every economic unit in the economy worth controlling [Europa Publications, 1990,p.385]. Such control can be achieved through [CAPMS, 1989, p. 222]:

First: The creation of a capable public sector that will ensure progress in all domains, and bear the main responsibility of the development plans.

Second: The existence of a private sector that would, without exploitation, participate in development and execution of the overall development plans.

The principal objectives of the planners with respect to private sector investment are that it should play a complementary role to public sector investment and, at the same time, be channelled into areas where it makes a positive contribution to national planning goals [Daniels, 1984, p. 122]. In general terms, this policy is based a clear strategy for economic development which focuses particular attention on social problems through the comprehensive planning of the public, private, and co-operative sectors. More specifically, it is stated that:

"While the economy is still heavily regulated by the state, steps are being taken to increase foreign and domestic investment in the private sector....President Mubark beleives that it would no longer be feasible to impose onerous burdens on the population as a consequence of the reform programme...the requirement for economic restructuring is being balanced with political decision to mitigate the social consequences of changes and president Mubark's approach to implementing different economic policies should prove successful in ensuring political stability over the short term"[ABECOR, June 1989].

Accordingly,

"There is no immediate intention, despite advice from the International Monetary Fund (IMF), to shift from the present economic structure based on a strong public sector and food subsidies for the poor"[ABECOR, March 1990].

5.4.4.2 National Investment Pattern

At the launch of the open door policy, private sector investment was under 10% of the total; it is now about one third. The following table 5-6 shows the increasing role of the private sector in the development plan during the period from 1973 until 1988.

Table 5-6
Participation of the Private Sector in the
Development Plan From 1973 up to 1988

	Public Sector		Private Sector		Total
	000,000	%	000,000	%	000,000
1973	427.1	91.5	39.6	8.5	466.7
1974	617.2	90.1	67.9	9.9	685.1
1975	1077.7	84.0	204.6	16.0	1282.3
1976	1168.3	79.4	302.8	20.6	1471.1
1977	1502.4	80.2	370.9	19.8	1873.3
1978	2212.3	82.5	472.5	17.5	2684.8
1979	2895.5	76.9	867.5	23.1	3763.0
80/81	3196.3	79.0	849.7	21.0	4046.0
81/82	491.0	79.2	129.0	20.8	620.0
82/83	5037.8	77.5	1460.8	22.5	6498.6
83/84	5368.6	78.7	1451.9	21.3	6820.5
84/85	5719.2	77.2	1688.8	22.8	7408.0
85/86	5760.7	73.4	2088.8	26.6	7849.5
86/87	5240.0	66.9	2595.0	33.1	7835.0
87/88	7713.5	72.5	2926.0	27.5	10639.5
	48427.6	75.7	15515.8	24.3	63943.4

Source:

- (1) For 1973-1979, see Salem, A., The State and the Public Sector in Egypt, 1985, p.75.
- (2) For 1980/81 to 1981/82, CBE, Annual Report, 1987, p. 3 & 28.
- (3) For 1982/83 to 1986/87, Social and Economic Five-Year Plan (1986/87-1991/92), Part 1, Tables 9 & 10, pp.41-2.
- (4) For 1987/88, CBE, Annual Report, 1988, p. 84.

This table indicates that the public sector takes the major share of national investments, averaging 75.5% during the period under consideration. However, the rise of the private sector share has been one of the features of

economic development since 1973. From no more than L.E. 39.9 mn (8.5%) in 1973, private sector investment reached L.E. 2.9 bn (27.5%) in 1988. In purely accounting terms it looks, therefore, as if the private sector has fulfilled the intended goal of the open door policy. Clearly, however, a real growth rate of 25% in private sector investment is not sustainable, unless wholesale revisionism has never been envisaged in public policy. It is, therefore, no surprise to see the private sector share of total investment, averaging 24.3% during the period from 1973 until 1988.

The current Five-Year Economic Development Plan (1987-1992) has allocated to the private sector investments which total L.E. 18 billion (representing 39%) from the total investments of the plan of L.E. 46.5 billion. The Plan indicates that there are no areas closed, a priori, to private sector participation, although certain areas will inevitably be excluded because operating conditions preclude profit making. The Plan also suggests that indirect planning of the private sector is to be in form of positive guidance, essentially by making available to potential investors necessary information on projects, location, and sectors where the private sector is considered to be of most benefit [The Five year Plan 1987/92, p. 480/507]. However, as predicted by the Press, it is very difficult for the private sector to finance its 39% share of national investment in the current development plan, due to several factors, some of which are:

(1) There was evidence, by mid 1989, that the loss of

confidence in the economy, resulting from the collapse of several Egyptian investment companies in late 1988, had led to a sharp decline in workers' remittances from abroad as well as private sector investment [Al-ahram, October 1990]. There are four or five major companies and more than 100 smaller ones, with 2 m-3 m. customers, which effectively constitute a large, unregulated financial sector in competition with the official banking institutions. The largest Islamic investment company, AL-Ryan, holds deposits of \$ 2bn.-3.5bn (more than all but the largest banks), and estimates of the combined deposits of all the Islamic companies are in the range of \$ 12 bn.-15 bn., compared with total commercial banks' deposits of \$ 15 bn. at the end of 1987 [Europa Publications, 1990, p. 395].

(2) One of the justifications for allowing and encouraging a greater share of investment to be channelled through the private sector has been the desire to mobilise and stimulate savings from the private sector, especially from small savers. Fear is, therefore, growing that the Gulf crisis may lead to a sharp decline in private sector investment in parallel to the sharp decline in remittances from workers in Iraq, Jordan, and Kuwait, and the decline of private sector receipts from exports [Al-ahram, october 1990].

All in all, although there is a policy designed to encourage the private sector, assigning to it a more active role in financing planned investments, the public sector remains the principal tool for economic and social development [CBE, 1987, p.1].

Table 5-7 shows the distribution of fixed capital investment between private and public sectors during the Five Year Plan (1982/3-86/7). Private sector investments, remain, however, unevenly distributed as between sectors: in petroleum, electricity and public utilities there is none, whereas investment in housing seems to be reserved for the private sector; more than half of the private sector investment goes to the housing sector (57.5%).

Table 5-7
Total fixed Investment 82/83-86/87 (000,000)

	Public Sector	Private Sector	Total	Public %	Private %	
Agriculture	770.6	1005.5	1776.1	43.4	56.6	10.9
Irrigation & drainage	1372.9	180.7	1553.6	88.4	11.6	2.0
Manufacturing & mining	6050.7	1722.8	7773.5	77.8	22.2	18.8
Petroleum & Products	1387.4	----	1387.4	100.0	----	----
Electricity	2624.5	41.7	2666.2	98.4	1.6	0.5
Construction	761.8	270.0	1031.8	73.8	26.2	2.9
Total Commodity Sector	12967.9	3220.7	16188.6	80.1	19.9	35.1
Transport , Storage & Communication	7218.9	371.5	7590.4	95.1	4.9	4.0
Suez Canal	368.1	-----	368.1	100.0	---	---
Trade	430.1	42.8	472.9	90.9	9.1	0.5
Finance & Insurance	88.3	21.7	110.0	80.3	20.7	0.2
Hotels & Tourism	270.6	180.5	451.1	60.0	40.0	2.0
Total Productive Ser- vice Sectors	8376.0	616.5	8992.5	93.1	6.9	6.7
Housing	246.0	5284.4	5548.4	4.8	95.2	57.5
Public Utilities	2893.9	-----	2893.9	100.0	----	----
Education	745.3	20.7	766.0	97.3	2.7	0.2
Health	467.6	33.4	501.0	93.3	6.7	0.4
Other Services	843.6	10.6	854.2	98.8	1.2	0.1
Total Service Sectors	5214.4	5349.1	0563.5	49.4	50.6	58.2
Total Fixed Capital	26558.3	9186.3	35744.6	74.3	25.7	100.0

Source: Social and Economic Five-Year Plan (1987-1992), pp.

For the service sectors, other than housing, the sector's contribution is seen as relatively insignificant—except in transport and storage and hotels and restaurants which are themselves minor sectors in investment terms. For the commodity branch as a whole, private sector investment represent 35.1% of its total investment, remaining, however, at one-fifth of that allocated to the public sector. Overall, the public sector's dominance is such that its pattern of investment largely determines the national pattern, which is divided more-or-less evenly between the commodity and services sectors.

5.4.4.3 Developments Under The Investment Law No. 43 of 1974

The Foreign Investment law 43 of 1974 was designed to create a gradual shift towards a more liberal private sector ; mainly in the form of joint-ventures (domestic, Arab, and foreign). Projects can be established either in Free Zones or inside the country. Table 5-8 shows the number of projects (inland & in free zones) which were established according to law 43 of 1974.

Table 5-8
Total Companies Established According to
The Law No. 43 of 1974 up to 30/6/1987

	No. of Projects	Issued Capital	Investment Costs
Inland Investment	1362	6.390	13.132
Public Free Zones	224	0.234	0.333
Private Free Zones	44	0.705	0.872
Total	1630	7.329	14.337

Source : General Authority For Investment (GAFI), Statistic Report, Cairo, Egypt, 1987.

Accordingly, the total number of projects established from 1973 up to the end of 1987 reached 1630, with a total capital of L.E. 7.3 bn. Internally-based projects totalled 1362, accounting for 83.8% of the total, and some L.E. 6.4 bn of total capital. Of the total capital for these investment projects, Egypt contributed some 70.3%, of which 22.3% was public sector and 48% private sector, while Arab capital amounted about 13.7%, and foreign capital amounted 16%, which shows that the establishment of these projects relied mainly on Egyptian capital (see table 5-9).

TABLE 5-9
The Distribution of the Total of Companies Established Under Law 43
of 1974 in the Private, Foreign and Arab ,and Public Sector

Country	Egypt		Arab		U.S.A		EEC Countries		Others		Totals	
	public sector	Private sector	Capital	%	Capital	%	Capital	%	Capital	%	Capital	%
Industrial	667	1102	231	9.0	139	5.5	209	8.5	121	5.0	2469	100
Financial	540	690	339	19.4	23	1.3	109	6.2	49	2.8	1750	100
Agriculture & Animals	78	194	49	14.0	5	1.0	10	3.0	20	6.0	356	100
Construction	19	556	60	9.1	4	0.7	10	1.5	7	1.0	656	100
Services	120	525	198	17.0	158	14.0	62	5.0	96	8.0	1159	100
Grand Total	1424	3067	877	13.7	329	5.0	400	6.0	293	5.0	6390	100

Source : GAFI, op.cit., 1987.

Free zones projects, public and private, approved up to the end of 1987 amounted to 268 with a total capital of LE 939 million of which the Arab and foreign portion was LE 649 million (69.2%), and the Egyptian portion (private & public) LE 290 (30.8%). 238 of these projects are already operational, with a total capital of LE 883 million (94%).

5.4.4.4 Development Under The Companies Law No. 159 of 1981

In 1981 law no 159 concerning the formation of joint-

stock companies, partnerships limited by shares, and limited liabilities companies, was passed. Prior to this law, the regulation of these forms of business was governed by law no 26 of 1954.

Joint stock companies are now governed by law no 159 of 1981. The number of companies established under the law up to the end of 1987 was 1100, with a total capital of L.E. 870.6 million. The number of joint-stock companies amounted to 654, with total capital of L.E. 808.4 million representing, 24.8 million shares, as shown in Table 5-10

Table 5-10
Companies Established According To Law No.159
Of 1981 from 8/11/1982 to 31/12/1987

Entity	No. of companies	Issued Capital	Shares M.S.
Joint-stock Co.	654	808.4	24.8
Limited liability Co.	443	61.0	_____
Partnership Co.	3	1.2	_____
	1100	870.6	24.8

Source : Capital Market Authority, February 1988.

Based on the above legal aspects, it may be appropriate to classify private sector companies into two categories: 1) joint-stock companies and, (2) private and personal firms such as joint liability partnerships, or limited liability partnerships.

Table 5-11 compares the number of enterprises and their capital in both public and private sectors. The Table indicates also that although the number of private sector companies increased rapidly since 1974, their capital represents only 22.3% of the total capital and 30% of the

total capital of the public sector companies. In addition, the contribution of the public sector in private sector capital reached 22.3%, as we saw from Table 5.9.

Table 5-11

	No.	Capital 000,000	%
<u>(1) Private sector</u>			
No. of companies established under the 43 Law:			
Inland & free zones	1630	7,329	20.8
No. of companies established under 159 Act	1100	871	2.5
Sub Total *	2730	8,200	23.3
<u>(2) Public sector</u>			
Large Scale-companies +	375	27,000	76.7
Grand Total		35,200	100.0

Source: * Tables 5.9 & 5.10
+ Al Ahram daily News Paper, 1988.

5.4.4.5 Control and Supervision of Private Sector Enterprises

According to the legislation, the following agencies shall exercise control and supervision over companies [NBE, 1987, pp. 230-35]:

- (1) General Authority for Investment and Free Zones: GAFI controls and supervise companies established according to the investment law 43 of 1974.
- (2) The Companies' Department and the Company formation Commission: these control and supervise companies established according to the company Act no. 159 of 1981.
- (3) The Capital Market Authority: this has extensive power of control and supervision, including: (a) decreasing formation and registration of companies, (b) appraising participation in kind within capital, (c) laying down supervision, control and inspection rules and, (d) taking action against companies that violate the law and its executive regulation.
- (4) The Ministry of Economy, whose powers include:
 - (a) Regulating the issue of foreign currency bonds, in

- agreement with the Central Bank of Egypt. (b) Deciding on applications for maintaining and transferring funds abroad. (c) contesting nominations of members of boards of directors, managing directors and managers.
- (5) The Council of Ministers, which is empowered to exempt certain companies from minimum and maximum limits of issued capital, lay down investment diversification criteria and promotions in different areas and prohibit placement in certain fields.
 - (6) The Central Accounting Organisation (the public sector professional body) which appoints one of the two auditors and may remove both at the request of the Capital Market Authority.

5.4.5 Developments in Financial Institutions

The outset of the 1952 regime found the Egyptian banking system divided into three main sectors; the purely Egyptian Misr bank; the partially and increasingly Egyptianized National Bank, which fulfilled many of the functions of a central bank and worked closely with the government, whilst maintaining a certain degree of independence; and branches of foreign banks or banks registered in Egypt but owned mainly by foreigners. In total, there were twenty-five registered commercial banks in Egypt [CMA, 1982].

This situation changed radically after 1956. Following the Suez Canal attack, British and French banks were sequestrated, and in January 1957, Law no. 22 stipulated that all commercial banks must take the form of Egyptian joint-stock companies with Egyptian majority shareholdings and with Egyptian management [Ibid.]. In 1960, the National Bank of Egypt and Banque Misr were nationalised. The Central Bank was segregated from the National Bank and the latter became an exclusively commercial bank. By 1961 all banking

institutions operating in Egypt were nationalised. The nationalization laws resulted in a series of mergers which reduced the number of commercial banks to four banks: The National Bank of Egypt, Banque Misr, Bank of Alexandria, and Banque of Caire. Table 5-12 shows the composition of the banking system in Egypt as at the end of 1973.

Table 5-12
Banks Operating in Egypt
As of December 31, 1973

1. Central Bank of Egypt	1
2. Public Sector Commercial Banks	4
a. Banque Misr	
b. National Bank of Egypt	
c. Banque of Caire	
d. Bank of Alexandria	
3. Public Sector Specialized Banks	3
a. Arab Land Bank	
b. Credit Foncier Egyptien	
c. Principal Bank for Development and Agricultural Credit	
4. Multinational Offshore Banks	2
a. Arab African International Bank	
b. Arab International bank	
Total	10

Source : Capital Market Authority In Egypt, 1982.

However, the investment law no. 43 of 1974 allowed foreign banks to enter the Egyptian market by forming joint ventures, as well as establishing branches. In addition, the amendments to law 43 allowed the establishment of wholly-owned Egyptian banks. At present, more than 107 banks are operating in Egypt of which 44 commercial banks are authorized to engage in a full range of banking activities in both the Egyptian pound and foreign currencies. Table 5-13 shows the composition of the banking sector at present.

Table 5-13
The Position of The Banking System
In Egypt As At The End of 1988

* Central Bank of Egypt (CBE)		1
* Public Sector Banks		25
Commercial banks	4	
Specialized banks	21	
* Banks Established in Compliance With Investment Laws		73
Foreign banks branches	22	
Investment and Merchant banks	11	
Commercial banks	40	
* Banks Established by Special Laws		5
Nasser Social Bank	1	
Faisal Islamic Bank	1	
National Investment Bank	1	
Export & Import Bank	1	
Arab Union Bank For Development & Investment	1	
* Banks Operating in Free Zones		1
* Multinational Offshore Banks		2
Grand Total		107

Source : 1. National Bank of Egypt, Economic Bulletin, 1988.
2. Central Bank of Egypt, Annual Report, 1987/1988

5.5 The influence of the socio-economic environment upon accounting in Egypt

5.5.1 Social Environment

The social changes discussed earlier in this chapter have certainly influenced accounting in Egypt over the years. Since the growth of Islamic influence, Arabic became the official language and all signs and legal documents in the country must be written in Arabic. However, the colonisation of Egypt by the British undermined this and the English language has been the second language in Egypt since 1882. Hence, many accounting letters, documents, rules, laws, and procedures have derived from those used in Great Britain. This colonisation also caused Egyptian accounting to be greatly influenced by British books, periodicals and

practitioners.

Another social change which has influenced accounting in Egypt is Islam. This has its effect on the question of interest, while Zakat (wealth tax) and the distribution of inheritances must be carried out in accordance with Islamic rules.

In modern times, new types of Islamic financial transactions have been introduced in Islamic Countries; for instance, the number of Islamic banks increased from 2 to 50 between 1975 and 1985. Accordingly, most Arab Countries have issued legislation regulating them and organising their relationship with the central banks.

This is especially true in Egypt, where Islamic banks have begun to operate in recent years, and where existing commercial banks have already devoted branches exclusively to Islamic dealings. In 1975, a special law, No 120 was passed for the establishment of the Faisal Bank which enjoys autonomous judicial status, with its seat in Cairo and the right to have branches and offices across the country. At present, the bank has many branches spread over most of the Egyptian governorates and big cities, and all of them function according to Islamic rules. [M. Abdel Aziz, February, 1988].

In addition, investment companies, especially the Islamic investment companies, have become a critical issue. The Islamic companies have proved adept propagandists in their own cause, and established powerful political connections. They have also succeeded in drawing deposits

away from the banking sector by providing a much higher return (i.e. 20-25%) on deposits than that offered by the banks, using these savings for pure speculation. In manufacturing, they corner the market for particular products, and insist on selling by instalments, increasing the selling price up to 50 per cent. The rapid growth in their size, total transactions and total capital investment, as well as the diversity of their activities, have encouraged the financial press, some individual economists and politicians, and the public in general to question their role in the economy, and to demand assurance that they are working in the public interest.

Mr A. Ibrahiem, Chairman of the Financial Operations Sector of the Capital Market Authority, stated in interview that the Capital Market Authority has already begun a study of these Islamic modes. He added that the investment companies, which tend to be more open about their projects and returns on capital than in their financial reporting, are looking to bring their activities into a more legitimate framework, after a period of great prosperity on the margins of the law. The study will, therefore, deal with the extent to which existing legislation corresponds to these modes, and the need to control them legislatively so as to ensure the protection of the public. For instance, the study intends to oblige these companies to submit to Central Bank supervision and abide by the banking regulations, and calls for depositors to be given shareholder status, with the right to attend general meeting and to inspect audited

financial statements.

Of course, the philosophy behind these companies will influence the accounting concepts, rules, terminology, and procedures which govern the transactions of this type of business enterprise. This is due to the fact that in Islamic economics, the policy of investment funding, with regard to profit, is based upon the principle of partnership and Musharaka in profit and loss proportionate to a given portion of the profit and not by lending or borrowing against a fixed rate of interest.

As mentioned earlier, family inter-relationships play a fundamental role in the culture of the people, and have had a decided impact on the behaviour of Egyptians. The relative wealth, power, and prestige of the family play a dominant role in obtaining jobs, education, and many privileges. As a result, a major problem in the field of accounting in Egypt, as well as in many developing countries, is that it is not recognized as a true profession by the majority of people. Therefore it does not attract high quality students; they prefer to study in more recognized fields such as medicine, engineering, and science.

However, the recent increase in demand for Egyptian accountants, especially in Arab Countries, the changes in the Egyptian labour market as a result of the Open Door Policy, and other economic problems in the country, have all prompted the government and people gradually to recognise the profession and its importance for economic

life. The traditional social ties with European countries since Mohamed Ali Basha have given Egyptians the chance to study accounting abroad and there has also been a spread of accounting education and training in Egypt.

Moreover, the adoption of socialism after 1952 released new forces. The willingness of Egyptians to become mobile and the entry of women into the labour market have created new sources of accounting manpower. Meanwhile, the introduction by Egyptian and multinational companies of technological innovations, such as accounting machines, software programmes and computers, has helped Egyptian accountants to improve their skills.

5.5.2 Economic and Political-Legal Environmental Influence

Economic, political, and legal factors have significantly affected accounting development in Egypt. During the 1940's and 1950's Egypt witnessed a boom in its private sector activities, and a corresponding development in its capital market transactions. This increased the need for the services of chartered accountants. Accordingly, accounting laws became vital in order to regulate accounting practices as well as the accounting profession. This led in turn to an increase in the number of local and international accounting firms in Egypt.

However, the far-reaching changes after 1952- the land reform, the nationalisation of the economy, the adoption of comprehensive planning, and the application of Arab Socialism - resulted in the growth of the public sector

which has gained a stronghold over the economy, and the development of new institutions, of new policies in society, and of new ways of allocating resources. These changes have had important implications for accounting and the accounting profession in Egypt.

It has become recognised that the principal benefits of accounting are:

- (1) to perform the attestation function which offers protection to society and lends credibility and confidence in its enterprises, state institutions, and national and local government authorities;
- (2) to play an important role in resource allocation in the planning of economic development, formulating and monitoring development plans, financing development projects, and supervising their management;
- (3) to enhance the role of accountants in the evaluation of social programmes.

These changes in accounting functions led to the issue of Law No. 129 of 1964, which established the Central Accounting Organisation (CAO) to control and audit the financial transactions of public sector enterprises and to secure consistency in accounting policies within the framework of a Uniform Accounting System. The CAO does not confine itself to traditional financial auditing but also undertakes performance evaluation, including programme auditing, efficiency auditing, and effectiveness auditing [Briston & El-Ashker, 1985, pp.146/48].

5.6 Summary and Conclusion

Central planning has become a very important economic administrative tool in Egypt, and there have been a number of plans, the latest covering the period 1987/8 to 1991/2.

The people's control over all means of production is seen as the main support on which economic and social progress is founded. The aim is to achieve this by enhancing the capability of the public sector, and by encouraging the private sector to participate in the formulation and execution of development plans.

Despite the growing size and role of the private sector in Egypt since the adoption of the open-door policy, it seems that for some time to come, development planning is the only way for Egypt to emerge from its socio-economic stagnation. Such development, to be successful, has to depend on an effective system of comprehensive and integrated information, an important part of which is accounting information. To that end, the Egyptian uniform accounting system should be improved and integrated and must be applied to private sector businesses, since they share the responsibility for development, which in turn will affect information needs for the development planning of the country.

CHAPTER SIX

CAPITAL MARKET IN EGYPT

6.1 Introduction

The importance of capital formation for economic growth and development, has been generally recognised. An examination of capital formation and the related capital market institutions is therefore needed, because accounting has a major bearing on the generation and channelling of financial resources. In this chapter, therefore, we focus on the nature and scope of capital markets; the resulting financing of micro-economic activities; and the function of accounting in these linked areas.

6.2 Structure of Financial markets in Egypt

The outstanding features of the capital market in Egypt are its complexity, its compartmentalization, its pattern and layers of financial intermediaries and the importance of official intervention in guiding financial flows and regulating the operation of the market. When compared to insurance companies and pension funds, deposit-taking institutions occupy an important position in the collection of funds. Long term credit institutions play only a small role in the collection of savings from the public: they acquire funds from other financial intermediaries. However, the importance of such credit institutions in the provision of finance has greatly increased since the mid-1970's, as a result of the economic open-door policy.

Until recently the securities market had languished, due to political uncertainties, problems arising from the tax system, and government restrictions. The equity market

has been of little significance, either in raising new money for companies or as a trading market. The bond market, however, has continued to be a major source of funds, especially for nationalized industries and special credit institutions, but the secondary market is weak. Industrial and commercial enterprises normally obtain their long-term finance from special credit institutions or the commercial banks.

Public regulation of the capital markets rests upon several factors, namely the ownership by the state of major financial institutions; the state's right to appoint the top managers of key financial institutions, state-owned or otherwise; and the state's detailed specification of activities in which such institutions can engage. The state also sets the level of interest rates on the money market and fixes the rates of interest which are available to the public through the key savings instruments.

Another major factor is the operation of pension schemes on a pay-as-you-go basis. This has naturally restricted the development of investing institutions handling long-term contractual savings, such as insurance companies and pension funds, and hence the market in equities and bonds. Other factors, such as tax conditions and relatively poor disclosure requirements, have also stunted the growth of the securities market.

The structure of the Egyptian financial market is

characterised by an extremely complex set of intermediaries which are responsible for channelling savings into investment.

Figure 6-1 suggests that the capital market in Egypt can be divided into two main areas, the money market and the capital market, with the capital market divided into : the market for long-term credit, excluding securities, and the securities market.

6.2.1 Money Market In Egypt

The banking system is the essential mechanism in the money market. It is the short-term transactions market where short-term credit is given by banks to borrowers in the form of commercial paper or funds borrowed on demand. The term of these financial commitments does not usually exceed one year.

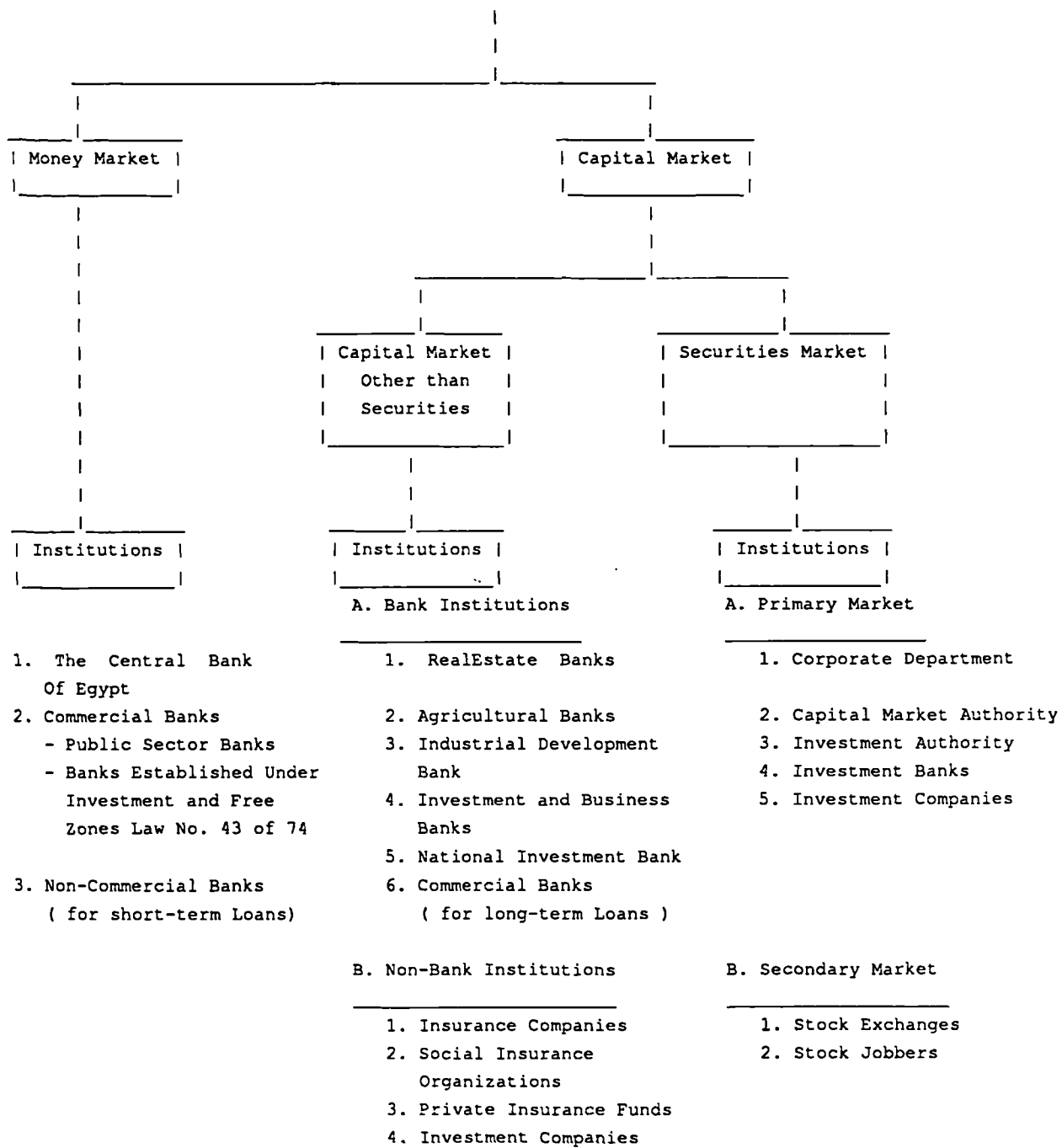
6.2.2 The Capital Markets

6.2.2.1 Loans Market

The loans market is similar to the money market, except that it is usually restricted to medium and long-term loans.

The term of such financial commitment usually ranges from seven to thirty years according to the type of economic activity and its contribution to the social goals of the nation. For example, the realstate banks extend long-term loans to finance the building of new towns and reconstruction projects. These loans may be extended over

Figure 6-1
Structure of The Capital Market In Egypt



long periods, sometimes up to 30 years. The majority are paid back in annual or biannual instalments, after a grace period to give the borrower an opportunity to complete the project and to secure revenue.

Institutions included in this market are divided into two main categories: banking and non-banking.

Some of the operations of these institutions come under the money market, as they are of a short-term character. For example, the agricultural banks in recent years have channelled a large portion of the agricultural sector's deposits, at both the individual and cooperative level, through village banks (which are in fact branches of agricultural banks in the governorates). These are short-term, current deposits, most of which do not exceed a year. On the other hand, a portion of the usage of agricultural banks is represented by credit facilities. These are for financing agricultural activities which are seasonal and thus short-term [Capital Market Authority, 1982].

6.2.2.2 Securities Market

The securities market can be divided into two main categories.

6.2.2.2.1 The Primary Market

The primary market deals with the issue of securities or shares at the time of the establishment of companies, or upon expansion.

The establishment of companies in Egypt comes under either the Companies Act No. 159 of 1981 or the Investment and Free Zones Law No. 43 of 1974. Table 6-1 shows the size of this market at the end of 1987.

The institutions which constitute this market are :

1. The Companies Department;
2. The Capital Market Authority;
3. The General Authority for Arab and Foreign Capital Investment;
4. Investment Companies and Banks.

Table 6-1

Size of the Primary Market In Egypt Measured in
Numbers of Companies and Their Capital
(Value in L.E. Millions)

Category	No.	L.E
1. Companies Established Under The Investment and Free Zones Law No. 43 of 1974		
a. Companies In Land	1362	6390
b. Companies in free zones	268	939
	1630	7,329
2. Companies Established Under The Companies Act No. 159 of 1981	1190	909
3. Mixed Sector Companies	30	110
	2850	8348

Source : compiled from various issues.

6.2.2.2.2 The Secondary Market

This market deals with transactions in securities after their issue, and consists of the following institutions :

1. The Stock Exchanges
2. The Securities Market Middlemen.

6.3 Source of Funds

6.3.1 Savings and Investment

The financial market is characterised by an extremely complex structure of intermediaries which are responsible for channelling savings into investment. These funds come from individuals or firms or from abroad. The main source of funds for the capital market is the domestic economy. The availability of these funds varies according to the way value added is distributed, GDP growth, the uses made of the GDP, and changes in the savings ratio of households.

The main savings and investment aggregates in relation to GDP are shown in Tables 6-2, 6-3, and 6-4.

Table 6-2
Sources and Uses of Output
(1978-1988)
(in Millions of L.E.)

	1978	1979	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88
Sources:										
GDP at Market prices	9771.5	12610.2	19209.8	20396.0	22225.0	23560.0	26417.0	28812.0	44050.0	46550.0
Imports	3331.5	5420.6	7280.7	8048.0	8250.0	8680.0	9209.0	9539.0	10920.0	10740.0
Total	13103.0	18030.8	26490.5	28444.0	30475.0	32240.0	35626.0	38351.0	54970.0	57290.0
Uses:										
Government Consumption	1840.6	2044.1	2826.4	3430.0	3758.0	5590.0	6513.0	7019.0	6330.0	6650.0
Private Consumption	6263.5	8338.2	13370.0	14427.0	15177.0	14945.0	15640.0	18668.0	34260.0	35635.0
Gross Fixed Capital	2637.8	3707.0	4779.0	4700.0	5300.0	5225.0	6405.0	5542.0	7700.0	8300.0
Changes in Stocks	416.1	593.0	230.0	100.0	-100.0	-50.0	90.0	175.0	450.0	100.0
Exports	1945.0	3348.5	5285.1	5787.0	6340.0	6530.0	6978.0	6947.0	6230.0	6605.0
Total	13103.0	18030.8	26490.5	28444.0	30475.0	32240.0	35626.0	38351.0	54970.0	57290.0

Source: Ministry of planning.

Table 6-3

Uses of GDP (1978-1988)

Year	1973	1978	1979	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88
Structure of GDP	100%	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Uses:											
Government Consumption	24.5	18.8	16.2	14.7	16.8	16.9	23.7	24.7	24.4	14.4	14.3
Private Consumption	62.6	64.1	66.1	69.6	70.7	68.3	63.4	59.2	64.8	77.8	76.6
Total Consumption	87.1	82.9	82.3	84.3	87.5	85.2	87.1	83.9	89.2	92.2	90.9
Gross Fixed Capital	17.6	27.0	29.4	24.9	23.1	23.9	22.2	24.2	19.2	17.5	17.8
Changes in Stocks		4.3	4.7	1.2	0.5	-0.5	-0.2	0.3	0.6	1.0	0.2
Balance of Exports over Imports	- 4.7	-14.2	-16.4	-10.4	-11.1	-8.6	-9.1	-8.4	-9.0	-10.7	-8.9
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Table 6-2.

Table 6-4

Savings Ratio in Egypt
(1976-1988)

Year	Savings Ratio as % of GDP	Investment Ratio as % of GDP	Gap Between Savings And Investment
1973	17.9	17.6	4.7
1976	13.4	28.2	10.7
1977	19.4	29.2	9.8
1978	17.1	27.0	9.9
1979	17.7	29.4	11.7
80/81	15.7	24.9	9.2
81/82	12.5	23.1	10.6
82/83	14.8	23.9	9.1
83/84	12.9	22.2	9.3
84/85	16.1	24.2	8.1
85/86	10.8	19.2	8.4
86/87	7.8	17.5	9.7
87/88	9.1	17.8	8.7

Source: CBE, 1988.

The trends which emerge from these tables are that, whilst public consumption, despite fluctuation, generally held in the range of 14-25 % of GDP, a jump on private consumption has led to generate a decline in the domestic savings ratio. The gap between investment and domestic savings has nevertheless widened; from 4.7 % in 1973 to 11.7% in 1979 it settled around 9 % of GDP at the start of the 1980's. Nevertheless, total investment has been boosted to an average of around 22 % of GDP.

Gross fixed capital formation by sector is shown in Table 6-5 for the years 1979-1987/8.

Table 6-5
Gross Fixed Capital formation
By Sector (1979-1988)

	1979	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88
	%	%	%	%	%	%	%	%	%
Commodity Sectors									
Agriculture	6.9	7.1	7.2	6.6	8.4	10.1	12.6	11.9	11.1
Industry	26.8	24.5	20.3	20.5	22.9	23.1	22.6	22.4	26.3
Petroleum	11.9	11.6	16.0	13.6	13.6	4.7	4.4	2.2	1.1
Electricity	6.2	9.2	5.9	7.5	8.1	7.8	8.0	7.2	8.7
Construction	4.3	3.6	3.8	3.1	2.9	2.4	2.4	2.3	2.5
All Commodities	56.1	56.0	53.2	51.3	42.3	48.1	50.0	46.0	49.7
Services Sectors									
Transportation & Communication	24.0	18.8	18.9	24.1	26.0	17.3	17.0	14.4	15.7
Finance & Trade	1.9	2.3	2.7	1.7	1.8	3.1	2.4	3.0	2.3
Housing	5.9	12.6	10.6	12.1	13.1	13.0	12.5	15.2	13.4
Public Utilities	4.4	5.7	6.2	5.0	8.8	8.2	8.4	7.7	8.5
Others	7.7	4.6	8.4	5.8	8.0	10.3	9.7	13.7	10.4
All Services	43.9	44.0	46.8	48.7	57.7	51.9	50.0	54.0	50.3
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CAMPS, June 1989 & National Bank of Egypt 1988.

A large amount of capital formation is attributable to the industry and agriculture sectors, reflecting the importance of these sectors in the economic development process. Capital formation by the public authorities includes the areas of education, health, the Suez canal, housing and infrastructure investment. This category rose from 43.9 per cent in 1979 to 50.3 per cent in 1987/88.

6.3.2 Flow of Funds and Sector Financing

Reliable information on the flow of funds in the Egyptian economy is not available. The chief disadvantages of published data are that it is aggregated and the non-financial private sector is consolidated. Thus there is no information on the flow of funds between individuals and incorporated enterprises. A flow of funds Tables for 1987/1988 is given below in Table 6-6 and Table 6-7.

Table 6-6
Sectoral Flow of Funds (Deposits)
in the Egyptian Economy at the end of 1988

Institutions	Commercial Banks		Investment banks		specialized Banks		Total	
	000,000 LE	%	000,000 LE	%	000,000 LE	%	000,000 LE	%
<u>By Sector</u>								
1. Government Sector	4520	92.2	127	2.6	253	5.2	4900	10.0
2. Public Sector Co.	5958	93.0	445	7.0	2	—	6405	13.1
3. Private Sector Co.	6369	77.8	1442	17.6	372	4.6	8183	16.8
4. Household Sector	23788	87.6	2674	9.8	689	2.6	27151	55.7
5. Foreign Sector	452	21.3	1664	78.5	3	0.2	2119	4.4
Total	41087	84.3	6352	13.0	1319	2.7	48758	100.0
<u>By Activity</u>								
1. Agriculture Sector	329	56.6	64	11.0	188	32.4	581	1.2
2. Industrial Sector	5752	92.2	368	5.9	118	1.9	6238	11.5
3. Trade Sector	4150	82.8	807	16.1	58	1.2	5015	10.3
4. Service Sector	5341	91.7	476	8.2	10	0.1	5827	12.0
5. Other	25515	82.0	4637	14.9	945	3.1	31097	65.0
Total	41087	84.3	6352	13.0	1319	2.7	48758	100.0

Source: Compiled from different issues.

Table 6-7
Sectoral Flow of Funds (Loans)
in the Egyptian Economy at the end of 1988
(in Millions of L.E.)

Institutions	Commercial banks		Investment Banks		Specialized banks		Total	
Sectors	Amount	%	Amount	%	Amount	%	Amount	%
<u>By Sector</u>								
1. Government Sector	3906	65.7	829	13.9	1208	20.4	5943	16.9
2. Public Sector Co.	7149	95.2	345	4.6	16	0.2	7510	21.3
3. Private Sector Co.	11600	62.8	3661	19.8	3211	17.4	18472	52.4
4. Household Sector	616	64.3	138	14.4	204	22.3	958	2.7
5. Foreign Sector	402	17.2	1934	82.7	2	0.1	2338	6.7
Total	23673	67.2	6907	19.6	4641	13.2	35221	100.0
<u>By Activity</u>								
1. Agriculture Sector	734	24.0	97	3.2	2230	72.8	3061	8.7
2. Industrial Sector	8570	83.1	1071	10.4	668	6.5	10309	29.3
3. Trade Sector	9019	81.8	1982	18.0	26	0.2	11027	31.3
4. Service Sector	5019	63.1	1430	18.0	1505	18.9	7954	22.6
5. Other	331	11.5	2327	81.1	212	7.4	2870	8.1
Total	23673	67.2	6907	19.6	4641	13.2	35221	100.0

Source: Compiled from different issues.

Several facts stand out from the Tables: firstly, the dominance of the "banking sector" and secondly, the fact that the commercial banks are collectively the most important type of financial institution in Egypt. This is because the banks have recently become heavily involved in the Egyptian-dollar market which mainly concerns entrepot business: borrowing and lending abroad.

The weakness of the equity market and the fall in the self-financing ratio have placed Egyptian companies more firmly than ever in the hands of the banks and special credit institutions. Several factors have caused this: the explosion of credit facilities available at the banks

following the adoption of the open door policy in 1974; the beneficial effect which higher gearing can have on profitability; the effect of inflation which devalues the real cost of loan repayments; and the fact that interest payments are allowable business expense for tax purposes.

6.4 Financial Institutions In Egypt

In general , by " financial institutions" or" financial system" we mean all the channels through which money flows among individuals, institutions, and sectors within an economy. The first group represents those who have a financial surplus and wish to give it up for varying periods of time . The second group represents those who need such money for a certain period of time. The flow of such money through these channels is effected in accordance with certain policies and through various financial tools.

The channels through which the money flows within a society constitute its financial system, and are called" financial intermediaries"; these institutions will differ in accordance with the financial terms on which they operate, the financial tools they employ, and the policies they apply.

Financial institutions in Egypt can be divided into two main categories: banking institutions and insurance companies and pension funds. In addition, the government plays a direct role as a quasi-financial institution, in that it both receives deposits entrusted to the post office

and pension funds and it provides medium to long term loans through the Central Bank of Egypt and the National Investment Bank.

The reasons for the existence of so many separate types of institution reflect the chequered development of the banking system in Egypt since 1868. Institutions either grew up separately and in a fragmented fashion to serve the needs of particular classes (those with capital to invest, farmers, Islamic groups, and the working classes) or they were set up by the state to channel investment funds into priority areas and to protect depositors from some of the more doubtful types of bank and the risks of long term investment.

6.4.1 The Banking System in Egypt

The banking system is the essence of the money and capital markets in Egypt [Ibid.]. It is based on law no.163 of 1957 (Banks and Credit law), law no. 43 of 1974 (Arab and Foreign Capital Law), and law no. 120 of 1973, which organises both the Central Bank of Egypt and the working banks.

The banking system is regulated and controlled by three supervisory authorities: the Central Bank of Egypt, The National Credit Council, and the Fund Control Commission, all of which are ultimately responsible to the Ministry of Economic and International Co-operation and to the President of the Republic.

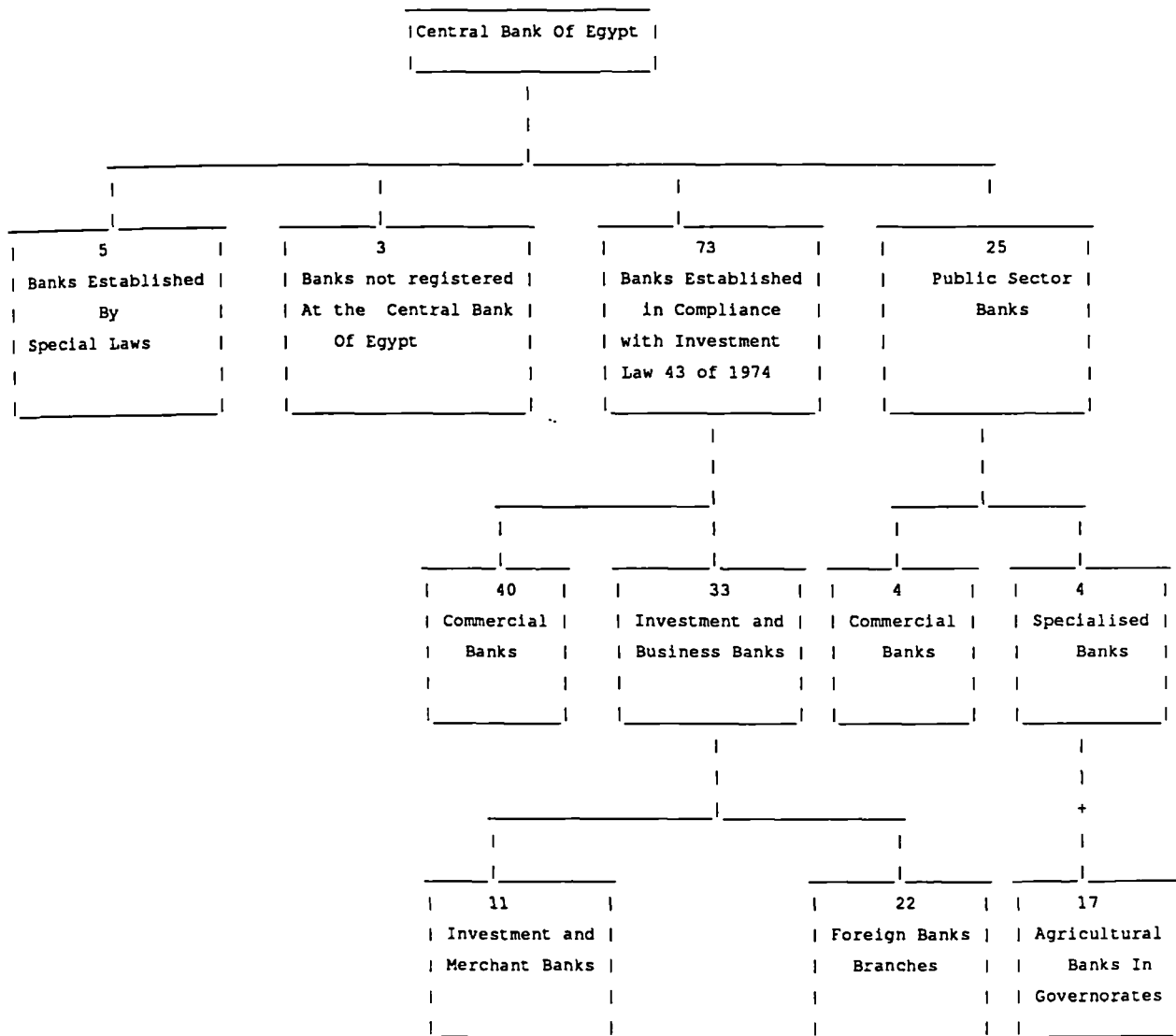
Before the adoption of the "open door" policy in 1974, the banks were very restricted by the government in the number of branches they were allowed to open; a factor which operated against the channelling of individual and household savings. Registered banks were also compelled to observe minimum lending rates and maximum borrowing rates of interest. The legal requirements of the Central Bank of Egypt prevented them from offering time deposits of more than 3-5 years' duration. They were, therefore, unable to develop long-term lending or borrowing resources. In addition, banks were required by the Central Bank of Egypt to give priority to short-term loans or credit which was rediscountable at the Central Bank.

The banks' interest margins were fixed within very tight limits, making profits on banking operations hard to achieve. The extreme rigidity of these controls over the banks was increasingly attacked as Egypt's economy recovered and expanded, especially as it interfered with the fluctuation of short-term interest rates as an instrument of monetary policy.

In recent years, the banking system in Egypt has become modern, comprehensive, and comparable to international standards. Figure 6-2 shows the present structure of the banking system in Egypt as at the end of 1988.

Figure 6-2

The structure of the Egyptian Banking System
 As At the End of 1988,
 (Total number 107 banks)



6.4.1.1 The Central Bank of Egypt

Subject to the Credit and Banks Law no. 163 of 1957 and the Central Bank and Banking Organ Law no. 120 of 1975, the Central Bank oversees the money market, tries to preserve order in the financial system and controls the supply of credit. It also designs and executes policies aimed at monetary equilibrium and economic stability.

The Central Bank is the sole bank of issue. It holds relatively small quantities of government bonds compared with most commercial banks, but it exercises close control over the activities of all other banks and financial institutions. In particular, it has an active role to play in the refinance of short-term loans provided by the government to nationalised industry. For instance, the government deposits its surplus in the Central Bank; when its resources fall short of its expenses the government borrows from the Central Bank until resources are available. To effect such short-term loans, the government issues Treasury Bills to which the Central Bank subscribes.

The Central Bank also insists that commercial banks should observe certain ratios in their holdings of assets, including discountable paper. It maintains a central risks register, a form of credit information exchange available to all credit institutions, and monitors the financial position of commercial banks and other banking institutions. Commercial banks (and other financial institutions, under certain conditions) deposit their surplus money with the

central banks whether voluntarily or compulsorily. The compulsory deposits are at present calculated as 25% of the total deposits of each bank [CBE, 1988]. In addition, the Central Bank offers refinancing facilities on preferential interest terms to authorised credit institutions.

6.4.1.2 Commercial Banks

Since 1974, commercial banks have enjoyed a steady growth in terms of numbers, total assets, and services offered. At present there are 44 commercial banks operating in Egypt, of which only 4 are public and the rest are joint and private banks. In the last three years , total assets of commercial banks have increased by around 30% annually, to reach L.E. 59.7 billion at the end of June 1988. The aggregate financial position of the public sector banks represented 63.7% of this total.

Table 6-8 shows deposits with commercial banks by sector and types of activities, whilst table 6-9 indicates loans granted by commercial banks by both sector and activity. Table 6-8 indicates that the household sector continued to account for the larger part of deposits , while the proportion of public sector companies' deposits retreated marginally from 15.5% to 14.5, and that of the government sector from 11.7% to 11% . The share of private sector companies was almost stable, at around 15.5%. Analysis of deposits according to economic activity reveals that the deposits of the industrial sector expanded, while

in the agricultural sector, deposits stepped up but the ratio of their share to total deposits remained unchanged.

Table 6-8
Analysis of Deposits With Commercial Banks
By Sector and Type of Activity
(Value in L.E. Millions)

	June		June		June		Change + (-)			
	1986		1987		1988		86/87		87/88	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
First: By Sector										
1. Government Sector	3321.0	12.4	3610.6	11.7	4519.6	11.0	289.6	8.7	909.0	25.2
2. Public Sector Co.	4308.6	16.0	4767.8	15.5	5957.6	14.5	459.2	10.7	1189.8	25.0
3. Private Sector Co.	4126.7	15.3	4798.9	15.5	6368.5	15.5	672.2	16.3	1569.6	32.7
4. Household Sector	14879.8	55.4	17336.2	56.3	23789.3	57.9	2456.4	16.5	6453.1	37.2
5. Foreign Sector	239.1	0.9	299.5	1.0	452.0	1.1	60.4	25.3	152.5	50.9
Total Deposits	26875.2	100.0	30813.0	100.0	41087.0	100.0	3937.8	14.7	10274.0	33.3
Second: By Type of Activity										
1. Agricultural Sector	221.1	0.8	244.7	0.8	328.7	0.8	23.6	10.7	84.0	34.3
2. Industrial Sector	3634.7	13.5	3999.7	13.0	5752.2	14.0	365.0	10.0	1752.5	43.8
3. Trade Sector	2763.4	10.3	3147.5	10.2	4149.8	10.1	384.1	13.6	1002.3	31.8
4. Services Sector	3653.5	13.6	4114.8	13.3	5341.3	13.0	461.3	12.6	1226.5	29.8
5. Other	16602.5	61.8	19306.3	62.7	25515.0	62.1	2703.8	16.3	6208.7	30.0
Total	26875.2	100.0	30813.0	100.0	41087.0	100.0	3937.8	14.7	10274.0	33.3

Source: Central Bank of Egypt, Annual Report, 1987 & 1988.

Table 6-9 shows that loans and advances increased by L.E. 3522 mn (17.5%) to reach L.E. 23,673 mn at the end of June 1988 against L.E. 2156.5 mn (12.0%) in 1987, representing 57.6% of total deposits. Analysis of loans by sector reveals that private sector companies secured the largest share, 48.9%, followed by public sector companies with 30.2%. The government sector had 16.5%, the household

sector 2.6%, and the foreign sector 1.7%. In addition, analysis of loans by type of activity indicates that the business sectors held 98.3% of total loans at mid 1988; the trade sector received 38.1% (against 37.3%), the industrial sector 36.2% (against 34.8%), the service sector 21.2% (against 20.5%), and the agricultural sector 3.1% (against 2.8%).

Table 6-9

Analysis of Loans Granted By Commercial Banks
By Sector and Type of Activity
(Value in L.E.Millions)

	June		June		June		Change + (-)			
	1986		1987		1988		86/87		87/88	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
First: By Sector										
1. Government Sector	4023.3	22.4	4250.0	21.1	3906.0	16.5	216.7	5.6	(344.0)	(8.1)
2. Public Sector Co.	4658.6	25.9	5362.0	26.6	7149.2	30.2	703.4	15.1	1787.2	33.3
3. Private Sector Co.	8611.8	47.9	9752.0	48.4	11599.8	49.0	1140.2	13.2	1847.8	18.9
4. Household Sector	528.5	2.9	527.5	2.6	615.5	2.6	(1.0)	(0.2)	88.0	16.7
5. Foreign Sector	172.3	0.9	259.5	1.3	402.5	1.7	87.2	50.6	143.0	55.1
Total Deposits	17994.5	100.0	20151.0	100.0	23673.0	100.0	2156.5	12.0	3522.0	17.5
Second: By Type of Activity										
1. Agricultural Sector	481.3	2.7	559.9	2.8	733.9	3.1	78.6	16.3	174.0	31.1
2. Industrial Sector	5992.1	33.3	7026.2	34.8	8569.6	36.2	1034.1	17.3	1543.4	22.0
3. Trade Sector	6568.0	36.5	7501.3	37.3	9019.4	38.1	933.3	14.2	1518.1	20.2
4. Services Sector	3567.5	19.8	4137.4	20.5	5018.7	21.2	569.9	16.0	881.3	21.3
5. Other	1385.6	7.7	926.2	4.6	331.4	1.4	(459.4)	(33.2)	(594.8)	(64.2)
Total	17994.5	100.0	20151.0	100.0	23673.0	100.0	2156.5	12.0	3522.0	17.5

Source: Central Bank of Egypt, Annual Report, 1987 & 1988.

6.4.1.3 Investment and Business Banks

These classes of banks were introduced by virtue of Law no. 120 of 1975, under which , investment and business banks are defined as those banks conducting business in those fields related to the collection and development of savings for investment purposes, in accordance with the economic development plans and national economic policies. These banks may invest directly or through established companies in various economic activities. Some of them operate as Egyptian joint-stock companies, whilst others are merely branches of foreign banks, which are therefore prohibited from dealing in local currency.

At present, there are 33 investment and business banks operating in Egypt, of which 11 are joint venture and private sector banks and the remainder are branches of foreign banks. Table 6-10 shows the aggregate financial position of this group of banks.

The aggregate position suggests that this group of banks does not fulfil its intended role in the accumulation and development of savings and the support of investment activities. This is based upon the following observations:

1. The acquisition of securities by these banks is limited. Such acquisition should serve as a source of financing investment projects whether in the form of shares or bonds. In fact their acquisition of securities amounts to less than 4% of their total assets.
2. Most of the deposits with these banks are short-term

deposits (75%) which are withdrawn in less than one year. Similarly, most of the loans and credits (70.6%) are payable over a period of one year. This means that the majority of these banks operate in the money market rather than the capital market.

3. The amounts used in providing loans and credit and in acquiring securities, are less than 50% of their total available resources , which is regarded as rather low.

Table 6-10
Aggregate Financial Position of Investment and
Business Banks as on June 30, 1988.
(Value in L.E. Millions)

	June 1986	June 1987	June 1988	Changes +(-)			
				1986/1987		1987/1988	
				Amount	%	Amount	%
Assets							
Cash	80.6	65.8	109.8	(14.8)	(18.4)	44.0	66.8
Securities & Investment	361.1	399.6	569.6	38.5	10.7	170.0	42.5
Due on Banks in Egypt	1542.9	2024.9	2753.9	482.0	31.2	729.0	36.0
Due on Banks Abroad	2286.7	2427.0	3556.0	140.3	6.1	1129.0	46.5
Total Loans	4302.6	5124.8	6906.8	822.2	19.1	1782.0	34.8
Other Assets	1033.8	1085.4	2153.4	51.6	5.0	1068.0	98.4
Total Assets	9607.7	11127.5	16049.5	1519.8	15.8	4922.0	44.2
Liabilities							
Equity Rights	689.6	962.0	1383.0	272.4	39.5	421.0	43.8
Provisions	415.0	651.5	1237.5	236.5	57.0	586.0	90.0
Bonds & Long Term Loans	11.8	14.5	15.5	2.7	22.9	1.0	6.9
Due to Banks In Egypt	2080.9	2549.7	3048.7	468.8	22.5	499.0	19.6
Due to Banks Abroad	2162.7	1905.6	2121.6	(257.1)	(11.9)	216.0	11.3
Total Deposits	3095.1	3893.4	6352.4	798.3	25.8	2459.0	63.2
Other Liabilities	1152.6	1150.8	1890.8	(1.8)	(0.2)	740.0	64.3
Total	9607.7	11127.5	16049.5	1519.8	15.8	4922.0	44.2

Source: Central Bank Of Egypt, Annual Report, 1987 & 1988.

However, it is argued that the reasons behind this are, firstly, that these banks are relatively new bodies and therefore need experience to estimate the risks involved in long-term financing. Secondly, these banks do not easily find investment projects which are worth financing or which should be accorded top priority in view of their impact on the national economy [CMA, 1987, p. 18].

Table 6-11 shows deposits with these banks by sector and activity, whilst table 6-12 illustrates loans granted.

Table 6-11

Analysis of Deposits With Investment and
Business Banks By Sector and Type of Activity.
(Value in L.E.Millions)

	June 1986		June 1987		June 1988		Change + (-)			
							1986/87		1987/88	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
First: By Sector										
1. Government Sector	73.9	2.3	77.1	2.0	127.0	2.0	5.8	8.1	49.9	64.7
2. Public Sector Co.	314.3	10.3	305.4	7.8	444.7	7.7	(12.7)	(4.0)	139.3	45.6
3. Private Sector Co.	880.3	28.3	973.9	25.0	1442.0	22.1	97.7	11.2	468.1	48.1
4. Household Sector	1632.6	52.8	1731.6	44.5	2674.4	42.2	96.1	5.9	942.8	54.4
5. Foreign Sector	194.0	6.3	805.4	20.7	1664.3	26.2	611.4	315.2	858.9	106.6
Total Deposits	3095.1	100.0	3893.4	100.0	6352.4	100.0	798.3	25.8	2459.0	63.2
Second: By Type of Activity										
1. Agricultural Sector	33.7	1.1	37.2	1.0	63.5	1.0	3.5	10.4	26.3	70.7
2. Industrial Sector	217.3	7.0	243.1	6.2	368.4	5.8	25.8	11.9	125.3	51.5
3. Trade Sector	532.4	17.2	564.3	14.5	806.8	12.7	31.9	6.0	242.5	43.0
4. Services Sector	304.8	9.9	338.9	8.7	476.4	7.5	34.1	11.2	137.5	40.6
5. Other	2006.9	64.8	2709.9	69.8	4637.3	73.0	703.0	35.0	1927.4	71.1
Total	3095.1	100.0	3893.4	100.0	6352.4	100.0	798.3	25.8	2459.0	63.2

Source: Central Bank of Egypt, Annual Report, 1987 & 1988.

Table 6-12
Analysis of Loans Granted By Investment and
Business Banks By Sector and Type of Activity.
(Value in L.E.Millions)

	June		June		June		Change + (-)			
	1986		1987		1988		1986/87		1987/88	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
First: By Sector										
1. Government Sector	500.6	11.6	735.8	14.3	828.8	12.0	235.2	47.0	93.0	12.6
2. Public Sector Co.	251.2	5.8	225.1	4.4	345.4	5.0	(26.1)	(10.4)	120.3	53.4
3. Private Sector Co.	2460.9	57.2	2781.0	54.3	3660.6	53.0	320.1	13.0	879.6	31.6
4. Household Sector	111.1	2.6	108.6	2.1	138.1	2.0	(2.5)	(2.3)	29.5	27.2
5. Foreign Sector	978.8	22.8	1274.3	24.9	1933.9	28.0	295.5	30.2	659.6	51.8
Total Deposits	4302.6	100.0	5124.8	100.0	6906.8	100.0	822.2	19.1	1782.0	34.8
Second: By Type of Activity										
1. Agricultural Sector	63.9	1.4	83.3	1.6	96.7	1.4	19.4	30.4	13.4	16.1
2. Industrial Sector	614.9	14.6	699.4	13.7	1070.6	15.5	84.5	13.7	371.2	53.1
3. Trade Sector	1393.2	31.6	1485.2	29.0	1982.3	28.7	92.0	6.6	497.1	33.5
4. Services Sector	1064.0	25.3	1251.3	24.4	1429.7	20.7	187.3	17.6	178.4	14.3
5. Other	1166.6	27.1	1605.6	31.3	2327.5	33.7	439.0	37.6	721.9	45.0
Total	4302.6	100.0	5124.8	100.0	6906.8	100.0	822.2	19.1	1782.0	34.8

Source: Central Bank of Egypt, Annual Report, 1987 & 1988.

6.4.1.4 Specialised Banks

This group of 21 banks includes two Real Estate Banks, the Industrial Development Bank, the Principal Bank for Development and Agricultural Credit and its 17 affiliated banks in governorates.

Table 6-13 gives an outline of the aggregate financial position of this group of banks at the end of June 1988. They continued to grow, though slowly, to reach 6.1 bn at the end of June 1988. Agricultural banks comprised 58% of the group's aggregate financial position, real estate banks

27%, and the IDB 15% [CBE, 1988].

On the assets side, the increase is basically due to the credit extended by these banks, the balance of which was LE 4.7 bn, representing 78% of total assets at the end of June 1988. On the liabilities side, the increase is attributed to the growth in deposits, and in obligations to banks in Egypt.

Table 6-13

Aggregate Financial Position Of Specialised Banks
On June 30, 1988.

	June	June	June	Changes +(-)			
	1986	1987	1988	86/87		87/88	
	000,000 L.E.			Amount	%	Amount	%
Assets							
Cash	2.0	2.3	11.3	0.3	15.0	9.0	450.0
Securities & Investments	86.7	96.9	100.9	10.2	11.8	4.0	4.1
Due on Banks in Egypt	17.8	22.2	40.2	4.4	24.7	18.0	81.1
Due on Banks Abroad	9.2	19.5	12.5	10.3	112.0	(7.0)	(35.9)
Total Loans	3098.5	4025.1	4641.1	926.6	29.9	616.0	15.3
Other Assets	542.4	727.7	1260.7	185.3	34.2	533.0	73.2
Total Assets	3756.6	4893.7	6066.7	1137.1	30.3	1173.0	24.0
Liabilities							
Equity Rights	249.8	255.0	306.0	5.2	2.1	51.0	20.0
Provisions	155.8	196.5	255.5	40.7	26.1	59.0	30.0
Bonds & Long Term Loans	351.9	473.8	637.8	121.9	43.6	164.0	34.6
Due to Banks In Egypt	1842.7	2586.5	2870.5	743.8	40.4	284.0	11.0
Due to Banks Abroad							
Total Deposits	716.3	961.9	1318.9	245.6	34.3	357.0	37.1
Other Liabilities	440.1	420.0	678.0	(20.1)	(4.6)	258.0	61.4
Total Liabilities	3756.6	4893.7	6066.7	1137.1	30.3	1173.0	24.0

Source: Central Bank Of Egypt, Annual Report, 1987 & 1988.

Table 6-14 breaks down deposits by sector and by type

of activity. It indicates that deposit balances amounted to LE 1.3 bn representing 22% of the total financial position , with an increase of LE 357 mn (37.1%) compared with LE 245.6 mn (34.3%).

Table 6-14
Analysis of Deposits With Specialised Banks
By Sector and Type of Activity
(Value in L.E.Millions)

	June		June		June		Change + (-)			
	1986		1987		1988		86/87		87/88	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
First: By Sector										
1. Government Sector	93.2	13.0	128.3	13.3	253.3	19.2	35.1	37.7	125.0	97.4
2. Public Sector Co.	2.0	0.3	1.8	0.2	1.8	0.1	(0.2)	(10.0)	0.0	0.0
3. Private Sector Co.	262.4	36.6	289.7	30.1	371.7	28.2	27.3	10.4	82.0	28.3
4. Household Sector	354.3	49.5	537.7	55.9	688.7	52.2	183.4	51.8	151.0	28.1
5. Foreign Sector	4.4	0.6	4.4	0.5	3.4	0.3	0.0	0.0	(1.0)	(25.0)
Total Deposits	716.3	100.0	961.9	100.0	1318.9	100.0	245.6	34.3	357.0	37.1
Second: By Type of Activity										
1. Agricultural Sector	125.6	17.5	136.1	14.1	188.1	14.3	10.5	8.4	52.0	38.2
2. Industrial Sector	84.9	11.9	97.3	10.1	118.3	9.0	12.4	14.6	21.0	21.6
3. Trade Sector	44.9	6.3	48.6	5.1	57.6	4.4	3.7	8.2	9.0	18.5
4. Services Sector	7.2	1.0	7.7	0.8	9.7	0.7	0.5	6.9	2.0	26.0
5. Other	453.7	63.3	672.2	69.9	945.2	71.6	218.5	48.2	273.0	40.6
Total	716.3	100.0	961.9	100.0	1318.9	100.0	245.6	34.3	357.0	37.1

Source: Central Bank of Egypt, Annual Report, 1986 & 1987.

Sectoral analysis reveals a marked growth in the government sector which rose from 13.3 % in 1987 to 19.2% in 1988. It also shows a marked decline in the growth rate of the household sector from 52% in 1987 to 28% in 1988, while private sector companies accounted for 28% as against 30% in 1986, public sector companies 0.1% against 0.2% . Classification of deposits by type of activity shows an

improvement in the growth rates of all business sectors, though their ratio to total deposits dropped from 30% in 1987 to 28% in 1988.

Table 6-15 shows loans granted by these banks, also by sector and type of activity. The rate of expansion in credit showed a marked drop from 29.9% in 1987 to 15.3% in 1988, thus reflecting their reliance upon borrowing from commercial banks and other institutions. They therefore need to expand their own resources and mobilise more deposits which would assist in financing the development process.

Table 6-15
Analysis of Loans Granted By Specialised Banks
By Sector and Type of Activity
(Value in L.E.Millions)

	June		June		June		Change + (-)			
	1986		1987		1988		86/87		87/88	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
First: By Sector										
1. Government Sector	901.0	29.1	1050.5	26.1	1208.5	26.0	149.5	16.6	158.0	15.0
2. Public Sector Co.	21.0	0.7	19.2	0.5	16.2	0.3	(1.8)	(8.6)	(3.0)	(15.6)
3. Private Sector Co.	2009.8	64.8	2768.8	68.8	3210.8	69.2	759.0	37.8	442.0	16.0
4. Household Sector	164.6	5.3	184.8	4.6	203.8	4.4	20.2	12.3	19.0	10.3
5. Foreign Sector	2.1	0.1	1.8	0.0	1.8	0.0	(0.3)	(14.3)	0.0	0.0
Total Deposits	3098.5	100.0	4025.1	100.0	4641.1	100.0	926.6	29.9	616.0	15.3
Second: By Type of Activity										
1. Agricultural Sector	1405.5	45.3	2012.8	50.0	2229.8	48.0	607.3	43.2	217.0	10.8
2. Industrial Sector	395.7	12.8	513.3	12.8	668.3	14.4	117.6	29.7	155.0	30.2
3. Trade Sector	18.0	0.6	24.7	0.6	25.7	0.6	6.7	37.2	1.0	4.0
4. Services Sector	1107.8	35.7	1279.9	31.8	1504.9	32.4	172.1	15.5	225.0	17.6
5. Other	171.5	5.5	194.4	4.8	212.4	4.6	22.9	13.3	18.0	9.3
Total Deposits	3098.5	100.0	4025.1	100.0	4641.1	100.0	926.6	29.9	616.0	15.3

Source: Central Bank of Egypt, Annual Report, 1987 & 1988.

The realestate banks extend long-term loans to finance the building of houses , the creation of new towns and reconstruction projects. These loans may be extended over periods up to 30 years and the majority are paid back in annual or biannual instalments. A period of grace may be granted to give the borrower an opportunity to complete his project and to secure revenue from which he can repay the loan. The main resources of these banks come from the issue of long- term bonds , from long-term deposits from certain capital market establishments, and from equity rights.

Some of the operations of the agricultural banks come under the money market as they are of a short-term nature. For example, a portion of the assets of agricultural banks is credit facilities for financing agricultural crops. These are seasonal and, hence, short term. The activity of these banks in the capital market is represented in the loans they extend for financing agricultural projects, such as land reclamation and cultivation, the building of dams, the digging of canals, animal breeding projects and agro-industrial operations.

The resources of this group of banks are also of a long-term character, and include issuing bonds, borrowing from the Central Bank, and enhancing equity rights (both capital and reserves).

The Industrial Development Bank extends finance for industrial projects. It obtains resources by borrowing from

the Central Bank, from deposits, and from long-term loans from international organisations.

6.4.1.5 The National Investment Bank

This bank was established by a special Law no. 119 of 1980 to succeed the former General Authority for the Investment of Deposits and Insurance Fund. It is authorised to finance all projects listed in the national plan for social and economic development. This financing may be provided through contributions to the capital of these projects and the extension of loans.

The main resources of the National Investment Bank are:

1. The appropriations set for the bank in the State General Budget;
2. Returns from the bank's operations;
3. Income from shares in the projects it finances;
4. Loans extended to the bank, including those from the Social Insurance Authority and the Post Savings Fund.
5. Issuing bonds and trading these in the market.

6.4.2 Other Financial Institutions

6.4.2.1 Insurance Companies

Of the seven insurance companies, four are state-owned and the remainder three are private sector companies.

Insurance companies, particularly those dealing with life insurance, are important for the capital market. They generally get their resources by means of periodical instalments under life insurance policies, and therefore

need to search for ways to utilise these instalments, until payments are made to the policy-holders. Insurance companies in Egypt have traditionally tended to utilise their resources in real estate business, building and leasing blocks, and the extension of loans to policy holders. With the exacerbation of housing problems (a result of repeated increases in building and construction costs and the imposition of rent controls , real estate investments have become unprofitable. This led to the erosion of the role of insurance companies in building and they then turned to depositing their money surplus in banks.

However, since the open- door policy and the establishment of joint venture enterprises, insurance companies have contributed to many projects. Moreover, as a result of the shares of these enterprises being listed on the stock exchange, the necessary liquidity has been available.

6.4.2.2 Social Insurance

Social insurance activities in Egypt are handled by two government bodies. These are:

1. The General Authority for Insurance and Pensions which serves employees of the government and official organisations, and
2. The General Authority for Social Insurance which serves employees and workers in public sector and private sector establishments.

Under the provisions of the statutes of both authorities, employees and workers in all sectors are required to pay compulsory social insurance instalments to which the employer contributes a percentage. Against these instalments, an employee becomes entitled to a monthly pension following retirement, or if he dies before retirement age, his dependents receive a monthly pension.

The role of these two authorities in the capital market is not confined to the collection and receipt of the instalments due (which represent long-term savings for those insured) and the repayment of the accumulated instalments in the form of pensions. Their role is also to channel these savings to finance projects. Thus the State General Budget has made considerable use of these funds to provide finance for investment projects included in the national development plan. The National Investment Bank borrows the funds at a given rate of interest and then lends them to projects in need.

6.4.2.3 Insurance and Savings Funds

The role of these institutions is largely similar to that of the social insurance authorities except that they operate only at the level of the company or sector. They include the Armed Forces Officers' Insurance and Savings Fund and similar bodies set up by some banks and companies.

These institutions do not lend their deposits to the government or to the National Investment Bank, but conduct business in the interest of their contributors. Accordingly,

they should be classified as establishments operating within the capital market because their operations are confined to long-term dealings: the setting up of companies, building of apartment blocks, the acquisition of securities, etc.

The investment figures of the insurance sector as on December 31, 1987 are shown in table 6-16.

Table 6-16
Investment of the Insurance Sector (1985/1987)
(value in L.E. millions)

	1985/86						1986/87						Changes	
	Insurance Co. & Insurance Funds			Pensions & Authorities			Insurance Co. & Insurance Funds			Pensions & Authorities				
	L.E.	%		L.E.	%		L.E.	%		L.E.	%		L.E.	%
Real Estate	131.2	8.1			131.2	0.8	151.8	7.6			151.8	0.8	20.6	15.7
G. Securities	765.2	47.4	3062.6	20.6	3827.8	23.3	926.8	46.6	3028.9	17.6	3955.7	20.6	127.9	3.3
Loans	101.0	6.3	11780.7	79.4	11881.7	72.2	115.3	5.8	14191.2	82.4	14306.5	74.5	2424.8	20.4
Deposits with banks	615.7	38.2			615.7	3.7	795.9	40.0			795.9	4.1	180.2	29.3
Total	1613.1	100.0	14843.3	100.0	16456.4	100.0	1989.8	100.0	17220.1	100.0	19209.9	100.0	2753.5	16.7

Source: CBE, Annual Report, 1988.

Together with the banking system, the insurance sector participates in mobilising domestic savings. Total investments by the sector amounted to LE 19.2 bn at the end of 1986/7 against LE 16.5 bn at the end of 1985/6, an increase of LE 2.8 bn or 16.7%.

The Social Insurance Authority and Pensions Authority are foremost in their ability to mobilise obligatory forms of savings, recruiting the larger part of financial

resources, with their investments reaching LE 17.2 bn at the end of 1986/87 against LE 14.8 bn at the end of 1985/6 an increase of 16.2%. The bulk of these resources was invested in financing government needs, with loans to the government by these two authorities amounting to 82.4% of their funds at the end of 1986/87.

Total investments in securities amounted to LE 4 bn (20.6) at the end of 1987, of which 76.6% (3028.9 / 3955.9) represented investments in government securities, mainly by the two authorities. On the other hand, investments in real estate represent a modest part of insurance sector assets because the Social and Pensions Authorities, who constitute the larger part of the insurance sector, do not invest in this particular field.

6.4.2.4 Investment Companies

These companies are established under the provisions of the Investment and Free Zones Law no. 43, and aim at the investment of funds through the establishment of new companies by contribution to their capital and provision of long-term finance in the form of direct or syndicated loans. They are prohibited from accepting deposits and must depend on their own resources or on loans extended by financial firms, or on the bonds which they issue.

6.4.2.5 General Treasury Operations

The General Treasury affects the financial market in two ways; by the issue of money, in the form of coins or

banknotes, and by the issue of treasury bills when it borrows from the Central Bank of Egypt. In effect, these operations form part of the money market.

6. 5 The Stock Exchange

The capital market in Egypt dates back to 1883, when the Alexandria Stock Exchange was established. The largest exchange was created in Cairo in 1890.

6.5.1 History of The Stock Exchange in Egypt

6.5.1.1 The Period Pre-1952

As a result of the increasing economic activity during the last quarter of the 19 th century, the atmosphere was already suitable for the establishment of the securities exchange market. Foreign and local securities were available , in the form of public debt bonds or in the shares and bonds of companies, which were steadily established after the issue of the Commercial Code in 1876, which led to the establishment of Egyptian joint-stock companies , thus creating a source of securities for the market. By 1906 there were 328 joint-stock companies , with a total capital of L.E. 91 million. Another factor the creation of a developed banking system, a prerequisite for any securities market, since the activities of banks and the stock exchange interact.

In 1898, when a Decree was passed to adopt the statute of the National Bank of Egypt and grant it a concession during the company's lifetime. The second article of the

Decree stipulated that the National Bank of Egypt reserved the right to issue securities payable to the holder on delivery.

During the twenties Banque Misr played a major role in creating, not only the money market but also the capital market, by acting as an investment and development bank. It established a large number of Egyptian joint-stock companies, including 19 during the period 1920 to 1929 [Abdel Aziz, 1982].

Many other Egyptian businessmen followed the pioneer Talaat Harb, founder of Banque Misr, and acted as entrepreneurs in establishing groups of joint-stock companies. Furthermore, Cairo, in the late 1940's, was a regional financial centre with 70 foreign banks. The Egyptian pound was convertible and had a purchasing power larger than that of the sterling pound. There were 650 joint-stock companies, 228 of which were registered on the official list [CMA,1982].

6.5.1.2 The Fifties

During this period the number of joint-stock companies reached around 925 companies.

In 1954 came a new law for the establishment of joint-stock companies (law no. 26 of 1954) followed by the issue of law no. 161 of 1957 regulating dealings in the stock exchange. Amendments were soon introduced to these laws which affected the net profits for distribution to the

shareholders and resulted in a sharp drop in share prices. This encouraged the government to fix a minimum price and to enter as a buyer in order to support the market. Simultaneously a black market emerged, dealing in securities at prices much lower than the fixed minimum. This explains the decline in the volume of dealings in 1959 as compared to 1958. Table 6-17 shows the total transactions in the Egyptian Stock Exchange from 1956 to 1960.

Table 6-17
 Total Transactions In The Egyptian
 Stock Exchange From 1956-1960
 (Value in L.E. Millions)

Year	Volume Of Dealings
1956	57.3
1957	32.7
1958	66.7
1959	43.9
1960	38.4

Source: Cairo Stock Exchange , 1987.
Capital Market Authority, 1987.

6.5.1.3 The Sixties and Early Seventies

The early part of this period witnessed a number of problems, the most important of which was the nationalisation laws. Law 116 of 1961 suspended activities at the Cairo and Alexandria stock exchanges for two months . This prohibited the assignment or transfer of shares during the suspension period in order to secure the implementation of the socialist laws.

As a result, the number of companies declined to only 30, against the previous 925. In addition, the number of

people working at the stock exchange, such as brokers, representatives and jobbers, greatly diminished and the brokers' offices were reduced, in Alexandria from 43 to three and in Cairo from 15 to seven.

These events led to a recession in dealings and a decrease in the number of securities put out for circulation. Table 6-18 illustrates the effect of socialist laws on the volume of dealings on the stock exchange.

Table 6-18
Total Transactions In The Egyptian
Stock Exchange From 1961-1971.
(Value in L.E. Millions)

Year	Volume Of Dealings
1961	23.4
1962	13.3
1963	5.1
1964	4.3
1965	2.8
1966	4.0
1967	6.2
1968	2.8
1969	6.3
1970	3.8

Source: Cairo Stock Exchange , 1987.
Capital Market Authority, 1987.

6.5.1.4 The Adoption of the Economic Open-Door Policy (1971 to the present)

With the economic open door policy, a number of laws were passed, particularly in 1981, creating a strong momentum in the securities exchange and reflecting the government's strong desire to activate the market.

1. The Law no. 121 of 1981 regulating the Stock Exchanges

2. The Income Tax Law no. 157 of 1981;
3. The Companies Act no. 159 of 1981.

These laws simplified company formation procedures. They also provide tax incentives for the establishment of companies and for the issue of securities on the stock exchange. They provided means of protecting the interests of dealers and encouraging companies to register their securities on the stock exchange. For instance, the Revenue Law no. 157 of 1981 provided tax exemptions for income from securities registered on the stock exchange. This resulted in the registration of 49 joint-stock companies during 1982, with a total capital of LE 393.5 mn in 9570 million shares. To indicate the effect of these laws, table 6-19 shows the total transactions in the stock exchange during this period.

The table shows a large expansion in the volume of transactions in securities since 1982. However, the securities market is still very weak and small; the volume of dealings in 1988 did not exceed 0.5% of GDP. Furthermore, the number of companies registered on the official list at the end of 1988 totalled 441, representing 27.1% (441/1630) of the total joint-stock companies established under Investment Law 43 of 1974 and the Companies Act no. 159 of 1981. Those companies whose shares were registered and offered to public subscription amounted to only 132, representing just 29.9% of the registered companies and 8.1% (132/1630) of the total number of companies established

under both acts.

Table 6-19
Total Transactions In The Egyptian
Stock Exchange From 1971-1987
(Value in L.E. Millions)

Year	Volume Of Dealings	No. of Companies				Total
		Self-suscribed		Public-suscribed		
		No.	%	No.	%	
1971	3.6	—	—	—	—	30
1972	3.9	—	—	—	—	30
1973	4.3	—	—	—	—	30
1974	4.1	—	—	—	—	30
1975	7.4	—	—	—	—	30
1976	7.6	—	—	—	—	30
1977	5.9	—	—	—	—	30
1978	4.9	—	—	—	—	30
1979	6.9	31	51.6	29	48.4	60
1980	9.9	33	53.0	29	47.0	62
1981	9.1	34	55.0	30	45.0	64
1982	8.4	70	62.0	43	38.0	113
1983	25.1	84	63.0	49	37.0	133
1984	107.5	129	63.0	75	37.0	204
1985	114.6	171	64.0	96	36.0	267
1986	240.1	241	68.0	116	32.0	357
1987	346.9	277	70.0	120	30.0	397
1988	241.9	309	70.0	132	30.0	441

Source: Cairo Stock Exchange , 1988.
Capital Market Authority, 1988.

In addition, the larger part of the capital (61%) was invested in closed companies, while the remain percentage was invested in companies open to public subscription, presumably to attract small investors and create new channels for direct investments (see table 6-20).

Table 6-20
 Distribution of Registered Capital between
 Closed and Public Subscription Companies (1986-88).

Year	Companies Open to Public Subscription				Companies with Closed Subscription				Total						
	No.	%	No. of shares	%	Capital LE mn	%	No.	%	No. of shares	Capital LE mn	%	No.	No. of shares	Capital LE mn	
			000,000					000,000					000,000		
1986	114	33.2	185.5	73.5	1211.6	42.2	229	66.8	45.7	26.5	1652.0	57.8	343	231.2	2863.6
1987	120	30.2	214.2	77.4	1469.3	43.4	277	69.8	62.7	22.6	1913.5	56.6	397	276.9	3382.8
1988	132	30.0	227.3	67.6	1577.2	39.0	309	70.0	109.1	32.4	2467.5	61.0	441	336.4	4044.7

Source: compiled from CBE, Annual Report, 1987 & 1988.

Furthermore, much of the expansion in the volume of dealings at market prices is due to exchange rate differences, since foreign transactions are included. This can be seen from table 6-22, where shares denominated in dollars increased in number by 2.7% compared with a previous 18.4%, but fell in value at market prices by 73.5% a turn around from a previous increase of 54.6% At the same time, the drop in the ratio of market value to nominal value of these transactions from 148.7% to 111.8% is indicative of the retreat in prices of dollar denominated shares (see Table 6-21).

Table 6-21
The Development of Quantity and Value of
Shares and Bonds at the Stock Exchanges
From 1978 to 1987.
(Quantity in 000's & Value in L.E. Millions)

Year	Government Bonds			Companies Shares			Total		
	Quantity	Nominal Value	Market Value	Quantity	Nominal Value	Market Value	Quantity	Nominal Value	Market Value
1978	275.9	2623.7	2526.0	965.0	1711.1	2396.0	1240.0	4334.8	4922.8
1979	501.4	4200.5	3966.7	872.2	1609.2	2434.9	1373.6	5809.7	6401.6
1980	291.0	2117.4	1803.6	1075.4	7123.1	8028.5	1366.4	9240.5	9832.1
1981	614.3	4356.2	3706.9	921.0	1956.7	5416.6	1535.3	6312.9	9123.5
1982	171.5	1441.9	1240.6	1281.6	3459.1	7125.5	1453.1	4901.0	8366.1
1983	270.2	2269.5	2070.2	2492.4	13002.5	25687.9	2762.6	15272.0	27758.1
1984	704.0	1673.3	1131.3	8210.8	39081.7	106409.1	8914.8	40754.0	107540.4
1985	1747.0	1875.5	1366.9	13883.1	56982.7	113232.5	15630.1	58858.2	114599.4
1986	1773.0	1651.1	1246.2	12398.4	99473.9	238831.1	14171.4	101125.0	240077.3
1987	2062.0	2871.7	2536.8	14496.5	106723.2	344318.9	16558.5	109594.9	346855.7
1988	4433.0	7904.3	7525.9	12533.4	89321.1	234390.5	16966.4	97225.4	241916.4

Source : (1) The National Bank of Egypt, various issues.
(2) CBE, various issues.

Table 6-22
Transactions In Shares 1986-1988

	1986/7	1987/8
1. In Egyptian Pounds		
Quantity	70.0	(14.9)
Market value	81.0	32.7)
2. In US Dollars		
Quantity	18.4	2.7
Market Value	54.6	(73.5)

Source: CBE, 1988.

The issue of bonds is almost confined to the government, other than those of the Credit Foncier Egyptien which has issued 280 thousand bonds at a nominal value of LE 10 each. Three principal kinds of securities are issued by the government, the first being bonds quoted on the stock exchange including Development Bonds (in dollars), Housing Bonds, and National Development Bonds (in dollars). A second type is securities not listed on the stock exchange, subscribed directly by financial institutions. The third kind is the National Bank of Egypt Investment certificates issued for the government's account.

By the end of 1987/88, government securities amounted to LE 30.6 bn, only 1.8% of which is quoted in the stock exchange (see Table 6-23).

Table 6-23
Government Securities (%)

	1986	1987	1988
Quoted on the Stock Exchange	2.8	2.3	1.8
Not quoted on the stock exchange	85.8	85.7	86.8
Investment Certificates	11.4	12.0	11.4
	100.0	100.0	100.0

Source: CBE, Annual Report, 1988.

The above analysis is explained by the following facts:
(1) The low standards of income and living of the majority of people force them to spend their income, which combined

with an uncertain vision of the future, has seriously affected savings and investment. Money is directed only to these investments which are free from any suspicion of risk.

(2) The absence of social and political stability has inhibited investment in securities, which is necessarily long term in nature.

(3) The government relies basically upon the financial institutions to cover the budget deficit instead of issuing bonds for direct public subscription, largely owing to the low level of returns on those stocks.

6.5.2 Registration Of Companies' Shares on the Stock Exchange

As mentioned earlier, the issue of the Investment Law and the Companies Act encouraged the establishment of joint-stock companies. These companies are required to register their shares on the stock exchanges, in implementation of the General Regulation of Stock Exchanges, law no. 121 of 1981. This obligation helps to increase the number of companies on the official list as well as the volume of shares available for dealing.

As a result there are now 441 joint-stock companies with shares on the official list at the Cairo and Alexandria Stock Exchanges [Dr. M. Hamed, January, 1988]. Dealing in the stock exchange market is limited to securities registered on the exchange, which may be shares or bonds, Egyptian or foreign. The bonds may be issued by the government, public authorities, or companies.

Government bonds issued by the Egyptian government or Egyptian General authorities , and securities guaranteed by the government with respect to capital, interest or profits, are acceptable for registration upon a decision from the minister concerned. Bonds issued by foreign governments can be registered upon a decision from the minister concerned after obtaining the approval of the stock exchange committee.

With respect to securities issued by Egyptian companies , article 55 of law 121 of 1981 stipulates that application for registration of securities issued by any joint-stock company must be submitted to all Stock Exchanges in Egypt for inclusion on their official lists.

The law also laid down certain conditions for registering all the shares of a company in order to protect the people dealing with it. The most important of these conditions are:

1. The paid-in capital of the company should not be less than L.E. 50,000.
2. The shares must be in deeds from 25 to 1000 shares, in gradations of five shares.
3. The shares must have been offered for public subscription unless the company has already published audited balance sheets for at least three consecutive years.
4. The company's shares must be fully subscribed. If the price is paid in instalments , they must not be less than one quarter of the value of the share.

5. No allowance, other than the one consequent upon issuing expenses, must have been added to their par value, unless this allowance is registered in the company's legal reserve.

6. If the shares of an Egyptian company are registered at the stock exchange, the bonds it issues may be registered.

With regard to the shares and bonds of foreign companies the law stipulated the following conditions:

1. They must have been registered for at least two years on the stock exchange of the country whose legislation applies to the company.

2. The par value of each, in foreign currency, should not be less than the equivalent of approximately one Egyptian pound.

3. They should be issued on a bearer basis, unless the company has an office in Egypt for transferring ownership.

6.6 Accounting and the Development of Capital Market in Egypt

The corporate form of organisation, which enables smaller savings to be accumulated in the capital market, makes heavy demands on legal, fiscal and accounting procedures. Thus, the role of accounting in capital formation is two fold: (1) it generates investor confidence to stimulate the flow of capital, and (2) it helps ensure the continued efficient use of capital once it has been accumulated.

The role of accounting in capital market development in Egypt can be separated into four elements: (a) External

users of financial statements, (b) Internal accounting systems at financial institutions, (c) Internal accounting systems at enterprises financed by these institutions, and (d) General accounting function in the economy, for the accounting system should yield relevant accounting information in a specific format for the purposes of national planning and control. In addition, accounting reports should be prepared in a manner that will help to activate the capital market.

6.6.1 External Users of Financial Statements

In contrast to the UK and the US, banks and governmental agencies are the most important users of financial statements in Egypt, as discussed earlier in this chapter. In the US, the prime users of financial statements are shareholders and institutional investors such as insurance companies. These users control large blocks of votes in the annual shareholders' meeting, and influence the development of accounting standards and practices.

In Egypt, the role of insurance companies is very limited and the securities market is weak and still in its formative stage. Banks are also limited in their role as investors since the law restricts their activities in this area to only 25% of their own funds. Also, banks are forbidden to buy or sell shares for their own portfolios. However, in recent years, banks in Egypt have been become substantial investors , together with some investment companies, such as El-saad for Investment, El-sherief,

Faisal Banks and others.

In an effort to determine the users of financial reports in the private sector in Egypt, interviews were conducted with the staff of the Capital market Authority, the Cairo Stock Exchange and others. These revealed that managements are the prime users of the financial statements while the next most significant users are governmental agencies. The majority of local investors appear to lack the sophistication to understand financial statements, nor can they afford the services of financial experts. They are interested only in the net income and earnings per share of an enterprise in which they plan to invest. Consequently, the majority of investors do not use audited financial statements in their financial decisions [Dr. M. Hamed & others, January 1988].

This is due to two facts: first, in terms of timing, these financial statements are published several months after a company's year end. This late information may already have leaked to the investors and the announcements themselves may carry no new information to the public. Second, it is also possible that the Egyptian market is not yet efficient with respect to share value information in financial reports, because the market is still young. Either the prices do not immediately reflect earnings news because the news disseminates slowly, or perhaps Egyptian shareholders do not know how to interpret and use the information with regard to investment decisions.

On the other hand, it was revealed by the interviews that Egypt's more sophisticated investors-foreign investors, lending agencies (e.g. banks) and governmental agencies- are keen to use audited financial statements as an input to their investment or lending decisions because they have financial experts to help them to understand those statements.

6.6.2 Accounting Systems at Development Finance Institutions

Banks and insurance companies, as mentioned earlier in this chapter, constitute the main institutions through which the national savings and funds are channelled. In addition, they play an important role in spurring economic development. While the functional operational aspects of these institutions in general have improved since 1974, their accounting systems and procedures have not developed at the same pace. Often accounting is merely seen as a recording function, although sound accounting systems should constitute a main element in sound banking functioning.

As mentioned elsewhere, Egypt has operated a Uniform Accounting System since 1967. This is compulsory for all public sector enterprises, with the exception of banks and insurance companies. With respect to banks, Law No. 163 of 1957 and the accounting recommendations prepared by the Banks Accounting Higher Committee which consisted of financial managers of banks, chartered accountants, academics and others, secured the consistency of accounting

systems and auditing guidelines in public and private banks. Furthermore, control by the Central Bank enhanced consistency in accounting policies with regard to both public and private sector banks in order to control the money supply and to secure the credit worthiness of banks.

With regard to insurance companies, Law No. 167 of 1957 and the accounting recommendations issued by the Insurance Higher Committee for Accounting Policies together provided the basic elements of an accounting system for that type of company. In addition, control by the Commercial Insurance Authority has ensured consistency in accounting policies and internal control systems applied by public and private sector insurance companies.

External auditing in banks and insurance sectors is performed by accounting firms, though the CAO has the right to audit and report on the activities of these sectors. However, the report submitted to the general assemblies of these sectors and to the minister, is the report prepared by the independent auditor, while the one prepared by the CAO staff is used mainly for the exercise of the control function. Moreover, in the case of any variation between the two reports, the findings of the CAO report are considered as a guide for the minister who may, at his discretion, to ask for more investigation. This has led CAO members among others to call for the speedy establishment of a uniform accounting system for these institutions and for their activities to be brought under the control of the CAO [

Interview with S. Eldin & other members of the CAO, December 1987].

The aspects which require attention within financial institutions in Egypt include:

(1) the setting out of accounting policies and procedures, preferably in the form of accounting, budgeting and operational manuals. Such guidelines should be more standardised to facilitate measurement, comparison and evaluation by both inside and outside parties. There is considerable scope for standardisation in all aspects of the accounting system, e.g., the planning phase, decision-making, and the control system. For all these purposes, sound accounting systems and manuals for banks and insurance companies need to be prepared by a national professional accounting body, while accounting development issues could be explored more effectively on a regional and international basis.

(2) Training of local personnel in accounting systems and methods is another important requirement. This may be achieved in universities by providing special courses in "Accounting for Financial Institutions", on which graduates could extend or update their knowledge of various areas of accounting.

6.6.3 Accounting Standards in the Private Sector

The private sector in Egypt consists of sole traders, and limited liability and joint-stock companies. As explained in chapter seven, government regulations have have

played the main role in shaping private sector accounting practices.

Joint-stock companies use double entry, together with more detailed accounting requirements specified in government regulations. No specific tax regulations apply to these companies. All that is done is to check the final statements to ensure that they are reasonable. Specific accounting requirements are not laid down; reliance is placed instead on experience, common sense, and certain routine checks.

Whilst this may have sufficed in the past, with the rapid growth of limited and joint-stock companies, especially since the introduction of the open-door policy, the situation is changing, and government agencies are beginning to demand more elaborate data on the operations of private sector firms. CAPMS, for example, needs unified data in order to construct national accounts, while the Ministry of Planning needs accounting data from the private sector for the preparation of national plans.

In view of the inadequacy of accounting systems in the private sector, it seems desirable that these companies should adopt some or all of the UAS elements, to meet the needs of national planning and controlling agencies. Their own system based on government regulations plus the suggestions of private sector accounting firms is not enough for that purpose.

Moreover, the increased size of these companies increases their own need for improved accounting methods to provide the data necessary for efficient operation. The confusion created by the diversity of legal directives and professional practices may be avoided by use of the UAS.

Thus, accounting in the private sector need present no obstacle to the introduction of a uniform accounting system. Indeed, it could benefit from the system, which could remedy many of the current deficiencies in private sector accounting, to the benefit of the companies concerned, as well as to the enhancement of national planning and control.

6.6.4 The Implementation of The UAS in the Private sector to Enhancement the capital Market

The importance of standardised accounting data for a central planning function results from two main factors [Mueller, 1967, pp. 77-98]. Firstly, any plan is only as good as the data on which it is based and secondly, there is a high degree of interdependence among entities and sectors of any economy when all of their respective activities are governed by a master plan. Therefore, a high level of coordination is needed between the accounting systems in these sectors in order to provide top planners with a coherent language for accurate planning and control. This requires that all accounting systems have the same basis, reflecting socio-economic relationships, and geared towards the objectives of economic development.

The aim of a uniform accounting system for private

sector enterprises is that the underlying practices and classifications of accounts are unified in the form of a chart of accounts. A complete plan or system including uniform terminology and standardised methods and practices for identifying, measuring, and processing eco-financial data should be provided [Enthoven, 1986]. Such a system makes accounting more precise and systematic, and accounting discipline is perfected. A uniform plan of accounts ensures the recording of transactions in all enterprises according to the same scheme of classification, to the benefit of planning, control, and decision-making at both micro and macro levels.

A uniform chart of accounts lays down the appropriate classification categories to assist budget construction, project appraisal and investment decisions. Balance sheets give an accurate picture of the financial position of a firm, with assets grouped according to their financial sources, while the comparison of each group with the appropriate group of liabilities facilitates the analysis of the use of funds. Fixed assets and their depreciations are shown separately to give a clear picture of cost allocation for Cost-Benefit-Analysis (CBA) purposes.

Operating accounts reflect the profit or surplus resulting from normal operations, and show income available for distribution. This account therefore facilitates the preparation of value added in firms, and subsequently at macro level.

"Analysis of uses of resources" are control accounts which monitor and analyse the uses of resources in cost centres. They are used for preparation of the production and trading account and the profit and loss account, which not only serve financial and managerial purposes, but also provide the data required by the national accountant at the macro level.

It should also be emphasised that the distinction made in the UAS between assets, their set-up costs, and their depreciation has a great significance for monitoring, control, and decision-making purposes. It will be helpful for the analysis and appraisal of a development project, and should facilitate improved analysis of existing projects and programmes, which in turn could result in more effective decision-making.

Attention should also be drawn to the value of the UAS in assisting CBA of development programmes and projects as a basis for a country's economic development. CBA was developed as a means of establishing criteria for public sector investment appraisal in terms of the net social benefits accruing from the investment [Jones, R. & Pendlebury, M. , 1984, p. 106].

There is a great need for effective, comprehensive, and standardised accounting-economic information in an economically meaningful and useful form, reflecting socio-economic relationships, and geared toward the objectives of

economic development [Enthoven, 1969a, p. 24]. CBA's main calculation requirement is that the evaluation should take into account past, present, and future data modified for economic and price changes, which is necessary to the assessment of the social costs and benefits generated from a development project. If information is to be effective for decision-making, the future costs and benefits of the project must be measured, assessed and allocated on an economically justifiable basis. The problem of deficient and disorganised economic and financial data would be resolved by the UAS, thereby improving assessment of feasibility, shadow prices, evaluation, and comparability, and hence the future costs and benefits to society.

Therefore, it is reasonable to suggest that the development process in Egypt poses a great demand for private sector utilisation of an effective, comprehensive, and standardised accounting system in order to serve both macro and micro-economic purposes and to enhance the role provided by these units in the economic development.

6.7 Summary and Conclusion

This chapter has shown that any inquiry into the working of the capital market in Egypt, and of the problems connected with economic development and mobilisation of domestic capital for that purpose, must take due account of the political, economic and social changes brought about by the Revolution of 1952 and the economic open door policy of 1973.

Egypt plans a substantial increase in economic development with very considerable reliance on internal mobilisation of resources since the introduction of the economic open door policy. There are certain factors which are obstructing the effective channelling of resources. One of these is the shift in the distribution of income to those classes of the population which are not in the habit of saving. Second is the lack of a tradition of investment in company shares. A third factor is the general preference, for social and other reasons, for investment in land and buildings, rather than in industrial and other projects. Lastly, although inflation has in fact played a part in the financing by government of economic development, it tends to have a deleterious effect on the extent of mobilisation of resources, especially through private and voluntary means. Moreover, it diminishes the amount of economic development that can take place with a given amount of monetary resources.

With a view to developing the capital market, certain steps have been taken recently by the government, for example, tax concessions and attractive fiscal incentives offered to both public companies and shareholders. Further, the enactment of the new Companies Act and Stock Exchange Regulations Law in 1981, and setting up of the Capital Market Authority in 1982 also aimed at reactivating the stock market. Finally, the government launched a clear statement that in view of an Article in Egypt's Constitution which defines the fundamental right to

property, there should be no apprehensions regarding nationalisation policy.

An examination of the banking system in Egypt indicates the scope for governmental action for both the short and long term. In particular, there is a need for organisation of the facilities for training technical personnel to man the banking and financial institutions, and the reorganisation of existing financial and banking institutions in line with the changed political, social and economic conditions and aspirations of the country.

Taking the institutional structure as a whole, it appears that, although there has been a considerable development of institutions for short-term credit and investment, there is as yet no corresponding development of institutions for long-term credit and investment. There is no specialised institution actively engaged in financing industrial development. The Industrial Development Bank and the Agricultural Bank, which are intended to finance agricultural and industrial development, have many limitations.

The capital market is much less developed than the money market, due to the fact that the banking system is well-developed as the main provider of funds for investment and short-term credit plays a significant role in the conduct of business enterprises. Another reason for the lack of capital market activity is the fact that there has been very little expansion in stock exchange activities in Egypt.

One of the principal objects of having shares quoted is that it generally makes it very much easier for companies to raise funds when necessary. But this primary motive of being able to go to the market for additional funds does not apply in Egypt. Further, the stock market has evolved in the past more as a private club catering for the needs of its members than as a public institution functioning in the wider public interest. As a result, it still remains an institution in which only a small section of the community is interested. Shares are usually tightly held by small groups of successful entrepreneurs who control a high proportion of the entire private business sector. This has inhibited the development of a well-informed capital market.

Business enterprises in Egypt draw heavily on government funds. Usually, government funds are made available to firms by way of investment in equity capital in public sector enterprises, by investing jointly with private sector, and by providing loans to private, semi-private or publicly-owned firms. These matters are often decided upon political grounds rather than on the financial merits of individual cases.

Accounting helps to shape the climate of investment; well-devised systems and controls inspire investors' confidence, which in turn leads to healthy growth. Thus, the role of accounting in investment and capital formation is two-fold; first, it generates sufficient investor confidence to stimulate the flow of capital, and secondly it helps

ensure the continued efficient use of capital once this has been accumulated. If the fundamentals of accounting and auditing simultaneously became uniform, the economic community would have a much more refined instrument with which to measure business performance, to pinpoint capital needs and to further capital formation. Egypt would not have any difficulty in designing and implementing such a system because it already operates one in the public sector. However, the problem lies with the profession, which is resisting application of the UAS to capital market transactions and is trying to apply the international accounting standards to satisfy multinational companies and international accounting firms.

CHAPTER SEVEN

THE ENVIRONMENTAL FACTORS OF THE UNIFORM ACCOUNTING SYSTEM IN EGYPT

7.1 Introduction

The purpose of this chapter is to investigate the environmental characteristics in Egypt which may influence the process of accounting standard-setting and/or the decisions of accounting policy-makers. As there is little literature on the subject of accounting standard-setting in Egypt, the researcher has depended heavily on data gathered from interviews with some key government officials, some leading accounting firms, and a number of accounting professors, as well as by the collection of relevant data.

7.2 Stages of Development

G A Lee recognises two steps in accounting development.

1. "The making of routine records from day-to-day in prescribed form and according to set rules of all events which affect the financial state of the organisation", which is called book-keeping.

2. "The summarisation from time to time of information contained in the records, its presentation in significant form to interested parties, and its interpretation as an aid to decision-making by these parties", and this is called accountancy [Lee, 1973, p.1].

Similarly, in its introduction to The Uniform Accounting System, the Egyptian Central Accounting Organisation also divided the development of accounting in Egypt into two stages:

A: The Book-keeping period.

B: The Accountancy period.

It has been claimed that book-keeping existed in Egypt as early as 5000 B.C, when Egyptian civilisation existed

around the Nile, which offered a means of transport, so that trade was extensive. The traders had a system of keeping records which could claim to be bookkeeping.

Moreover, taxes were paid to the king in the form of oxen, corn, flour and similar commodities, which were stored in warehouses. Though there is no evidence of an accounting profession as such, accounts and records were kept by the scribes, who had knowledge of reading, writing, arithmetic and elementary book-keeping, and some proficiency in administration [Brown, 1905, p. 20].

In addition, the role of a central finance department was played by the "House of Silver" or the "Royal Treasury", headed by the "Lord High Treasurer", one of the most important officials in the state. Next in authority was the "Treasurer of the Gold", who superintended the transport of precious articles. Other warehouses were directed by superintendents employed by the "Lord High Treasurer". These also performed the function of internal auditors, checking the accounts kept on papyrus by the scribes for each warehouse. Irregularities were punishable by mutilation or death [Chatfield, 1974, pp. 6-7].

Many such records have been preserved, but are difficult to read because of the unfamiliar abbreviations which had been used in recording transactions.

Much later in 641, when Islam came to Egypt, further developments occurred. Early Muslims devoted considerable

attention to financial affairs, especially Zakat, as revealed by their establishment of *Bayt Al-Mal*, a public organisation which performed a similar function to a modern state Treasury. As financial revenue increased, improved record-keeping was needed for control purposes and to aggregate revenues for allocation to the poor or to social projects. Overseeing this record-keeping was the "Sahib Al-diwan" , a kind of auditor, who had to countersign every account or register signed by the "nazir" [Rabie, 1972, p. 155].

Under the "Fattimed State" in Egypt in the 12th century, a budgeting system was adopted which gave allowances of money to "sultans" for miscellaneous expenditure and also provided allowances for the army. State revenues had to come to the capital, Cairo, before the central financial allowances were made to each province [ibid.], all of which required the keeping of records for control purposes.

Undoubtedly the system of accounting employed by the early Muslims has been reflected in accounting and book-keeping in Egypt, since one can distinguish between three branches of accounting with which they were familiar; first, "zakat accounting", which is similar to "tax accounting" and which is concerned with Zakat declaration, calculation, and collection; second, "accounting for state operations and safeguarding public funds", which is the function of what is known today as "governmental accounting". Third, "accounting

for private operations", which is concerned with the recording and measurement of private business operations. This third branch is similar to "business or commercial accounting".

Have (1986, p. 18) supports this classification, saying:

"Recording government transactions is very old. Around the 10th century the Arabs used already an excellent book-keeping system for the government, including budget and ex-post budget analysis, and also a systematic closing of the accounts".

In modern times, the Book-keeping stage began with the Commercial Law of 1883, which required firms to keep certain books and journals; continued with the issuing of Income Tax Law No. 14 in 1939, Law No. 388 of 1953 (amended by law no. 58 of 1958) concerning commercial books and journals, and the Companies Act No. 26 in 1954.

The Accounting period, broadly speaking, may be said to have begun with the British colonisation of Egypt in 1882. The establishment in 1911 of the Cairo Higher School for teaching accounting reflected the recognition of the discipline, though it was not until 1958 that the Egyptian Society of Accountants and Auditors first attempted to classify and standardise accounting terminology and definitions. [Abdel-Rhaman, Egypt, 1980, p.6].

However, the major step in the development of accounting standards, rules, terminology, and definitions came in 1966 with the establishment of a standardised accounting system

for use by public sector enterprises and government organisations.

7.3 Evolution of Accounting Practices In Egypt Prior to 1956

7.3.1 Legislation Affecting Accounting

Because Egypt is a country of written law, most aspects of its economic life are regulated, accounting practices and the accounting profession included, and a number of laws have been enacted over the years to regulate accounting matters.

7.3.1.1 Commercial Laws

The first major development was the Khedivial High Order enacted on 13th November 1883. The High Order mainly defined the joint-stock company and prescribed that it could be formed only by a Khedivial decree. The decree obliged merchants to keep the following books and journals:

- (1) Record of correspondence: to keep copies of their correspondence to and from debtors and creditors.
- (2) Journals: to record their daily transactions.
- (3) Book of goods: to record the goods under their command at the end of every fiscal year.

In July 1923 a decree was passed regarding the publication of companies' financial statements, together with the directors and auditors reports. The decree did not define any of the responsibilities or rights of an auditor. However, such information was included in 1945, in a model memorandum of association, as well as model statutes to be

followed by founders of joint-stock companies.

The model required that a joint-stock company should by law hire an auditor to observe the establishment of the company, to examine inventory lists, annual accounts and the balance sheet, and present a report of his findings thereon to the General Assembly. The model, although it accorded the auditor the rights necessary to the fulfilment of his responsibilities, did not set any standard for reporting or specify the professional qualifications necessary for the auditor, as no rules or laws had yet been issued to organise the accounting profession in the country. [Barsuim & Abdel-Aziz, Cairo, 1986].

7.3.1.2 Income Tax laws

The taxation system of any country reflects its economic, social and political system and the stage of its economic development. Income tax legislation is perhaps the most important factor determining accounting practices and financial information disclosure.

The traditional role of taxation was confined to guaranteeing revenue to the government authorities. However, with the changing economic role of the state, coupled with the evolution of economic and financial thought, a change in the role and function of taxation has taken place. Consequently, taxes have become an instrument of economic and social planning which are increasingly resorted to as a means of directing investment, checking inflation and redistributing income and wealth, as well as for other goals

which go beyond the traditional function of taxation.

Compliance with income tax legislation requires a sophisticated accounting system and special accounting skills. As Seidler explains:

More sophisticated tax systems, usually based on income, are required to produce the necessary revenues. Accounting skills play a key role in the function of such tax systems [Seidler,1967, p.36].

In Egypt, for instance, several tax laws, introduced between 1939 and 1987, have affected indirectly the development of both accounting standards and the accounting profession.

In 1939, Law No.14 was issued, requiring companies to prepare financial statements making their profit or loss clear for tax purposes. The law did not specify the accounting standards and procedures to be followed, but simply asked for profit and loss accounts showing a true and fair profit figure. Certain expenses were identified as acceptable for setting against tax, and the straight line depreciation method was required.

This law influenced the development of accounting by raising the demand for professional accountants, for merchants and industrialists hired chartered accountants to prepare their final accounts according to the requirements of tax legislation.

7.3.1.3 Companies Act No. 26 of 1954

The Companies Act No.26 was a major step in the

regulation of corporations and limited companies, their financial statements and disclosure systems, and audit reports thereon. The law gave companies choice in selecting a book-keeping method, providing that the requirements of the Act were fulfilled. In addition to the obligation to employ an auditor, the Act also laid down the conditions for ensuring his competence and independence. It also required the auditor to include the following information in his report to the shareholder's general assembly:

(1) Whether he has obtained all the information and explanations he judges are necessary;

(2) Whether, in his opinion, proper records and books of accounts have been kept by the company; and, if the company has branches he cannot visit, he should state whether he has obtained adequate summaries of the activities of these branches, and, in the case of industrial companies, whether proper cost accounts have been kept in the branches concerned;

(3) Whether the balance sheet and profit and loss account are in agreement with the books of accounts;

(4) Whether, in his opinion, in the light of the information given to him, such accounts comply with the Companies Act and by-laws and whether the balance sheet presents clearly the true financial position of the company at the end of the financial year, and likewise that the profit and loss account is accurate;

(5) Whether physical counts have been made according to

accepted rules, stating any departures from the rules adopted in the previous year;

(6) Whether the information included in the directors report agrees with that in the company's books;

(7) Whether, according to the information and explanations he has obtained, there have been, during the financial period, any violations of the company law that affects the company's financial position, stating whether such violation was still occurring at the time of the preparation of the balance sheet.

In November, 1954 Ministerial Decree no. 467 was passed, stating the minimum information to be disclosed in a company balance sheet and profit and loss account. The Decree took the decisive step of requiring the annual filing of audited statements in the form of a balance sheet containing a summary of the company's capital, its liabilities and its assets, giving such particulars as would disclose the general nature of such liabilities and assets, and showing how the value of the fixed assets had been arrived at. It also affected the recording of work-in-progress and stock in both the balance sheet and the profit and loss account. Stock was generally stated at the lower cost or net realisable value, though companies were free to apply FIFO or LIFO or weighted average methods. The Decree also presented guidelines for the liabilities side of the balance sheet. Companies were required to show clearly their sources of finance and their different classes of share

capital. The dividend to be allocated to shareholders must be shown, and also the figure of "earning per share". The main accounting provision of the Decree was the abolition of secret resources.

Law No. 26 for 1954 remained in force until 1981, when the Capital Market Authority, in its attempts to reactivate the capital market, adopted a draft law with a view to its amendment. These amendments were effected in the law no. 159 of 1981, which included almost the same articles as Companies Act No. 26 of 1954 regarding the company auditor, but added a new article recognising the auditor's responsibility toward the company, shareholders and third party beneficiaries for any damage resulting from mistakes in his audit. The auditor was also required to comply with auditing standards attached to the law. These standards were prepared by a special Committee established in May 1982 from the accounting profession [A. Shawki, January 1988] and are very similar to the auditing standards approved by the professional bodies in the UK and the US [Barsoum & Abdel Aziz, 1988].

The Act also required additional information to be given in the accounts, e.g. to identify any holding company and investments in subsidiaries and other companies. In addition to the balance sheet and profit and loss account, it is now necessary to give a statement of sources and application of funds. The Act also controls the auditor's appointment as well as declaring to whom he should provide his report.

7.3.1.4 Laws Regulating Securities Exchange

On November 8th 1909, a Supreme Decree was issued to regulate the stock exchange.

The Decree covered all kinds of stock exchange, whether concerned with goods or with securities. It also set forth the main controls and basic provisions for each type of activity. This Supreme Decree was amended by two other Supreme orders issued on April 25th 1910, and March 27th 1912 [CMA, 1982].

On December 31st 1933, a decree was issued adopting the General Regulations for Securities Exchanges, repeating in Article II the stock exchange regulations approved by the Supreme Decree of 1909. This Decree is especially notable for its exclusive treatment of securities exchanges as opposed to those dealing in other types of commodity, either with respect to stocks-in-trade or sale on credit; these were to be treated by other, ad-hoc decrees. The internal regulations for the securities exchanges were issued under the Decree issued by the Minister of Finance dated April 27th 1940, and were amended by the Decree dated April 1947 which incorporated the setting up of a market outside the list.

Later on, Law No.326 of 1953 on dealing in securities was issued prohibit dealing in securities except through brokers registered at the stock exchange and when the traded securities were entered on the official list.

In 1957, Law 161 was issued incorporating the General

Regulations for Securities Exchanges. It continued to be applicable for nearly 24 years without any fundamental amendment, until the General Capital Market Authority, in its effort to reactivate the stock exchanges, adopted a draft law with a view to its amendment.

With the growth of joint-stock companies, the shareholders wish to examine the success of management in managing the company. Specific investor requirements within individual companies have become generalised with stock exchange requirements for financial reporting for companies, whose shares are quoted or seek to be quoted on the stock exchange. The stock exchange has accepted accounts published in accordance with requirements of the Companies Acts though it has on occasion moved in advance of these requirements.

Disclosure requirements by the Egyptian Stock Exchanges regulations may be found in the following:

(A) Disclosure Provided by Individual Companies

All private sector companies which are resident in Egypt must be registered with the registrar of companies, and are required by the Stock Exchange Law No. 121 of 1981 to provide certain information which will be available to the general public, either at the Capital Market Authority or at the registered office of the company. At the CMA a separate file is kept in respect of every registered company, which may be inspected by any member of the public on payment of L.E. 5, and contains the following documents:

(1) Memorandum of association, articles of association, prospectus and mortgages and charges.

(2) Annual Return and Annual Report and Accounts. The Board of Directors of a quoted company shall, at least sixty days prior to the date set for holding the Annual General Meeting, prepare for every financial year of the company a balance sheet, a profit and loss account, a report on the company's operations and financial position and on the method that it proposes for the distribution of net profit. Copies of these reports must be sent to the Stock Exchange Committee at least twenty-five days prior to the date set for the general meeting (article 62).

(3) Copies of three successive audited financial statements must be provided by a company which seeks to quote its shares on the list (Article 55).

(B) Disclosure provided by the Stock Exchange

The information which the stock exchange provides for investors falls into:

(1) The publications relating to manner in which the stock exchange functions. These include Rules and Regulations of the Stock Exchange, and Admission of Securities to Quotation and the Stock Exchange.

(2) The publications detailing the prices of securities on the stock exchange. By far the most important is the Stock Exchange Daily Official list (article 66).

(3) The publications which deal with statistics relating to securities quoted and interest and dividends upon securities

quoted on the stock exchange. These contain the following information:

- Nominal and market values of all quoted securities both in total and analysed under market sections for the current and the two preceding years.
- Classifications of quoted securities, distinguishing between shares in Egyptian currencies and these in foreign currencies.
- Details of all companies which were granted a quotation for the first time during the previous year.
- Figures of turnover, calculated on the aggregate of all purchases and sales, on the Cairo and Alexandria stock exchanges, according to category of security.
- Figures of nominal capital, interest and dividends.

(C) General Publications

(1) Daily Newspapers: According to The Stock Exchange law, every company has to publish its annual financial statements and the report of the Board of Directors in two recognised local newspapers. Further, most daily newspapers now provide at least a column of news and comment of interest to investors.

(2) Government Publications: The most important Government publication, as far as investors are concerned is the Annual Report prepared and published by the Central Bank of Egypt. Each issue contains comprehensive information relating to exchequer and central government, banking, other financial institutions, money supply and domestic credit expansion,

household sector, overseas sector, capital issues and stock exchange transactions, interest rates and supplementary tables, including such data as composition of the national debt, transactions in securities by financial institutions, etc.

7.3.1.5 Laws Regarding The Accounting Profession

Egypt was the first Arab Country to establish an organised accounting profession, when, in 1946 a Decree was passed to establish the " Egyptian Society of Accountants and Auditors ". The creation of this Society assisted the development of accounting practices in Egypt by establishing entrance requirements which included both professional examination and training. It also played a significant role in two main respects in setting accounting practices: firstly, through accounting education which was developed by the government at both school and university level; [Amer & Khairy, pp.309-324], and secondly, by maintaining regular channels of communication with professional and educational accounting bodies in the West [Briston et al, 1985, p. 130].

Another important event that influenced the development of accounting practices in Egypt occurred in 1951, when law no. 133 was issued, under which the practice of accounting was confined to licensed accountants. This law was considered to be an important influence on the development of accounting in Egypt, in that it restricted the practice of the profession to qualified persons, and established entrance requirements which included both academic study and

training. Prior to this law anyone with a knowledge of bookkeeping could claim proficiency and have the right to practice as an accountant, which resulted in a low standard of accounting [Ibid.].

In 1955 Law No. 394 was passed establishing the Egyptian Guild of Accountants and Auditors. The main objectives of this organisation were to elevate the status of the accounting profession, and to create cooperation among its members in order to protect their rights and promote their status. However, the profession was not fully organised until 1958, when the Egyptian Society of Accountants and Auditors first issued its Charter.

The Charter of 1958 covered the standards of conduct governing the relationship of the accountant/auditor with his clients, boards of directors and managements and with fellow practitioners. The Charter also set out the responsibilities and liabilities of an auditor, the items to be covered in his report and the technical standards which were appropriate at that time [The Egyptian Society, 1958].

7.3.2 Foreign Influences on Accounting

The first real influence of a developed country's culture on Egypt culture occurred with the French invasion in 1798. Since then, Egypt has been exposed to and learned from the technological and cultural achievements of various developed countries.

Egypt was a British colony for 75 years (1881 - 1956).

During this period, the central political and economic influences came from Great Britain.

One significant result from this has been the application of British accounting practices and philosophies in the country. In effect, this meant that the regulation of the accounting profession, the Companies Act, and financial reporting practices in Egypt all followed closely those of Great Britain [AAA, 1978].

At first, private sector enterprise was the most important form of business activity. Stock exchanges existed, having been formed in Alexandria in 1883 and in Cairo in 1890. There were close contacts between members of the resident foreign business community and Egyptian businessmen, which developed into cooperation between Egyptian businessmen and overseas investors.

During this period, most foreign companies recorded their transactions in English, used double-entry book-keeping and published their financial statements and final accounts according to the accounting principles and practices and tax laws of their own countries. The preparation of systematic accounts and financial statements was first carried out during this period, as a result both of the activities of British companies and the requirements of the tax law.

Accounting practices were confined to simple book-keeping sufficient to compute profits for tax purposes.

Double-entry book-keeping was followed only by big companies, while small businesses used single entry to be sorted out later by outside accountants for the purpose of calculating profit and assessing liability to tax. Evidence of accounting practices originated by foreign companies is found clearly in banking, the textile industry, and the oil industry: for instance, twenty-three out of twenty-five commercial banks in Egypt were foreign or subsidiaries of foreign banks. Each company followed the same accounting practices as the parent organisation.

British accountants and auditors came to check on British investment in Egypt, so that the development of accounting was influenced not only by the British business community, but also by the accounting and auditing firms who were concerned with British overseas capital investment. In this regard, Professor Scott states:

"....British accounting influence was initially felt via British auditors who were concerned with British overseas capital investment, and this influence was continued by wide-spread use of British accounting and auditing texts, which for a number of years were the only quality text books available. This British influence seems to have given accounting in several nations an external reporting emphasis from the beginning [Scott, 1970, p.93].

The role of British accounting firms was crucial in Egyptian accounting development. Their principal influence was exerted when they employed, trained, and utilised Egyptian accountants to practise British accounting skills.

The British influence was also felt via legislation, which affected the accounting profession, companies, and financial reporting and disclosure standards. Moreover, the training of accountants and auditors, the Companies Acts, and disclosure standards were based on those of Great Britain. For example, the Egyptian Companies Act No 26 of 1954, which included significant provisions relating to accounting and auditors, drew heavily on the British Companies Act of 1948. This therefore explains why British accountants dominated the accounting profession in Egypt until 1956 [Barsum & Abdel-Aziz, 1986].

British influence also operated via accounting education and training. Sending Egyptian students abroad has been customary, ever since Mohammed Aly set out to find qualified educators and suitable instructional materials for the building of modern Egypt. Since then, thousands of Egyptians have been sent abroad for education and training courses. Great Britain was and still is one of the main countries turned to for this purpose.

Moreover, a significant number of accounting educators at Egyptian Universities received or are receiving their education in Great Britain. On returning home, these educators try to translate British textbooks into Arabic and utilise the Anglo-American approach in teaching their students accounting and auditing skills.

The impact of accountants trained abroad has perhaps been greatest with regard to auditing. Many accountants have gained their qualifications as chartered accountants in England. Therefore the duties, rights and responsibilities of chartered accountants in performing audits in Egypt have been similar to those of chartered accountants in the U.K.

7.3.3 Evaluation

Professor Briston and others, in reviewing the development of accounting in Egypt prior to 1956, have observed that the accounting system was based heavily upon the British system, and summarised the deficiencies of that system as follows:

(a) As a result of the concentration of the legislation on the kind of books and records that were to be kept, rather than on principles, definitions and accounting terminology, accounting rules and regulations varied considerably, depending upon the personal judgement of the accountant in the enterprise. This resulted in such a variety of accounting procedures and principles that the final accounts and the balance sheet tended to be unreliable.

(b) Although accountants tried to establish accounting conventions based upon generally acceptable accounting principles, the application of these principles was conditioned by the attitude of top management and by the extent to which it wished to conceal rather than to portray the actual financial position.

(c) Following from the above two points, the accounting information that was supplied to government bodies (taxation, administration, statistical, and planning bodies) was unreliable and did not reflect the actual financial position of enterprises [Briston & El-Ashker, 1985, p. 131].

7.4 Developments of Accounting Practices From 1956 To the Present

Some would say that the transformation of book-keeping into accounting was necessitated by the economic planning now carried out in Egypt. Information is now required not only for tax purposes and for financial reporting, but also for planning, control, and decision-making at both micro and macro levels. Ordinary book-keeping does not meet these requirements and a uniform accounting system is now utilised to meet these new needs.

7.4.1 Nationalisation and the Development of Accounting

7.4.1.1 Ownership

The private sector played a leading role in the economy before 1956, and the public sector was restricted to public utilities such as telephones, water, electricity and railroads. However, after 1956 the Egyptian economy underwent a structural transformation into public sector ownership at the expense of the private sector. These dramatic changes started with the nationalisation of the Suez Canal Company in 1956, continued with the Egyptianisation of the financial institutions in 1957, and ended with the nationalisation laws of 1961. July 1961, perhaps, marked the beginning of a new era, in which the public sector was greatly expanded, and the government nationalised 80 percent of the nation's investments.

As a result, state-owned corporations played the dominant role in the economy, and the public sector in Egypt

was extended to cover almost all industrial activities, banking and insurance, foreign trade, wholesale trade and a significant portion of retail trade. Agriculture, the small craft industry, some small business concerns, and lesser portions of the retail trade were left to private sector ownership, though regulated by the government. At present there are 375 large-scale state-owned corporations which have acquired 27000 million pounds of investment capital [Badawi, 1988].

In addition, law no. 137 of 1961 gives workers the right to share responsibility in directing the company, by giving them two seats out of seven on the Boards of Directors of both private and public sector enterprises. Law 44 of 1965 was also passed to organise and manage public sector enterprises and to protect the right of employees by making certain provisions concerning the distribution of profits. For example, after the deduction of income tax, 25% of the profit should go to workers and employees.

7.4.1.2 Economic Development Planning

It could be said that the philosophy of the socialist planned economy which emerged in Egypt after the Nasser revolution in 1952 has resulted in a new mechanism for directing the country's economy, within which, all aspects of national policy- political, economic, social, administrative - are planned. The planned development effort began in 1960 and Five Year plans for the years 1960/61 - 1964/65, 1975/76 - 1980, and 1981/82 - 1986/87

were produced. However, the increasing complexity of the economy and the adoption of the open-door policy prompted the government to elaborate a more comprehensive strategy, to be incorporated into a Five Year plan covering 1987/88 - 1991/1992.

The responsibilities of the economic planning process in Egypt fall within four levels: [I. Hashim, 1966, p. 127].

(1) The National Planning Board

The responsibility of this board is to draw up general national planning policy, to set economic and social goals, to coordinate development schemes, to approve the comprehensive plan, and to monitor the execution of the plan.

(2) The Ministry of National Planning

The Ministry of National Planning is the technical authority responsible for preparing the plan. Its responsibility is to draw up the drafts of the national plan, which are built upon the studies of many specialised committees and the different ministries. It is also responsible for providing supervision of the compilation and publication of statistics and information required for planning.

(3) The Ministerial Committee for National Planning

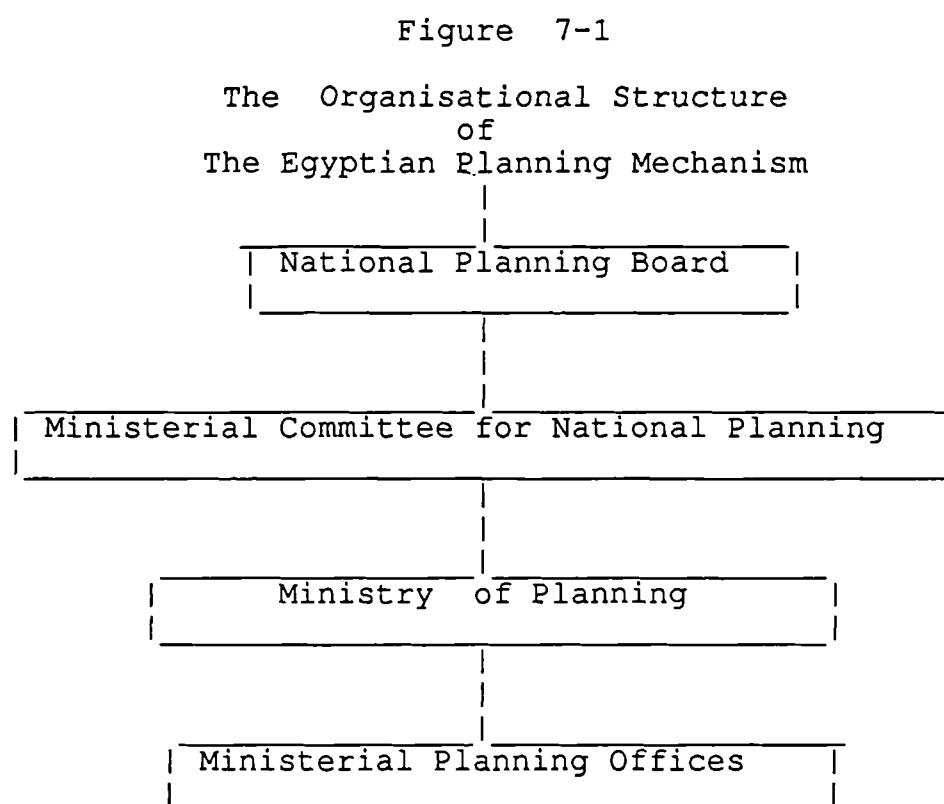
This committee is responsible for reviewing the final draft of the plan that is formulated by the Ministry of National Planning. It has to make sure that the proposed

plan conforms with the economic and social goals of the country before submitting it to the National Planning Board.

(4) The Ministerial Planning Offices

These offices are responsible for coordination between the Ministry of Planning and the different ministries. They were established to ensure that the national planning mechanism is provided with information concerning the monitoring of the plan.

Figure 7-1 illustrates the organisational structure of the Egyptian planning mechanism.



It is not surprising, therefore, that direct government participation in the ownership and regulation of economic

activities has been one of the principal factors affecting the development of accounting conventions and the accounting profession in Egypt.

National planning for economic development, especially with a large public sector, requires detailed information. However, final accounts are prepared in accordance with the Companies Act no. 26 of 1954; and the statements required by that Act are inadequate for the needs of economic development or of national income accounts.

Naim A Hassan argues that, in this respect, " If financial accounting data are not channeled adequately by a well-structured system, the compilation of national accounts can be a very difficult task indeed" [Hassan, 1986].

In effect, this is now done in Egypt, where accounting policies are tailored specifically to emphasise national goals, and where macro-accounting concepts dominate and affect accounting policies at the micro-level.

7.4.2 The Operational and Economic - political Structure of the Public Sector

The philosophy of a centrally planned economy resulted in a new organisational structure for supervising and directing the country's economy. In theory, the activities of the public sector were to be regulated by a tight organisational structure and the relation of the public sector to the private sector was to be maintained by a system of central planning.

The administration of the public sector was plugged directly into the ministerial system, immediately subordinate to the president. Public sector functions were classified into five major categories: Industry, Finance, Trade, Marketing, and Communications. Responsibility for each category was delegated to a minister, who was to exercise that responsibility through public organisations (similar to holding companies) that grouped related industries.

When the government took control of a whole range of businesses there was a great need for information, on the part of the National Planning Board, the Sectoral Ministries, the Boards of the Public Organisations, Managements and Boards of Directors of public sector enterprises, the Central Agency of Public Mobilization and Statistics, and various controlling and data collection agencies.

7.4.2.1 The National Planning Board (N.P.B.)

The central authority in Egypt is the National Planning Board, presided over by the president and consisting of consultants and Ministers. At this level the national goals in all their aspects political, economic, social and administrative - are planned, and here lies the responsibility for supervising and directing the implementation of national policy.

The NPB sets output in various industries, decides among alternative investment possibilities, determines (or

at least attempts to influence) the distribution of income, decides the rate of capital accumulation, and engages in financial planning.

In planning and devising the general policy of the country, basic information is obtained from the budgeting system of each public sector enterprise. In order to assist in processing all this information, critical changes in accounting systems applied by these units were needed and implemented after 1961.

7.4.2.2 The Sectoral Ministries

The Cabinet is divided into a number of Ministries based on the sectoral structure of the economy which is in harmony with the sectoral classification used in economic planning. Each Ministry is highly specialised in one of the branches of the economy. Within the authority of each Ministry is the direction, coordination and supervision of the public organisation within the relevant economic sector.

The public organisations, which are discussed below, are headed by Ministers, each of whom is responsible for the execution of that part of the National Plan assigned to the public organisation under his supervision. At first the Minister had the authority to supervise and control these public organisations to ensure the implementation of the National Plan, but by an Act of 1971 the Ministers' power of direction was abolished and replaced by one of approval [Abdallah, 1979, p.60]. Decisions taken by public enterprises and public organisations must now be referred to the

minister concerned for approval. These decisions include the annual budget, the balance sheets and financial accounts, investment, production, marketing, exports, employment policies, creation of new enterprises or purchase of shares, training policies and the rules and regulations relating to each organisation's work.

Although public enterprises are controlled by their sponsoring Ministers, they are also subject to control by other Ministries without being under their direct supervision. For example the Ministry of Planning, which is responsible for the preparation and monitoring of national plans in Egypt, has the right to ask for any information it needs from the public organisations and their affiliated enterprises. Hence all business enterprises are obliged to complete a special form sent to them by the Ministry of Planning known as "Planning Form No.40 : Financial Follow-up" (see Appendix 7-1).

The Minister of Finance is responsible for allocating funds to public enterprises after discussion of the National Plan in the Cabinet, and has the right to ask for reports and information on how enterprises are using their funds, in order to monitor their compliance with the plan.

Moreover, all public enterprises are obliged to complete other forms prepared and sent to them by the Ministry of Finance (see Appendix 7-2). This information is used mainly for the construction of the State Budget.

7.4.2.3 The Public Organisations

The Public Organisations were established as control mechanisms for public sector enterprises. Each Public Organisation is responsible for managing and supervising a group of enterprises in the same line of activity. [Egyptian Federation of Industries, 1966, p. 2]. In effect, each of them has the characteristics of a holding company.

The capital of the Public Organisation is derived from government participation in various joint-stock companies. In addition, it has the right to issue bonds in Egypt and abroad and to obtain loans from local and foreign governments and financial institutions. The Organisation is charged with the supervision and control of other public institutions designated by a Presidential Decision without the transfer of their capital. In addition, it can set up new companies as well as own shares and debentures of existing ones.

The control function is established in the following regulations:

- (1) The Organisation is represented on the board of directors of the various companies in proportion to its participation in their capital. In any case, the Organisation should be represented by at least one director whenever its participation is not less than 5 per cent of capital.
- (2) If the Organisation owns at least 25 per cent of the capital of a company, the president of the board, the

managing director or the director general of that institution is to be appointed by a Presidential Decision, from among three persons nominated by the institution after consulting the Organisation.

(3) Decisions taken by the board or the general assembly of companies or the boards of public institutions are to be reported by the representatives of the Organisation, within three days, to the president of the Organisation who can refer them for reconsideration within one week of notification.

(4) The accounts of the Organisation are to be audited by the Public Accounting Board (see section 7.4.3.1) at the end of each year.

In 1961 a presidential decree prevented the government, Public Organisations, and companies in which the government or Public Organisations participate to the extent of 25 per cent of the capital, from granting general contracts and public work to companies other than those in which the government and public organisations participate to at least 50 per cent of the capital, except by a decree from the President.

Formerly, there were 46 Public Organisations distributed unequally among 12 Ministries. Late in 1987 their number was reduced to 26, controlling 366 public sector enterprises and supervised by 12 Ministries (see Appendix 7-3).

All public enterprises are required to provide

information on their activities to their Public Organisations. This information includes: [EFI, 1966, p.2].

"(1) Information on the current operations which includes the current revenue and expenditure, each divided into main components.

(2) Marketing information, including sales data (actual and planned), divided between local sales and exports, compared with the previous year; similar information is also included in respect of purchases.

(3) Information about investment projects (actual and estimated), together with a detailed breakdown of the components of these investments.

(4) Financial and cost control information, which covers many items which are usually included in the profit and loss account, each compared with the previous year,"

Appendix 7-4 shows the actual forms on which this information has to be presented.

7.4.2.4 Public Sector Enterprises

The public sector enterprises are the individual productive units within the production and service sectors, and are managed in a very similar way to private sector enterprises. [Amer et al, p.311].

Within these enterprises there are many users of financial information, the quantity and quality of which depends on the level of sophistication of the users as well as the technical competence of the accountants. Financial information should assist management in planning and budgeting, in forecasting enterprise growth, and controlling this growth. Information will also be required to assist the effectiveness of the management, who, at different

levels, will use financial control ratios and standard costs to measure economic efficiency and productivity. This necessitates the development of financial accounting systems, internal control systems, internal auditing procedures, cost accounting, managerial accounting and computerised accounting, which help in providing standard information on a comparable basis.

7.4.2.5 Other Controlling and Data Collection Agencies

In addition to the above major agencies there are other agencies which perform other duties of control and the collection of information:

- The Companies Department, which requires, among other things the final accounts of each enterprise.
- The Ministry of Industry: examples of the type of information required by this Ministry include goods and services produced by the enterprise, the main inputs to production, and financial and cost accounting information (e.g. wages, materials used, maintenance, depreciation, profit/loss, and major components of inventories).
- The Central Agency for Public Mobilisation and Statistics. This agency demands all the information necessary to compile accounting and economic statistics for the national economy as a whole.

7.4.3 The Operational and Accounting Structure of the Public Sector

7.4.3.1 The Accounting Control Boards

After the establishment of the Public Organisations,

each one set up an Accounting Control Board (ACB) to audit the financial activities of its affiliated Companies in the same way as independent accountants. Some auditing firms, as well as individual chartered accountants, agreed to work on these Boards as state employees.

Members of the Boards were responsible directly to the board of directors of the public organisations, to whom they reported their findings and presented the financial statements of each company. Needless to say, because most of these members were chartered accountants, they assumed similar duties in auditing all state-owned enterprises and government authorities. In addition to the traditional auditing functions, members of the Boards also evaluated management performance and conformity with plans [Amer et al , 1981, p. 312].

7.4.3.2 The Central Accounting Organisation

After the public sector assumed the leading role in the economy, the State Audit Department assumed the legal right to audit the financial activities of Public Organisations, public sector enterprises, and government institutions.

In March 1964, a Presidential Decree was passed to replace the State Audit Department by the Central Accounting Organisation, which became the authorised government professional body in Egypt. The main tasks of the CAO are:

- (a) To audit enterprises in the public sector and government institutions.

- (b) To supervise the various state and public sector

enterprises in financial accounting, and technical matters.

(c) To monitor the implementation of the economic development plan.

Because of the CAO's 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 CAO has the authority to issue accounting and auditing instructions, which must be followed by organisations whose financial statements and accounts have been audited by its members [Presidential decree No. 2125 of 1966]. In particular, the CAO issued the Egyptian Uniform Accounting System, which has been in effect since 1967.

7.4.3.3 The Need for a Uniform Accounting System

After 1961, the Accounting Control Board of every Public Organisation tried to design its own accounting system and to choose the accounting methods to measure the financial activities of its affiliated companies. Since these activities are of the same nature and type, each Accounting Control Board was encouraged to design a uniform accounting system to be applied by all of its companies.

In addition, since Egypt has adopted economic planning, the accounts of public sector enterprises and government institutions must meet the requirements of an integrated information accounting system to facilitate decision-making at the macro, sectoral, and micro levels. Accordingly, the

need to review the efficiency of the Plan in public sector enterprises encouraged the establishment of a uniform accounting system.

Being in a position to control the financial aspects of all public sector enterprises, the Central Accounting Organisation developed a Uniform Accounting System (UAS) in December, 1966. The UAS was adopted and applied by all public sector enterprises effective from the fiscal year beginning 1st July 1967, with the exception of banks and insurance companies. More detailed information concerning the UAS will be given in chapter 9.

7.4.4 National Income Accounts

Enthoven has stated that:

"The aim of social accounting is to describe coherently, systematically and quantitatively the structure and activities of an economy-or its parts- during a certain time span and stocks (assets and liabilities) at a particular moment of time."[Enthoven, 1973, p.66].

Such information is needed for various purposes, including the construction of equations in econometric model-building needed for economic planning [Ibid., p. 66], and is provided through various macro accounts, which include national income accounts, balance of payments accounts and the national balance sheet. The success of these accounts in providing coherent, systematic and quantitative data covering the whole economy is dependent on the degree of uniformity applied in them.

In some economies, uniform information is provided

either because all enterprises use a uniform accounting system, or, if there is more than one system, then there is an organised relationship to make the conversion of data possible. This is the case in France, where standard information is derived by means of an accounting plan. This is supported by a body of regulation in the tax, company and commercial laws mentioned earlier (see chapter 3).

In the British economy, information is aggregated by statistical procedures to measure economic activities, and the Central Statistical Office (CSO) has to refer to sources other than published company accounts to compile the data required for national accounts. The reason is simply that company accounts are not prepared on a basis compatible with the requirements of macro-accounting regarding concepts, classification, valuation, measurement or uniformity [Hassan, 1986, p. 18].

The use of micro-accounting data in the UK, therefore, requires many adjustments and assumptions, and most of the macro data are built on estimates. It has been recognised that one of the essential conditions required for the construction of macro-accounts is the ability of macro-accountants to request legislation to obtain certain types of statistics from private business [O'Loughlin Carleen, 1971, pp.151/2]. Direct communication would be facilitated by national uniform concepts and accounting classifications rather than by the instructions which accompany censuses or other inquiries.

In the case of Egypt, the introduction of the UAS , applied to all public sector enterprises has facilitated the work of the Central Agency for Public Mobilisation and Statistics (CAPMS) in compiling National Income Accounts (NIA) and the National Balance Sheet (NBS).

Before the UAS there was an imperfect relationship between macro-and-micro accounting in Egypt. Business data was collected mainly by questionnaires together with periodic production censuses. With the questionnaire, firms were given instructions on terms and concepts, but the evidence suggested that accountants did not fully understand these instructions, and experienced difficulty in adjusting their figures to meet macro accounting requirements. [Ibrahim, January, 1988].

With the help of the UAS, the CAPMS has been able to overcome some of the basic deficiencies associated with compiling and constructing the NIA and NBS. Some of the problems which have been solved by the adoption of the UAS are [Abdel-Rhman, 1980, p. 44]:

- (1) the aggregation problem;
- (2) the absence of standardised and sufficiently detailed information to compile NIA;
- (3) the margin of error;
- (4) non-market transactions;
- (5) inventory valuation.

In regard to the aggregation problem, all terminology, concepts, rules, accounting bases and classification of

economic activities and goals as well as the method of presenting information through financial statements and budgets are made uniform as between accountants and economists. In other words, macro accounting concepts are inserted in to the uniform chart of accounts to facilitate the extraction of figures by macro accountants.

With regard to the absence of standardised and detailed data, the UAS has alleviated this by increasing the participation of micro and macro accountants in designing the code of accounts and by requiring micro levels to prepare standard statements, forms and budgets which include detailed information about the individual enterprise on the basis of unified classification, activity and goals.

The third problem can result from diversity in the practical application of the theoretical framework of classifications, definitions, method of valuation, etc., and from statistical errors as a result of the use of imprecise figures [Abdel-Rhaman, 1964, pp.24-35]. The UAS has overcome this by encouraging both micro and macro accountants to understand each other's techniques and language, eventually bringing about a reduction in the margin of error.

Finally, the UAS has assisted in solving the problems of non-market transactions and inventory valuation by unifying the accounting treatment of current operating performance to include imputed interest and rent, and differences in inventory valuation by market prices, in addition to eliminating those expenses and revenues which do

not belong to current operations, in order to facilitate the computation of value added according to macro-accounting concepts [Abdel-Rhaman, 1980, p.44].

The UAS also has several advantages for the compilation of information for the National Balance Sheet:

- (1) all economic units have an identical financial year and, namely 30th June.
- (2) all assets and liabilities are categorised in a specified manner which provides adequate disaggregation.
- (3) valuation methods for assets, liabilities, bad debts and depreciation are based on unified procedures.
- (4) The problem of " window dressing" is removed by the requirement of Egyptian company law for the presentation of consolidated group accounts.
- (5) A distinction is made between home and overseas lending and borrowing.

Having compiled NIA and NBS data for public sector enterprises, attempts have been made by the CAPMS to extend these accounts to the private business sector. All enterprises working in this sector, including foreign -owned firms, are requested to forward their balance sheets and final accounts in a form similar to that of the public sector enterprises and in a consolidated form [Aly, CAPMS, December, 1987].

However, especially since the adoption of the open-door economic policy , there is a need for more standardised

information to assist the preparation of the NIA and NBS. To that end, the majority of the interviewees proposed that Egypt should try to improve its accounting systems by establishing an integrated national accounting system, including, in addition to the UAS and the Government UAS, the following integrated uniform accounting systems:

- (a) A Uniform Accounting System for Financial Institutions.
- (b) A Uniform Accounting System for non-profit entities.
- (c) A Uniform Cost Accounting system by type of activities.
- (d) The extension of the application of the UAS to the private sector.

7.4.5 Government Accounting

Government Accounting can be divided into book-keeping and information systems.

7.4.5.1 Book-keeping System

With regard to government accounting , the Accountancy Law No. 127 of 1981 and the State Budget law of 1966 secured consistency in accounting policies within government administrative departments, public authorities and provinces. Transactions were recorded on a cash basis using a uniform book-keeping system of classification and coding. Control was exercised by comparing accumulated expenses after each transaction with the budget allowances, and the same was done with income. The government system did not distinguish between capital expenditure and current expenditure; fixed assets were not shown, and no depreciation or other non-monetary transactions were

recorded.

The State Accountancy Administration at the Ministry of Finance was responsible for the central control of government accounting. There was some uniformity in the accounting in that it was subject to the General Budget of the State with its standard classifications. The Ministry of Finance classification system and instructions applied to each department; accounts were defined and the elements to be recorded in each account specified. This led to the publication of a uniform report of both financial and statistic information, which also facilitated the training of staff in any department.

By the use of uniform book-keeping, uniform classifications of accounts, and uniform financial information, it became relatively easy to prepare a General Budget and to organise planning and control in the Government Accounting System. The information provided by government accounts, however, was based upon historical data, recording transactions which may have taken place at any time during the year. The system thus did not provide current economic data. However, the data aggregated from government book-keeping was helpful in the preparation of the general budget, when each department prepares an estimate of expenditure and revenue based on the historical data of the previous year and taking into account the changes that are expected to occur during the following year.

The system still used a cash basis and still did not distinguish between capital expenditure and current expenditure, and thus hindered the evaluation of the financial position of the administration. The evaluation of the efficiency of departments in their use of funds was difficult. This was the situation which encouraged the establishment of the Government Uniform Accounting System in Egypt.

7.4.5.2 The Government Uniform Accounting System

An integrated information system that meets both government and public sector enterprise requirements was established in Egypt in 1980. The basic philosophy underlying the Government Uniform Accounting System (GUAS) is an economic one.

7.4.5.2.1 Objectives of The GUAS

The main objectives of the GUAS are:

- 1) To facilitate planning and monitoring of both current and capital flows for both the government and the public sector.
- 2) To facilitate the review of the capital structure of any public service or state enterprise, and consequently to prepare consolidated balance sheets for the government and public sector enterprises.
- 3) To provide the information required for productivity measurement and to facilitate the design of the performance budget.
- 4) To help in improving efficiency through an analytical comparison with the best practice of entities working in the

same conditions and similar fields.

5) To facilitate planning of the domestic national product, of the share of each service or public sector enterprise in its generation, and of the structure of its distribution.

6) To facilitate the appraisal of savings and investment.

7) To facilitate the role of the state in planning by improving co-ordination of the state budget.

7.4.5.2.2 Chart of Accounts

The GUAS chart of accounts is divided into four main classes of accounts: assets (given the digit one), liabilities (given the digit two), current flows (given the digit three), and capital flows (given the digit four). The first two classes constitute the balance sheet accounts; the other two classes constitute flow and capital budget accounts.

Each group is divided into sub-accounts, with each sub-account further divided as shown in Figure 7-2.

Sub-accounts derived from the general account for assets cover both governmental and state enterprise assets, including infrastructure assets such as airports, roads, and water networks. The special financial assets of the government, such as its ownership rights in state enterprises and its participation in international organisations are also taken into account.

The sub- divisions of the liabilities reflect the special nature of treasury liabilities; the public fund

invested in assets is a sub-account derived from the capital account (21), long-term loans due to the Central Bank or to international or foreign agencies and governments are sub-accounts derived from the long-term loans accounts (24); while the treasury notes account is a sub-account derived from the Credit Bank accounts no. (25).

Figure 7-2

Framework Of The Government Uniform Accounting System

Balance Sheet Accounts		Budget or Financial Flows Accounts	
Assets (1)	Liabilities (2)	Uses (3)	Sources (4)
11 Fixed Assets	21 Capital	31 Wages	41 Sovereign Revenues
12 Projects in Progress	22 Reserves & Retained Surplus	32 Current Expenditures & Transfers	42 Current Revenues & Transfers
13 Inventory			
14 Long Term Debts	23 Provisions		43 Different Capital flows
15 Financial Investments	24 Long Term Loans & Bonds	33 Investment	44 Loans & Credit Facilities
16 Debtors		34 Capital Transfers	
17 Reconciling Debit Accounts	25 Credit Bank Account		
	26 Creditors		
	27 Various Credit Accounts		
	28 Outcome Of the Year		
	29 Reconciling Credit Accounts		

Source: Dr. Ahmed Salem, Under-secretary of Ministry of Finance, The Second Cairo International Conference, op cit.

Creditors are also analysed between business or service sector and public or private sector. The creditors account also takes into consideration the different types of taxes on state enterprises due to the Ministry of Finance.

The financial flows and budget accounts reflect the subdivisions of the state budget: the current budget and the capital budget.

The classification uses a code which distinguishes between current uses and capital uses. Capital uses, in turn, differentiate between physical investment and capital transfers. The purpose of this is to facilitate the computation of the value added generated through production and its distribution among factors of production, in order to assist planning and monitoring the GDP.

The accrual basis is applied in the GUAS with regard to investment, but the cash basis is applied in the current budget accounts. Co-ordination between the cash basis applied to the current budget for cash control purposes and the accrual basis required for financial control is being studied [Salem, 1986, p.9].

A responsibility centre chart has been produced to designate the main centres in the government and in the public sector. This chart has two aspects, taking into consideration the organisational divisions and economic sectors or activities. Appendix 7-5 shows the structure of this chart.

7.4.5.2.3 Administration of the GUAS

A Government Accounting Committee representing Egyptian Faculties of Commerce, the CAO, and some leading professional figures has been formed to provide a continuing review and appraisal of the system and to suggest revision if the need arises. In addition, a system of joint review and co-ordination between the Ministry of Finance and the CAO has recently been set up to secure the accuracy of the government financial accounts ; any variation in accounting policies should be disclosed and defended.

7.4.6 Computerisation

The development of accounting has given rise to a need for book-keepers and accountants to handle the growing flow of financial data. With skilled manpower at a premium, advanced technological hardware and software have become invaluable.

The CAPMS in Egypt was the first to use the computer for social accounting and teaching purposes; now many other industries, universities, and public sector units use it. The coding used by the UAS makes it relatively easy to use computer facilities, since these codes are used by all public sector entities.

There may be advantages in storing centralised data in one ministry, so that all data flows there. Centralised data processing tends to encourage centralised accounting. [McRae, 1976,p.71].

However in Egypt, it is preferable to apply a decentralised computer system for the following reasons [El-Rafaai, February, 1988]:

- (1) It is a useful means of communication.
- (2) There is a considerable geographical distance between units.
- (3) There is a danger of breakdown in communication between the centre and the units.
- (4) It is difficult to obtain critical data concerning specific items at the right time.
- (5) Any breakdown of the centre would delay the work of the units.

A distributed processes system should be introduced instead of a central computer using the direct transaction process. The main computer would be sited at the Ministry of Finance with a memory in each public organisation, and a small computer in each company.

7.4.7 The Arab league

The first move towards Arab economic unity was " Decision No. 17" of the Council of Arab Economic Unity (CAEU) which established the Arab Common Market (ACM) in the mid 1960'S. This involved considerable economic coordination, for example the creation of a free trade area, and an Arab Payments Union. The countries involved included Egypt, Iraq, Syria, and Jordan.

The establishment in November, 1970, of " The Industrial Statistical Consultant Committee", of the Arab

League, attempted to enhance economic co-operation. Then, in July 1971, it was recommended that consolidation of accounting and statistical data could best be achieved by the introduction of a uniform accounting system to be used by Arab countries. The aim of the system would be to link enterprise accounting to national accounting and to serve as a tool for economic development and Arab coordination. It would use standardised accounting terminology and valuation rules and a uniform financial and management reporting system.

A commission, set up by the League, developed a uniform accounting and statistical guide which, it was claimed, took account of the different economic systems of the Arab countries. Among the sources on which the Guide was based were the French plan, the UN's Classification Code and the Egyptian UAS. It consists of the following:

- (a) Uniform code and statistical guide;
- (b) A manual of information on how to use the Guide;
- (c) Standard definitions of accounting terms;
- (d) Cost accounting system;
- (e) Standard set of accounting records;
- (f) Standard valuation rules; and
- (g) Standard layouts for financial reporting.

On the basis of this system, uniform accounting systems have been designed in many Arab countries including Egypt, Iraq, and Syria, whose economies are largely government-controlled.

7.4.8 Professional Associations

There are three professional accounting associations in Egypt, two of which are academic (The Arab Society for Cost Accounting , and the Financial Management Association), and the third professional (The Egyptian Society of Accountants and Auditors). The most active is the ESAA, as mentioned previously, was established in 1946 with the aim of improving the education and professional accounting skills of its members through study, research, conferences and seminars, and exchange of experience and knowledge in the area of accounting.

In the period before 1961, the profession played an important role in public accounting through education, which was developed by the government at both school and University level [Amer & Khairy,1981], and enhanced the standards of the profession as laid down by the members of the Commission on Standards of Education and Experience for CPA [Amer, 1969]. Briston adds that the profession played a significant role in establishing accounting conventions by maintaining regular channels of communication with professional and educational bodies in the west [Briston & El-Ashker, 1985].

The creation of the public sector and the authorisation of the CAO to audit the financial activities of public enterprises had important consequences for the accounting profession: "Most Egyptian accountants have had no alternative other than to accept government employment" [

Kollaritsch, 1965, p.385]. However, these accountants have played a significant role in three aspects of accounting for public sector enterprises: firstly, by setting rules, procedures, internal control systems, and auditing guidelines for public sector enterprises [Mr. Badiea A. Saad, January, 1988]; secondly, by training members of the Public Accounting Boards in the rules and procedures of auditing, especially the format and content of audit reports and audit programmes, and educating these accountants in the relationship between an auditor and his client [Mr. Salah El-din, February, 1988]; thirdly, supervising and reviewing the system continuously as members of the permanent Committee established for this purpose from the beginning, most of its members being chartered accountants, part of whose brief is to incorporate any new ideas thought to be relevant to the system [Interviews with Mr. Salah El-Din and other members of the CAO, February, 1988].

The society also represents local accountants at the annual meetings of the International Accounting Standards Committee, and at regional conferences such as these held in Accra in 1979 and in Kuwait in 1985. It has also played an active role in holding national and international conferences on accounting and auditing, in Egypt. It helped in the preparation of the First and Second International Conferences on Accounting and Auditing Standards held in Cairo during 1980 and 1986 respectively. In addition, the society has re-established the Egyptian Institute of

Accountants and Auditors, and held a national conference in 1987 to discuss an exposure draft of four accounting standards [The Egyptian Society of Accountants and Auditors, 1987].

However, it cannot be said that the society plays a major role as a national accounting body. The problem, as indicated by most interviewees, is that all the professional regulations and the authority are in the hands of the Ministry of Finance. As a result, the Society has no authority to play a supervisory role in the profession.

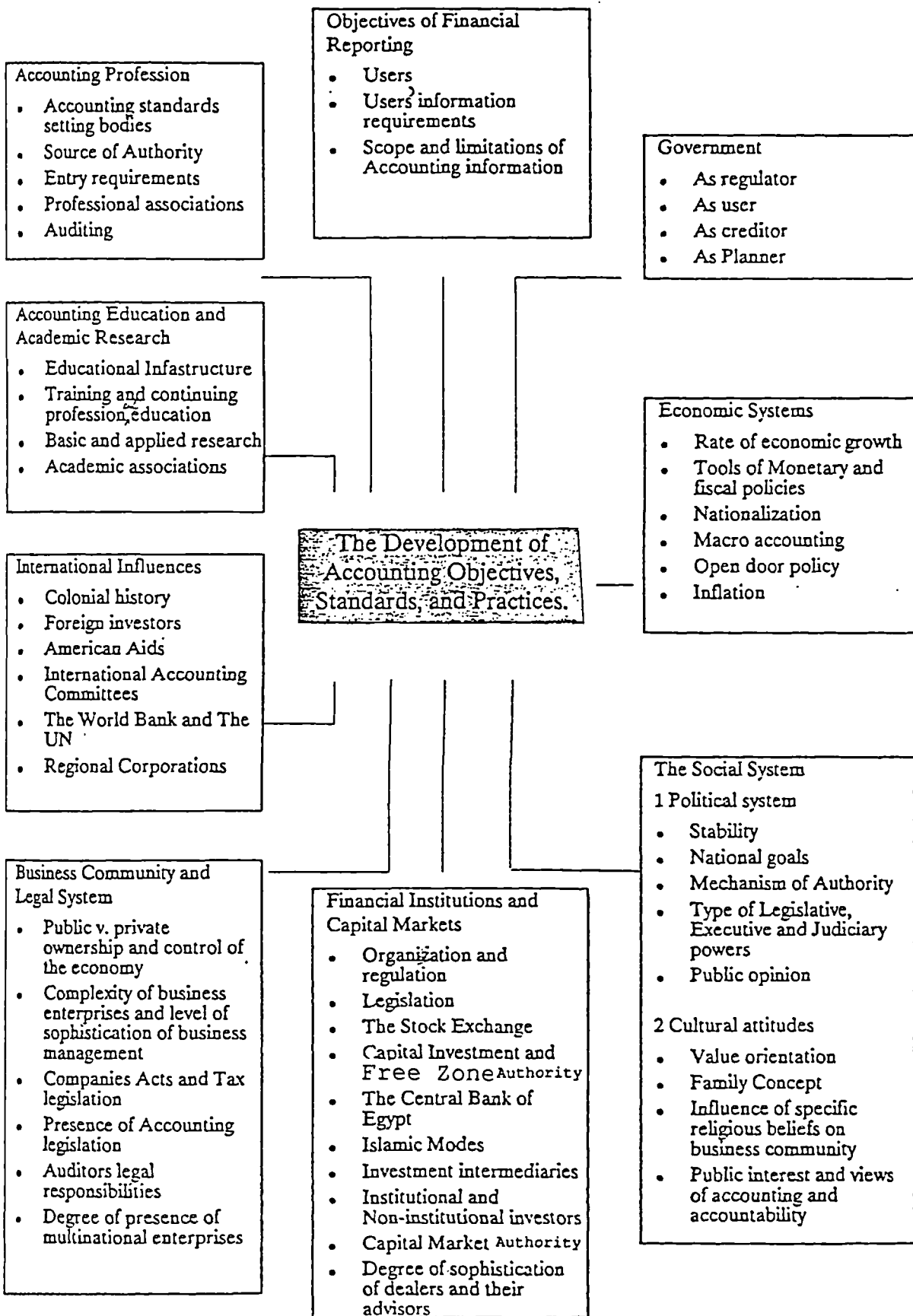
7.5 Summary and Conclusion

It has been shown in this chapter that the choice of accounting standards and techniques in preparing accounting and financial reports in Egypt is regulated entirely by the government, which does not allow state accountants to adopt different accounting principles and methods such as are used in the UK and the USA.

This clearly supports the importance of environmental variables in the choice of accounting policy in a given country. Egypt's need for uniform data to assist in national planning gave rise to the adoption of a uniform accounting system which permits a greater degree of inter-company comparability and a lesser degree of management manipulation of the accounting figures.

This chapter discussed the most important factors affecting the process of setting accounting standards in Egypt. Figure (7-3) illustrates how this process is linked.

Exhibit 7-3 Environmental variables Affecting The Process of Setting Accounting Standards in Egypt



Source: Modified version of EL-AZMA, M. A. & AL-BASSAM, S., 1987, p.350.

In Table (7-1) we group the main environmental characteristics into variables falling within the domain of the accounting function, the economic system, the social system, and the international system.

Table (7-1)
Some Environmental variables
affecting the process of setting
accounting standards

* Within the domain of the accounting function
(1) Objectives of financial reporting
(2) Profile of the accounting profession
(3) State of accounting education, training and continuing professional education
(4) Professional and academic associations
* Within the domain of the economic system
(5) Economic system at the macro-level
(6) Nature of enterprises and characteristics of management
(7) Inflation
(8) Government interference
* Within the domain of the social system
(9) Political system
(10) Legal system
(11) Social climate and cultural attitudes
* Within the domain of the international systems
(12) Colonial history
(13) Foreign investments and American aid
(14) The World Bank and the Big Eight

The most important factor which has resulted in the emergence of uniformity is the nationalisation of the Egyptian economy, which resulted in immediate changes in the institutional structure of the state organisation. Each state organisation consists of a number of economic sectors, each of which consists of a number of public organisations which in turn consist of a number of economic units. This

vertical integration of the decision-making process has made possible the shaping of decisions at both the micro and macro level.

The institutional structure of the Egyptian economy described in section 7.4.2 requires readily aggregatable and comparable accounting data which previous systems had been unable to offer, due to the variety of their sources. These included disparate government accounting requirements, backward Companies Acts and state auditing requirements, etc.

National planning is another important factor that has influenced the development of the uniform accounting system in Egypt, for the whole economy is centrally planned. National planning requires an information machinery which supplies relevant data in an aggregatable and comparable pattern so that the process of resource allocation can be made more efficient. This can only be achieved if data is based on a uniform accounting system including uniformity at the planning phase, i.e. standard formats of plans sent to the planning agencies at the top level, and uniform accounting returns provided during the application period for checking on the smooth application of the plans.

Thus uniformity in Egypt was born of its environment and this environment or certain characteristics of it continue to influence accounting development.

The study of the main environmental factors affecting

the development of accounting regulation in Egypt suggests that accounting can and should be a dynamic discipline; many different systems exist around the world to suit different circumstances. The analysis of accounting in a given nation should present not only a description of the current state of the art, but a discussion of the changes in accounting objectives, standards, and practices, the variables which led to those changes, and how these changes were accomplished. This type of analysis will help identify common situations where regional principles can be adopted, and situations where uniform standards and practices may be necessary or where diversity is simply impracticable.

CHAPTER EIGHT

THE STATE OF ACCOUNTING EDUCATION AND THE ACCOUNTING PROFESSION IN EGYPT

8.1 Introduction

The purpose of this chapter is to give a better insight into the current status of the accounting profession and of accounting education in Egypt.

The major sources for this chapter were interviews with key government officials, leading accounting firms, and a number of accounting professors, as well as figures and documents provided by experts in the field.

8.2 Accounting Education, Training and Research

8.2.1 Introduction

As Bedford emphasises, accounting education can select and apply the elements of the basic accounting system, fitting them to the needs of the country concerned. Accounting has an increasing role in developing the economic information system, which is probably second only to the country's natural resources as a determinant of economic development [Bedford, 1976, p. 76].

Accounting education has a major role to play in economic development. Its usefulness, however, will depend on its relevance to the socio-economic and political environment of the country [Enthoven, 1981, p.65].

8.2.2 General aspects

Accounting education in Egypt started in 1911 with the opening of Fouad First Higher School of Commerce of the Cairo University at Giza. The courses, however, were dominated by law, economics, and management, with little

room for accounting [Amer et al, 1981].

Since 1956 the higher accounting education system in Egypt has been uniform across the country under the supervision of the Ministry of Higher Education. Since 1962, tuition has been free at all levels of education, and the number of universities has increased from only four in the late 1960's to fifteen at present, each with a faculty of commerce offering various degrees in accounting.

The education system in Egypt is greatly influenced by the British system. The academic year consists of thirty two weeks, with a four-year undergraduate programme, and study must be full-time.

The first three years of the undergraduate programme are "general" years, in which the student gains background knowledge of accounting and related subjects such as economics, mathematics and applied statistics, management, and so on. In the final year the student specialises in one of four main disciplines: accounting, management, economics, or insurance.

Perhaps the two most influential factors upon accounting education in Egypt are the structure and content of the accounting courses and the education and background of the faculty staff. Both of those two areas are to a great extent British and American oriented.

8.2.3 Undergraduate Programme

The undergraduate programme lasts for four academic

years. The first three years form the general core requirement for all majors in the Faculty of Commerce. The fourth year is devoted to the accounting major requirement for all accounting students. Appendices (8-1 & 8-2) show the courses undertaken by students in the Faculty of Commerce at both Ain Shams and Assuiet universities during the four years 1984/1988. Students have to take 32 courses, divided among accounting and other related subjects (see Table 8-1). These courses are required by every student studying for "B.Comm." with an accounting major.

Table 8-1
Accounting Degree Requirements In
Egypt's universities

Fields	Year										The Beamer Committee's	
	1		2		3		4		Total		Report	
	Hrs.	%	Hrs.	%	Hrs.	%	Hrs.	%	Hrs.	%	Hrs.	%
Humanities	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	9	6.0
Accounting	5	17.9	5	19.3	14	53.8	19	65.6	43	39.5	45	30.0
Economics	7	25.0	3	11.5	3	11.5	3	10.3	16	14.7	12	8.0
Management	4	14.3	9	34.6	5	19.2	3	10.3	21	19.3	24	16.0
Behavioural Science	2	7.1	0	0.0	0	0.0	0	0.0	2	1.8	6	4.0
Mathematical & Applied												
Statistics	3	10.7	3	11.5	4	15.5	4	13.8	14	12.8	18	12.0
Law	3	10.7	2	7.7	0	0.0	0	0.0	5	4.6	6	4.0
Others	4	14.3	4	15.4	0	0.0	0	0.0	8	7.3	18	12.0
Electives	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	12	8.0
Total	28	100.0	26	100.0	26	100.0	29	100.0	109	100.0	150	100.0

Source: compiled from Appendix 8-1 & Appendix 8-3.

As can be seen, a heavy weighting is given to accounting courses (39.5%) as compared with other related subjects. This proportion is far higher than the 30 per cent recommended by the American Accounting Association [Enthoven, 1981, pp. 83-84].

Twenty-four out of forty-three in-class hours (about 62.8%) in accounting, auditing and taxation are spent on financial accounting subjects dealing with financial reporting for private sector enterprises (see Table 8-2).

Table 8-2
The Make-Up of Accounting Courses
in the Departments of Accounting
in Egypt Universities

Year	Course Title	No. of Hours	%
1	-Principles of Accounting	5	11.9
2	-Partnership and Corporation Accounting	5	11.9
3	-Budgets and Government accounting	4	9.5
	-Costing	4	9.5
	-Principles of Auditing	3	7.0
	-Taxation	3	4.8
4	-Cost Accounting	4	9.5
	-Auditing	3	7.0
	-Tax Accounting	4	9.5
	-Accounting for Financial and Commercial Institutions	4	9.5
	-Accounting Systems	4	9.5
Total		43	100.0

Source: compiled from Appendix 8-1.

Very limited attention is given to internal auditing and control, accounting systems and data processing, and,

most importantly, the uniform accounting system.

The uniform accounting system is covered only in the second semester of the second year programme, when the course, " Partnership and Corporation Accounting" (Unified Accounting System) is taught for four hours (2 hours lecture and two hours applied) per week for approximately 5 weeks. This is still the case despite the authorities' continued calls for accounting education to serve the needs of economic development.

The inadequacy of teaching related to uniformity causes considerable problems in the application of the uniform accounting system, for almost all accounting graduates are employed by the state organisations which apply the UAS. In contrast, in France, for instance, the Plan Comptable General is taught to everyone who undergoes any form of accounting or commercial training.

Furthermore, the curriculum lacks courses on topics such as economic development theory, uniform accounting philosophy and theory, the role of accounting in economic development, accounting research methodology and accounting in developing and developed countries.

8.2.4 Graduate Programme

This programme consists of an academic graduate programme and a professional graduate programme.

8.2.4.1 Academic Graduate Programme

Most of the major universities provide this programme,

which enables commerce graduates (B.Comm. hereafter) to earn a Masters degree (M.Sc.), or a doctorate (Ph.D.) in accounting.

For entry into the graduate programme, the regulations require a B.Comm. graduate to have a degree with at least a "Good" score for every year of the programme, and "upper second class" (very good) in all subjects related to his specialised area.

The Masters degree in accounting requires one year of accounting courses, which cover accounting theory, cost accounting, management accounting, auditing, taxation, and research methodology. After successfully completing these courses, the student has to write an extensive thesis.

For the Ph.D. degree in accounting, there are no formal courses (except at the university of Ain Shams where a preliminary one-year course is required). Once the Ph.D. thesis is completed, a three-member committee will discuss the thesis at a public hearing.

8.2.4.2 Professional Graduate Programme

In the professional graduate programme, there are several diplomas offered to B.Comm. graduates who have at least two years of professional experience. The purpose of this programme is to help graduates who possess practical experience to improve their performance and to up-date their knowledge in their areas of specialisation.

Students require at least two years of experience in

related areas of study and two years of course work in evening classes. No thesis is required.

8.2.5 Accounting Research

Research is generally acknowledged to be one of the basic responsibilities of academic departments at universities. Accounting research, however, is not emphasised in Egypt due to the lack of resources, of time on the part of faculty staff, of recognition on the part of the authorities, and of encouragement from other parties. Nevertheless, university regulations encourage research in various disciplines, including accounting, as a method of upgrading the knowledge and teaching methods of university staff.

Such research as is conducted is usually technically-orientated and often lacks intellectual foundation because the majority of faculty staff writings are for promotion purposes [Amer & Khairy, p. 322]. Very few of the projects have any empirical data and most have been descriptive studies of subjects not related to the Egyptian environment.

The other means of research are the dissertations and theses which are completed by MSc. and Ph.D students at Egyptian universities and by Egyptians studying at universities in other countries. Academic research is published by the Egyptian universities and academic journals. In general, it is fair to say that accounting research is somewhat limited in Egypt.

However, this must be changed. Accounting research should be related to current Egyptian accounting problems, such as current cost accounting, treatment of foreign exchange, accounting for multinationals, comparative accounting, accounting regulation in different parts of the world, internal auditing, computerised accounting and data processing, and a conceptual framework for uniformity in accounting related to Egyptian needs.

Research should be given more financial and moral support from both inside and outside universities, by such means as financial compensation, ability to attend national and international accounting conferences, freedom of access to data, and research facilities, such as up-to-date journals and textbooks, etc.

Professional development and programmes for continuing education, for academics and professionals in accounting, are more and there is no academic accounting association which could hold meetings, seminars, workshops, or conferences for instructors across the country.

For practitioners, there is no recognised national professional body with formal programmes for professional development. Recently, international accounting firms have established offices and research centres in Egypt, to meet the increasing needs of foreign investors. Finally, there are some local private and public centres working jointly with foreign organisations, conducting research training

programmes for both public accountants and government auditors (see Appendix 8-4).

8.2.6 Problems of Accounting Education

Unlike other developing nations, education in Egypt is at a reasonable level, though many problems persist . The problems of higher education in Egypt are basically economic in nature [Interviews with Dr. Khairy and some other professors, December 1987 & February, 1988], and affect faculty staff and students in the following ways:

8.2.6.1 Methods of instruction

Lecturing to 2000 - 2500 students through a microphone is a common phenomenon at Egyptian Universities. This is because the free education system and the continuous increase in population have created a greatly increased demand for higher education, which cannot be met by the existing provision.

Table (8-3) shows the increases in the numbers of students enrolled in Faculties of Commerce at Egyptian Universities, by total, and the average in each school year, from 1979 - 1985.

In order to cope with such large numbers of students, faculty educators present courses in a large lecture hall, the capacity of which can range from 2000 to 3000 students, for a period of two to three hours a week for each course, using microphones and loud speakers. This large number is then divided into smaller groups or "sections", containing

from 50 to 60 students. In each section, a demonstrator or assistant lecturer, when available, assists students to solve problems, gives some explanations, and allows students to raise questions related to the subject-matter of the lectures given by the permanent staff.

Table (8-3)
The Average Numbers of Students Enrolled in
Faculties of Commerce, by School Year

(unit in 0000)

Year	Total No of Students	Average .	Range ..
1979/80	124 169	2069	2000
1980/81	130 006	2167	
1981/82	132 872	2215	to
1982/83	146 309	2438	
1983/84	152 893	2548	
1984/85	154 182	2570	2500

Source: Compiled from data published by:

Central Agency for Public Mobilization and
Statistics, Statistics year Book: ARE 1952-19,
(Cairo, Egypt, June 1986).

(.) The average is calculated as follows:

Step 1: The Total Number of Students enrolled in all the Faculties of Commerce divided by (15)

Step 2: The result of Step 1 divided by 4 to obtain the average number of students enrolled in each school year.

(..) The average ranges from 2000-2500 in each school year. Thus each Faculty of Commerce has approximately 8000 - 10000 students.

Furthermore, section roll-calls are not compulsory; homework assignments are not obligatory; mid-term examinations are not common, and even where they are held, students do not take them seriously; communication between

students and faculty staff is poor, with little personal contact or advice; library research is not popular among undergraduate students because term essays or course work for research projects are not common. Instead, students depend heavily on the textbooks which are usually written by faculty members and also on notes taken in lectures and sections.

The current teaching style- classroom lectures, mechanical exercises and text book reading- is simply a spoon-feeding method which makes the student totally dependent on memorising written material, with no development of creative or analytical thought. Hence, case studies, seminars, field trips, on-job training, real world problems and research-oriented projects should all be integrated into accounting education, if accounting students are to contribute to their country's development.

8.2.6.2 Books, References and Journals

Accounting text books in Egypt are either British or American books translated into Arabic, or text books written by Egyptians who were educated in the UK or the USA. The lack of good and up-to-date textbooks in Arabic is a major problem.

Course material, as evidenced by interviews with accounting staff and on personal observations, is based upon the Anglo-American background; with very little modification to meet the problems of the country. These textbooks are mainly concerned with technical rather than conceptual

issues and lack a specific Egyptian orientation.

Amer and others, in their review of accounting education in Egypt, notice that over the last twenty years there have been no significant changes in the content of the courses in the four - year programmes. They add that the development of accounting education in Egypt is very slow and has so far been accorded little interest by academics or government authorities [Ibid.].

The fact that the vast majority of newly graduated accountants are allocated to various public sector enterprises and the CAO, which applies a uniform accounting system and a very broad auditing function, makes it very difficult for them to apply their western accounting knowledge in their jobs. It is for this reason that the majority of interviewees at the CAO and the Petroleum sector proposed that all newly -graduated accounting students should be trained in public sector accounting and the UAS framework for at least one year before being allocated to public sector enterprises.

8.2.6.3 Accounting staff and students

The minimum requirement for teaching at an Egyptian university is a Doctorate; professional qualifications are not required, as they are not accepted as a basis for appointing lecturers. At present, all accounting staff are full-time, with a minimum teaching load of eight hours per week for professors, and twelve for lecturers and senior

lecturers. Because of the excessive teaching load due to the engagement of teachers in more than one institution, the poor staff/student ratio, and the busy schedule of faculty staff (including their own practices, and consultancy) there is little time for study and research, advising students, or even for class preparation.

This has led to :

(1) a lack of up-to-date information on the latest developments in the field of accounting.

Because of internal, social, and economic problems faculty members are too occupied by local problems. There is no time available for reflection of what accounting now is or should be in the future. With the continuous involvement in projects to supplement their salaries, faculty members are left no time for reading and conducting any significant research [Ibid.,p.322].

(2) a poor quality of graduates; as a result of the busy schedule of the instructors, accounting teaching is dependent on text book assignments and lectures, combined with blackboard demonstration. There is too much emphasis on preparing students through memorisation, and not enough on developing critical analysis and reasoning.

8.2.6.4 Other Problems

Other educational problems are inadequate accounting libraries and other educational resources. Libraries in universities are always understocked with respect to accounting literature. For instance, the scarcity of foreign currency prevents the purchase of up-to-date texts. It is not unusual to find textbooks that are ten, twenty, thirty

or more years out of date being used in the schools' libraries. Furthermore, since most of these books and periodicals are in English, they are not fully used. In addition, visual aids, computer facilities and other supporting equipment and resources are neither adequate nor, usually, up to date.

8.3 The Accounting Profession in Egypt

8.3.1 Introduction

Kohler defined a " profession" as:

" A vocation: a)generally recognized by universities and colleges as requiring special training leading to a degree distinct from the usual degrees in arts and sciences; b) requiring principally mental rather than manual or artistic labour and skill for its successful prosecution; c) recognizing the obligations of public service and of the public interest; and d) having a code of ethics generally accepted as binding upon its members," [Kohler, 1983. p. 399].

Some of these elements are considered in a broad definition by Cogan (1953) which emphasises theoretical understanding of some branch of knowledge, applied to human affairs in the context of certain ethical imperatives, particularly that of altruistic service to the client [Cogan, 1953, pp.35-50].

Cook and Wrinkle (1976) apply Kohler's criteria of specialised training, intellectual activity, public service and ethics, concluding that public accounting possesses all these characteristics [Cook & Wrinkle, 1976, p.6].

Buckly and Buckley (1974, p.89) argue that the profession offers expertise and altruism, in exchange for

which it receives autonomy and authority. In seeking professional recognition, aspirants offer a unique set of knowledge and affirm that it will be served in the public interest. The public responds by granting autonomy to the profession. This leads to an authority mechanism in which the parliament or the government grants privileges, such as those of licensing or issuing standards, to the profession [Ibid., p.89].

Buckly and Buckley refer to accounting as a profession, defining it in terms of the problems it addresses. Within the broad aim of achieving effective resource allocation are defined several subsidiary goals, which include:

"a) technical assistance in policy formulation; b) the design and management of the information system; c) the evaluation of results, personnel, operations, financial systems, social goals; d) assessing performance in relation to standards, competing system and changing conditions; and e) assisting in design and evaluating the effectiveness of planning and control activities," [Buckley & Buckley, 1974, p.15].

In this section the researcher will consider the main characteristics of the accounting profession in Egypt, with a view to deciding whether Egypt's economic and social environment needs a powerful accounting profession with self-regulation and standard-setting.

8.3.2 Historical Background

The characteristics of the accounting profession are the product of social and economic changes in the developed countries during the industrial revolution. In developing

countries, however, it is a product of not national changes in those countries, but of UK/US influence.

Although it is difficult to identify when accounting was first practised in Egypt, there was no established accounting profession there until late 1945.

The first attempt to regulate the accounting profession was in 1946, when a law was passed to establish the "Egyptian Society of Accountants and Auditors". During the early 1950's, the accounting profession played an important role in public accounting through the Egyptian Society of Accountants and Auditors. The Society was (and still is) the national professional organisation that limits its membership to chartered accountants. The duties and liabilities of the Institute of Chartered Accountants (CA) in Egypt were similar to those of chartered accountants in England.

In 1951, in a move aimed at protecting the public and enhancing the status of the accounting profession, law 133 was enacted giving authority to the then Ministry of Trade and Industry to issue licences to professional accountants. The law also specified the qualifications and requirements for a person to be a registered accountant. The only real benefit of the law was that it restricted the practice of auditing and accounting to those with some academic qualification and professional experience. In spite of its many shortcomings (e.g. it does not distinguish between

public accountants and chartered accountants, it does not make any provision for the establishment of a professional body, it does not make any provision for professional examinations, it gave the Minister of Finance the authority to decide what accountancy experience can be accepted in lieu of training in public accountancy, and dealt to only a limited extent with the area of professional ethics and disciplinary action) the law is still in effect.

However, it was not until 1958 that the accounting profession was organised, with its own guidelines and code of professional ethics. In the early 1958, the Council of the Syndicate of Accounting professions created a sub-committee consisting of ten qualified figures in the field to prepare a charter for the practising accountants and auditors. The sub-committee produced a charter which contains 20 articles in four chapters (the first chapter concerned the rights and responsibilities of the auditor, the second, professional confidentiality, the third, explanations of some special situations which face the auditor in performing his duties, and the fourth dealt with professional ethics). The main contributions of the charter to accounting development were that it introduced auditing guidelines , and provided a standard format for auditors' reports in general and those of joint-stock companies in particular. It also accepted, for the first time, the notion of a "qualified report". Before this charter, accounting principles and methods had been considered to be the

responsibility of the management and board of directors of individual firms.

Until the late 1950's, private sector ownership was dominant, and the public sector was restricted to some public utilities such as railways, electricity, post office, telephones, and irrigation. In this period, public accounting in business and in government was provided by two sources:

- (1) chartered accountants, and
- (2) the State Audit Department.

During this period, business enterprises whose capital exceeded L.E 1000 had to hire a chartered accountant to audit their financial statements.

According to state law, financial statements of businesses in which the government had ownership interest of 25% or over were to be audited by the State Audit Department (SAD hereafter), which was a public agency similar to the General Accounting Office of the U.S Government [Briston & El-Ashker, 1985, p. 130] , or the Exchequer and Audit Department in the U.K. [Amer & Khairy, 1983, p.310]. Representatives of the SAD performed their audit in accordance with the rules and procedures prescribed by governmental agencies.

Changes in the economic and political systems of Egypt resulted in basic changes in the accounting profession , particularly after July, 1961. After the nationalisations in

1961, the government established many specialised state agencies called "Public Organisations", each of which managed and supervised a group of public companies or state-owned enterprises engaged in a particular type of activity. Each Public Organisation established an Accounting Control Board to examine the financial activities of its affiliated firms in the same manner as independent accountants [Law no. 167 of 1961, article 2]. Some of the accounting firms as well as individual chartered accountants accepted work on these boards as state employees on a salary basis.

After the public sector assumed the leading role in economic activities, the SAD became a public agency which had the right to examine and audit the financial affairs of Public Organisations and their affiliated firms. This was the case until March, 1964, when law No. 129 was passed to expand the activities of the SAD, which was renamed the Central Accounting Organisation (CAO). Since that date, the CAO has been the authorised public professional body with responsibility for auditing accounts for the public sector in Egypt. It also audits the utilization of the resources allocated for the achievement of economic development objectives.

The development of the public sector in Egypt undoubtedly led to a decline in the role of the independent accounting profession [M. Shawki, 1988]. Chartered accountants had to transfer their activities to other Arab countries , or be employed by the CAO, public sector

enterprises, or the accounting control boards. Very few firms continued to perform services for individual traders or partnerships, and then mainly for tax purposes [Salem & Abedel-Aziz, 1988]. Some believe that the accounting profession itself was effectively nationalised by these laws [Khairy, November, 1987].

The position remained like this until 1974, when it again changed dramatically. Economic problems, the scarcity of resources, and the inefficiency of public sector enterprises led the Egyptian Government to depend heavily on external sources for financing economic development projects. An Open-Door Policy, therefore, was adopted, with Arab, foreign, and Egyptian investors encouraged to invest in Egypt, and many new companies were formed to exploit this policy. Many of these companies insisted upon engaging local chartered accountants in independent public practices, rather than subjecting themselves to the government auditor [Briston & El-Ashker, p.130]. Thus, a demand was created for independent professional firms and international accounting links were redeveloped [Samuels & Oliga, 1982, p. 84].

This pressure has continued with the attempts of the Egyptian Society of Accountants and Auditors to stress the importance of accounting reporting in the economic development process and to attract government attention to the fact that the accounting profession in Egypt had matured enough to progress from the era of loose regulation. [Raghib, 1987].

8.3.3 Admission To The Profession

To practise public accounting in Egypt a person must have a valid licence issued by the Ministry of Finance. The requirements and conditions for registration of accountants and auditors are set out in the 1951 Law of Chartered Accountants, and subsequent ministerial decrees⁺.

The law contains the following main features:

1. Citizenship: applicants for the membership of the profession of practising accountant must be citizens of Egypt.
2. Residence: applicants should reside in Egypt.
3. Educational experience: applicants should have an accounting degree from the Faculty of Commerce of an Egyptian university or the equivalent.

The Ministry of Finance holds a General Registration Record of practising accountants, divided into three categories [law no. 133, article 21]:

- (A) Schedule of accountants and auditors under training
- (B) Schedule of accountants and auditors
- (C) Schedule of accountants and auditors' assistants.

Those members who are registered in schedule A are not allowed to establish their own offices before they have had at least three years' experience with those who are registered in schedule B. They may only:

(+) These decree numbers are: 213 of 1955, 165 of 1962, 122 of 1963, 245 of 1968, 335 of 1968, 291 of 1969, 510 of 1970, and 432 of 1971.

1. certify accounts and balance sheets of firms with no shares;
2. audit and certify accounts of taxpayers who are subject to taxes on income from commerce, industry and independent professions, whose capital does not exceed L.E. 10,000 or whose actual net income does not exceed L.E. 1000 according to the latest certified financial statements or tax declaration;
3. audit and certify accounts of taxpayers who are subject to general tax on income and whose revenue does not exceed L.E. 10,000 according to the latest tax declaration.

Those members who are registered in category B have the right to certify accounts of all types of firms and taxpayers. They also have the right to represent their clients with the tax authorities and other authorities. Those members who are registered in category C, like those members registered in category A, are allowed to establish their own offices after working for three years or more with those who are registered in category B.

There are two types of practising accountants in Egypt; registered accountants, and chartered accountants, who are members of the Egyptian Society of Accountants and Auditors.

8.3.3.1 Registered Accountants

Qualification as a registered accountant involves an educational requirement and a period of experience.

The law requires that any applicant who wishes to be a

CA , has to be a graduate who has specialised in Accounting at one of the Egyptian Universities, or holds a degree in Accountancy or any other comparable certificate acknowledged by the Ministry of Higher Education. In addition, he has to spend three years training in a practising firm . After five years of further practical work he is entitled to act as an auditor of joint-stock companies.

8.3.3.2 Chartered Accountants

This group are the members of the Egyptian Society of Accountants and Auditors, who are considered the highest level in Egypt [Yahia, January 1987]. The society has only about 120 members but it has about 250 registered students and has been a member of the IASC since 1980 [Sami, 1987].

At present any commerce graduate specialising in accounting can become a member of the Egyptian Society by taking a three-year training contract with a practising member of the Society . He will also need to pass examinations at the end of the three years, but he will then be immediately entitled to audit joint-stock companies.

The Chartered Accountancy examinations cover five subjects: (1) accounting practice, (2) auditing, (3) accounting theory, (4) taxation, and (5) commercial law. They also consist of two stages :

(1) an intermediate examination, and (2) the final examination. To sit for the intermediate examination, an

applicant must first serve for at least one year and a half in a professional office of a member of the Society. After the candidate passes the intermediate examination, he is not permitted to sit for the final until a further period of one and a half years . These three years of experience must be consecutive. Once the applicant has fulfilled the education, work experience, and examination requirements, he can apply for membership of the Egyptian Society of Accountants and Auditors [The Egyptian Society, 1957, pp. 13-14].

A remarkable feature of current licensing requirements in Egypt is that, except for the membership of the Egyptian Society, the taking of a professional examination is not necessary for obtaining a chartered accountant's license. It is an option, which, though 6684 applicants were registered as public accountants, very few applicants (120) have chosen to take up.

It was clear from the interviews that the majority of the respondents found the present licensing requirements " inappropriate",:

- the requirements are less stringent than they should be, e.g. no examination.
- the requirements are vague and subjective in many areas, e.g. the Minister of Finance has discretionary power to decide what accounting duties can be accepted in lieu of the requirement of experience in a public accounting firm.

When asked their opinions regarding the experience

period required under the 1951 law, the majority of respondents (60/80) believed that it is adequate. Those who think that the period is inadequate gave various reasons, such as:

- it is too short; the period should be longer to enable the graduate to acquire the necessary experience.
- it varies according to the degree each candidate holds; the period of experience required should be the same for all graduates regardless of their academic degrees.
- neither the period nor the place of the experience provide a sufficient background for practising public accounting.

With regard to the place and the field of experience required, the 1951 law has been flexible. Under the law, training in a chartered accountant's office is preferred, but not necessary. Experience in some specified fields other than public accounting is accepted, and the law has given the Minister of Finance the authority to decide what accounting duties can be accepted in lieu of training in public accounting. The current list of accounting duties which are deemed to be equivalent to experience in public accounting according to the Ministry of Finance includes the following:

- (1) the duties performed by the staff who teach accounting or auditing in Egyptian universities;
- (2) technical duties in the Control Registry where the qualification for appointment is a Bachelor of Commerce degree;

(3) the position of chief accountant or finance director in government departments, public organisations, public sector enterprises, the tax authority, the Central Accounting Organisation, and public institutions.

Concerning the views of licensed accountants on accepting experience in fields other than public accounting firms, 65 of the 80 respondents see this as adequate. Of those who oppose such acceptance, 15 argue that it does not provide the candidate with the necessary experience and skills for practising public accounting. To 12 respondents, this flexibility in the licensing requirements is harmful because it could result in licensing large numbers of individuals who would become chartered accountants without having the proper training and experience, to the detriment of the standing of the accounting profession in the country.

8.3.4 Association and Membership Classification

In August, 1955, Law No. 394 was passed to reorganise the accounting profession in the light of the new conditions and social changes. Accordingly, " The Syndicate of Commerce Professions " was established :

1. To organise and improve the conditions of the accounting profession and to raise the standards of accountants and auditors professionally, academically, culturally and socially;
2. To organise conferences and seminars, to participate in such conferences and seminars internally and internationally, and to keep in touch with new developments,

- scientific journals and periodicals, lectures, and so on;
3. To establish assistance and pension funds for its members;
 4. To achieve consensus among accountants and auditors and to protect their rights;
 5. To penalise those who violate the traditions and ethics of the profession.

The law, however, prohibited the Syndicate from managing itself or its members on a religious and political basis.

The law consisted of 72 articles and was divided into eight chapters; the Establishment of the Syndicate, the General Assembly, the Board of Directors, Fees, Pensions and Contribution, Obligations of Accountants and Auditors, Penalties, and General and Transitional Provisions.

The Syndicate is run by a board of directors composed of a chairman and fourteen members, who are elected by the General Assembly of the syndicate. The Board selects two of its members as Deputies, another as treasurer, a fourth as secretary and a fifth as a secretarial assistant [law 394, article 19].

Currently, membership of the Syndicate is automatic for all graduates from Faculties of Commerce, whatever their specialisation and wherever their place of work. The syndicate of Commerce Professions in Egypt has about 400,000 members, each of whom has a commerce degree. About 4000 of these members are registered as public accountants [F.

Candiel, February 1987].

There is no evidence that the Syndicate, except for the last few years, has been involved in any research or development or even following the progress of the profession through accounting publications or conferences. This is due to two reasons: first, as explained above, all professional regulations and authority are in the hands of the government. As a result, the Syndicate does not have any authority to play a supervisory role in the profession. Second, there is a feeling that the establishment of a truly professional body might be regarded as a political activity that is not acceptable under the present political system. As a consequence, this issue has been avoided by professional accountants, even as a matter for discussion [Bahgatt, 1987].

However, this view is now gradually changing in Egypt, due to changes in the role and size of public and private sector ownership. Moreover, in recent years, this subject, among others, has been openly discussed by academics, professionals, government representatives, and experts in national and international conferences held in Cairo.

8.3.5 The Independent Status of The Auditor

With regard to the auditor's independence, Law 133 of 1951, article 27, stipulated that the auditor must not:

(a) be the chairman of the Board of Directors, a member of the Board of Directors, or an officer of the company he is auditing;

(b) be a partner in the company he is auditing;

(c) be involved in a business deal with any of those mentioned above or be working for them;

(d) be a relative, to the fourth degree, of the person in charge of managing the company or responsible for its accounting system.

Subsequent legislation (law 457 of 1954) put more emphasis on the standard of independence, by further indicating that the auditor should not practise any work in conflict with the audit function. More specifically, he is not allowed to:

- (1) provide management advisory services;
- (2) engage in any activities aimed at establishment and registration of new companies;
- (3) keep books or prepare a client's financial statements;
- (4) advertise his professional services or seek to obtain work through improper means.

The Companies Act of 1981 also protects the independence of the auditor by requiring the members in the annual meeting to appoint the auditor and fix his remuneration [Article, 103].

In practice, however, the independence of the Egyptian auditor is very doubtful, given that social and family ties play a major role in his appointment [see chapter 10.5.2].

8.3.6 Ethical Standards

By ethics is meant the body of moral principles, values or rules of conduct followed by an individual or a

group. Most recognised professions adopt some such code of conduct, which guides members in the performance of their duties, and governs the relationship between them and their clients.

In Egypt there is no written code of professional ethics, such as that of the AICPA, nor are there ethical guidelines such as those published by the ICAEW in Britain. However, the subject of professional ethics is briefly dealt with in some provisions of law no. 133 of 1951, the profession's Charter of 1958, and the Companies Act of 1981, which requires the auditor to:

- (1) conduct his job with integrity and honesty;
- (2) observe the profession's rules and procedures;
- (3) be honest and candid with his client and observe the rules of confidentiality;
- (4) be honest and candid with his colleagues and not try to attract another auditor's client in an unethical manner.
- (5) disclose all facts to other interested parties;
- (6) comply with other rules of conduct generally recognised by the profession.

From an analytical point of view, the Egyptian ethical standards seem to be of a general nature and do not offer specific rules of conduct. Concepts, other than that of independence, have not been clarified and no effort has been made to issue guidelines on the concepts of confidentiality, advertising, obtaining professional work, and consultancy work.

With the exception of the 1958 Charter, all the rules of ethics are dictated by the government. However, in a recent development, the Society represented by its Professional Ethics Committee, has revised both the 1958 Charter and the Law No.133 of 1951. The Professional Ethics Committee prepared a draft law containing major improvements ,particularly with regard to the requirements for practice [Hassan, 1987]. This draft is now under consideration by the government in its Ministry of Finance. A staff member of the EIAA Board stated in interview that the issue of legislation may be subject to delay because there are objections by the government to some articles of the bill, especially those concerning the examination proposed as a requirement for qualification as an accountant [A.Mahmoued, November, 1987].

The idea of establishing a written code of professional ethics received the support of all those approached in the research; however, they expressed a preference for such a code to be prepared by an accounting board, but enforced by the Ministry of Finance.

8.3.7 The Auditor's Report

The auditor's independence and freedom to express his professional opinions are the most important elements of audit. Most of the Western countries which have a highly organised accounting profession have adopted a standard format of audit report.

However, there is no such form of audit report in Egypt. The diversity of auditors' backgrounds and the absence of a set of generally accepted accounting principles have led to diversity in the form and content of their reports. Thus, while evidence of the use of American and British audit reports has been found, many other forms have been found by the author. For example, an audit report by A.A Abdel Aziz in 1987 for the " National Societe Generale Bank - joint venture bank" reads as follows:

" We have audited the above balance sheet as at 31st December 1986 & profit and loss Account for the year ended on that date with the books of the Bank and have found them to be in accordance therewith. We have obtained the information and explanations which we have deemed necessary for the purpose of our audit and in accordance with the provision of Law No. 163/1957.

We have verified the existence of the assets of the Bank and ascertained the method of their valuation. We have also satisfied ourselves as to the valuation of existing contingent liabilities in accordance with accepted accounting principles. No breach of any of the stipulations of the law no. 163 for the year 1957 was detected during our audit. So far as it appeared from our examination proper books and accounts have been kept by the Bank.

In our opinion -in the light of the information and explanation which were given and as shown in the books of the Bank- the said account gives information required by the law and the statutes of the Bank, the Balance Sheet and the attached notes of accounts give a clear view and the profit and loss account gives a true and fair view of the profits realised during the year. The particulars given in the report of the Board of Directors provided according to the law no. 159/1981 and its executive regulation are consistent with the books of the bank.

Cairo, 10th March 1987
Abdel Khalek Sarwat
R.A.A. No 114

A.M. Abdel Aziz
R.A.A NO. 161

This indicates that the audit was performed in accordance with generally accepted accounting standards but it does not specify which auditing standards are applied. It also expresses an opinion about the fairness of the financial statements and it indicates that they give a "true and fair view" of the state of the company's affairs. In this respect it is similar to its British counterparts.

The report does not mention whether the same accounting principles had been observed in the current period as in the preceding period. However, it does refer to the various Egyptian laws and states that the financial statements were prepared according to those laws.

Further facts about the current state of auditing standards are found in a review of some audit reports performed by the researcher under the supervision of the CMA in Egypt (see Appendices 8.8 & 8.9):

(1) Auditors were very keen on the format and appearance of their reports. Almost all the reports studied were properly addressed and titled.

(2) With regard to auditors' compliance with standards of fieldwork, the following violations were observed:

(a) Most of the reports did not indicate what sort of fieldwork standards were followed in the conduct of the audits. In fact , some reports did not indicate that the audits were carried out in accordance with any generally accepted auditing standards whatsoever.

(b) Some reports did not mention whether or not the auditors

had examined the internal control systems of the companies concerned.

(3) With regard to auditors' compliance with standards of reporting, the following was observed:

(a) Most reports mentioned whether or not the accounts and the financial reports of the companies concerned were presented in accordance with "Generally Accepted Accounting Principles".

(b) Most reports did not mention whether or not these accounting principles had been consistently observed in the current period in relation to the preceding period.

(c) A variety of vague, and sometimes misleading words and statements were used in some reports, and there was no one form that the auditors used. For example, some auditors used the phrase "the statements present fairly", while others used the phrase "true and fair view", to express their opinions.

In his comment on these findings, Dr. M. Fagg El-Nour, the chairman of the CMA, explained that this diversity was caused by the absence of nationally established auditing standards; this led auditors either to draw on their various backgrounds to apply the auditing standards with which they were most familiar, or to seek the most easily applicable standards they could find.

Concerning the establishment of national accounting and auditing standards, the vast majority of the interviewees (84%) believed that the accounting profession

in the country should establish its own standards. Of those:
- 88% regarded the setting of national accounting standards as very useful for purposes of comparability between the financial statements of various companies for the same year and the financial statements of each company for several years.

- 64% regarded the establishment of national accounting standards as a source of handy rules that would help accountants in carrying out their daily work more efficiently. They pointed out the UAS as an extreme example.

- 50% regarded the introduction of such standards as a practical contribution to defining what a "true and fair view" is.

- 64% regarded the establishment of national standards as essential because the current diversity might lead to financial panics .

Of the 16% of the interviewees who opposed the establishment of national accounting standards:

-66% claimed that it would contradict the concept of professionalism which implies that a professional person should think and judge for himself rather than being interested in his practice.

- 35% claimed that it was not practical because it was almost impossible to frame a set of rules on which everyone would concur, concerning such matters as depreciation, stock valuation etc.

- 67% claimed that establishing such standards was improper

at the present time because the country did not have a professional body which would coordinate the standards.

8.3.8 Skills And Competence

The audit should be performed, and the report prepared, with due professional care, by persons who have adequate training, experience and competence in auditing. The attainment of professional competence requires, initially, high standards of general education followed by specific education, training and examination in professionally relevant subjects, and a period of work experience.

However, although Egypt has some very competent auditors, the accounting profession is currently under criticism due to the inappropriateness of the regulations governing who is entitled to work as public accountants [Yhia, 1988].

Furthermore, an independent auditor has to keep in touch with new accounting developments and firms should coordinate with universities to provide suitable professional education for all their members. This is particularly important where there is no formal or non-formal continuing education, as in Egypt.

8.3.9 Responsibility To Clients And To The Public

The profession recognises a responsibility to respect the confidentiality of client information and to act ethically in relation to contingent fees. At the same time there is a responsibility to the public, which demands that

the accountant exercises due care and prudence when expressing his opinion concerning his client's financial statements.

The Companies Act of 1981 requires confidentiality. Article 108 stipulates that an accountant acquiring information in the course of his professional work shall neither use nor appear to use that information for his personal advantage or for the advantage of a third party.

However, the law does not specify the public accountant's responsibility towards the public, except in general terms, scattered among its different articles. For example, the law's Executive Regulation states that an auditor should operate according to the principles of honesty and should fulfil all the duties which are imposed on him by the profession's regulations and traditions. In addition, article 37 of the 1958 Charter states that the Syndicate may give a warning, suspend a member for up to two years or expel him if he commits acts which are degrading to the profession by violating the requirement of honesty and integrity in his professional work. The expulsion, suspension or warning is decided upon by two committees of three persons chosen by the board of directors of the Syndicate. Under article 51 of the charter, an independent auditor may also be prosecuted by the public prosecutor.

8.3.10 Services Rendered By Public Accountants in Egypt

Law 133 of 1951 states the type of enterprises which each category of chartered and registered accountant may

provide. The chartered accountant may render any service required by his client. These services might include book-keeping, external auditing, tax services, management consulting, system design and installation, liquidation, and financial advice.

The three services most commonly rendered by public accountants in Egypt are external audit, book-keeping, and tax services. Only a few accounting firms offer management consulting, financial advice, and systems design [interviews with officials in CMA, Cairo Stock Exchange, and major accounting firms in Cairo, January, 1988).

8.3.11 Recent Developments

As stated earlier, the early 1980's were the "golden era" for the accounting profession in Egypt. There was vast growth in the private sector, the number of business firms increased rapidly, new economic policies were adopted, and a stock exchange was re-established. As a result, the demand for public accountants' services increased, as did the number of public accounting firms. The other boost to the profession came from its recognition by the government and other policy-making groups. For example, the recent increase in demand for Egyptian accountants by Arab countries; the changes in the Egyptian labour market as a result of the open door policy; the changes in people's attitudes towards accounting as a field for study; have all encouraged the government and the public to recognise the profession and its significant role in economic life.

As a result, the accounting profession, represented by the Egyptian Society of Accountants and Auditors (ESAA), has taken major steps to improve the status of the profession in the country by holding a number of national and international accounting conferences.

In June 1980, the ESAA held a national conference on accounting and auditing in Cairo and invited all interested parties to discuss and suggest alternative models for developing the accounting profession in Egypt, and to prepare for an international conference. Following this, in December 1980, the Society held an international conference in Cairo, under the auspices of President El-Sadat, which led to recommendations that its members be allowed to act as independent auditors, that independent auditors be allowed to act as co-auditors of public sector enterprises, and that chartered accountants should be required to pass a professional examination before registration [The Egyptian Society, December 1980].

In December 1986, the Society held the Second international accounting conference in Cairo, under the auspices of President Mubarak. This reiterated the previous recommendations and made new ones. The conference recommended the speedy formation of an independent board to formulate, publish and monitor accounting and auditing standards and the adoption of international accounting standards, and the establishment of a training centre for those engaged in the accounting profession [see Appendix 8-

3, the 1986 accounting conference recommendations].

All of these recommendations have been implemented. However, although the Board has been formed and its members nominated, some critical issues remain unresolved, namely the legal form and the raising of finance for the Institute (see chapter 10).

The Society started its task (see chapter 10) by creating three technical committees to study accounting standards, auditing guidelines, and professional ethics. In addition, the national training centre was established in April 1987.

In an interview, Dr. A. Mahmoud, Executive Manager of the Institute, declared that it would be ready by the middle of 1988 to accept entrants and to provide training courses. He added that the Institute would accept at the first stage students from professional firms in the private sector; students from the public sector would be admitted after relevant material and courses had been prepared.

In June 1988, the Institute started its training programme, which at present includes two types of course [Dr. T. Arafa]:

First: A general course in computers for professionals, the general public and interested individuals. This course includes an introduction to the computer; its languages, software, etc.. It seems that this course is a means of providing funding for the institute since the government up

to now has not recognised it as a national institute on a par with the National Planning Institute and other similar establishments.

Second: A professional training programme for certification. This course is provided mainly for private sector accountants who wish to become members of the Egyptian Society of Accountants and Auditors. The course includes the same subjects which were previously provided by the Society and discussed in section 8.3.3.2.

Some believe that this changed outlook may help the Accounting Profession to gain importance in Egyptian society in the years to come [Amer & Khairy, p.322]. Others conclude that:

The establishment of a strong private accounting profession is likely to lead to an emphasis, in both training and practice, upon routine external auditing and upon external financial reporting, areas which have already been demonstrated as being of a low priority for the purposes of economic development and we could well see yet another example of a relevant local system being blocked as a result of the actions of private sector accountants [Briston & El-Ashker, p. 150].

8.3.12 Evaluation

It is now possible to consider whether there is a well established accounting profession in the country?

According to the definitions of a profession, there has to be:

1. recognition by universities and colleges;
2. mental rather than manual or artistic labour;

3. recognition of the obligation of public service and public interest;
4. a code of ethics;
5. a theoretical basis in some department of scientific learning;
6. an organisation devoted to the advancement of the social obligations of the group.

First, Egyptian education recognises accounting by the establishment of accounting institutes at different levels of education. However, the fact that accounting education in Egypt is much too narrow for a qualified accountant and is based upon the instruction materials of the US/UK systems, suggests that accounting as a profession may receive little support from education, for accounting education in the UK/US is only one part of professional education.

Second, it is in the very nature of accounting skills that chartered accountants in Egypt use mental ability rather than manual skills in their work. However, evidence suggests that they undertake their professional work in a static and routine manner rather than a dynamic and creative manner, though a few endeavour to follow new developments and contribute to such developments, write articles, read new publications, and provide scholarly leadership to their staff [e.g. Z. Hassan & CO., Shawki & CO.].

Third, except for the Charter of 1958, the Egyptian accounting profession does not yet have a complete code of

professional ethics.

Fourth, for the accounting profession to be a profession, it has to have accounting theory. For a theory to have structure it must have certain principles on which accountants can base their work [Bloom et al, 1981, p. 82].

As indicated by all the interviewees, except for public sector accountants and state auditors, chartered accountants in Egypt have no defined or formal principles to work on; different auditors apply different accounting practices and auditing guidelines and there is no theoretical foundation for the accounting profession in Egypt. They base their practices either on their experience with international accounting firms or on their accounting education in Egypt or abroad. In this sense, some of the interviewees argued that it is better for public accountants in Egypt to apply the uniform accounting system in their work since the system has proved successful in the public sector.

Fifth, to be a profession there has to be an organisation to protect the rights of members. As we have seen, the country has had an Accounting Board since 1986.

Sixth, the accounting profession has been defined according to the problems it addresses. These include effective allocation of resources, technical assistance in policy formulation, assessing performance in relation to standards, and assisting in the design and evaluation of

planning and control activities.

As evidenced from the interviews, the only problem addressed by independent auditors in Egypt is the examination and checking of records, books and the balances of financial statements against documents and laws. No opinion is expressed on the efficiency or effectiveness of the operations of their clients, nor do the majority of them offer any management advisory services.

All in all, these facts suggest that the status of the accounting profession is very weak, but recent developments may enhance the status of the profession.

8.4 Summary and Conclusion

The purpose of this chapter was twofold:

First, to highlight the status of accounting education in Egypt and its contribution to the economic development process, as well as to accounting and auditing practices in the country. The first section of the chapter focused on this issue and revealed that, although the socialist economic system of Egypt is diametrically opposed to the capitalist economic system of the UK and the USA, Egypt's accounting education system follows the traditional accounting courses and training material designed for the British and American professional bodies. Moreover, it shows that academics do not seem aware of the need of Egyptian society for uniformity in accounting. Even though they are now teaching the UAS in various Egyptian universities, they are not producing the kind of

accountants who comprehend the advantages of uniformity in accounting, for students are only taught uniformity as a set of techniques. As a result, we must conclude that Egyptian accounting education does not meet the needs of economic development.

The current passive role of the UAS is the result of the insistence of academics upon the techniques side of accounting while paying scant attention to the necessity of approaching accounting problems in an analytical and critical manner. Uniformity should be taught in an intellectual manner by emphasising its evolution in various countries, the reasons behind its adoption, and the arguments for and against its adoption. It is in this way Egypt will produce well-qualified people who believe in uniformity and are capable of improving it.

The provision of such accountants, will depend on an educational system which gives students a broad understanding of the political, social, and economic systems. Egypt needs educated accountants and policy makers who are able to help decision makers as well as technicians and bookkeepers. Therefore, less emphasis should be placed on accounting for external reporting and financial auditing and more emphasis upon managerial accounting, operational auditing, UAS, project appraisal, financial management of multinationals, behavioural sciences, and other courses designed to meet the economic, social, and cultural needs of Egypt.

The American Accounting Association (AAA), at its 70th annual meeting in 1985, recommended a fundamental change in American accounting education:

"There is reason to think that the foundation of accounting education should be shifted from the preparation-of-financial-statements base to the more inclusive base of information development systems, of which financial statement preparation is only one system." [AAA, 1986, p.32].

The committee made the following recommendations which have particular relevance to Egyptian accounting education:

(1) Accounting education should be directed towards the development of comprehensive economic information and its distribution. A systems approach to the organisation of information should be encouraged, facilitating decision-making of various types at different levels.

(2) The enlarged content of the accounting discipline should be more extensively applied within the organisation-production, marketing, projects and programmes, personnel, management and finance-with a view to developing an integrated, comprehensive information system for the entire organisation.

(3) Students should be more actively engaged in the learning process, for example, by independent study, case material, better evaluation methods, and distinguishing between relevant and non-relevant knowledge [ibid, pp.32-33].

If these remedies are seen as important for the American accounting education system, they are even more crucial in the Egyptian context.

The primary objective of the second section of the chapter was to answer two main questions:

- (1) Is there a need to establish a powerful accounting profession with self-regulation and powers of standard-setting in Egypt? and
- (2) Do the social costs of a very powerful accounting profession match its social benefits in Egypt?

The characteristics of the accounting profession in Egypt are the same as those in the UK/US. However, its historical development and its level of sophistication are not similar. The structure of the profession in the UK/US is the result of economic and social changes which influenced society after the industrial revolution, while in Egypt the accounting profession is the product of the influence of foreign powers, especially the UK/US, as well as the social and economic changes in the environment. Before the nationalisation laws in 1961, there was a strong accounting profession which was the result of British colonisation. With the establishment of a strong public sector the status of the public accountant declined, while the state auditor became dominant. State audit was enhanced and more emphasis was placed upon internal auditing, management performance evaluation, cost audit, and effectiveness and efficiency audit rather than financial audit.

The Egyptian experience with the UAS and the State Auditor's General Office does suggest that the recent changes in the uniform accounting system and the role of the

state auditor by private sector accountants are potentially very harmful and that there is a strong need for the establishment of a much more powerful government professional body rather than a strong accounting profession on the UK/US pattern.

Many writers have evaluated the accounting profession in terms of its social costs and benefits in those countries. They have argued that the social cost of the profession exceeds its social benefits. Further, such an audit is not appropriate to its environment, because it is highly biased towards private sector financial reporting with very limited attention to management accounting and almost none to national and government accounting. This bias towards financial accounting is designed to provide historical information for shareholders and potential investors in the capital market. It could be argued that since the social cost of the accounting profession on the UK/US pattern would exceed its social benefit and it is oriented mainly to serve a specific part of the capital market, then by inference Egypt does not need a strong accounting profession on the UK/US pattern.

As indicated from the interviews, the best chance that accountants have of achieving the necessary reforms is by outlining a " semi-independent common body of knowledge " to represent them. This would improve their status, which is far too often seen as lower than that of other countries ,

and would encourage local universities to provide continuing education and professional training. The body could also provide recognition at different levels of training, as opposed to the system whereby a person is either a fully qualified accountant or has no professional recognition at all. Finally, the success of the body would be enhanced if it had regional recognition, perhaps through the Arab League or the Assembly of African Supreme Audit Institutions.

CHAPTER NINE

ACCOUNTING AND AUDITING STANDARDS FOR THE PUBLIC SECTOR IN EGYPT

9.1 Introduction

The main factor which has resulted in the emergence of uniformity in Egypt is national planning, which requires information in an aggregatable and comparable form. This can best be achieved if data is based on a uniform accounting system, including uniformity at the planning phase.

The purpose of this chapter is to assess whether the Egyptian UAS does provide the information needed for economic decision-making at the enterprise and state levels. It also aims to assess to what extent the establishment of the UAS has influenced the audit function in the country.

As in the previous chapter, the researcher has depended heavily on data gathered from in-depth interviews with key governmental officials, leading accounting firms, and a number of accounting professors.

9.2 Source of Accounting Standards and Practices

First of all , we must distinguish between the different functional accounting areas in Egypt. These are:

- (1) Public Sector Accounting
- (2) Government Accounting
- (3) Banks and Insurance Companies Accounting
- (4) Private and Mixed Sector Accounting

Each of these areas has its own accounting system or a set of recommendations, as well as a professional body or government agency responsible for designing and supervising accounting conventions, procedures, and charts of accounts.

With regard to the public sector, accounting principles are derived from the Uniform Accounting System (UAS), comments on the UAS by its Special Permanent Committee, and from Law No. 97 of 1983 (amended by Law No. 109 of 1987) which manages the public organisations and their affiliated public sector enterprises.

With respect to the government sector, accounting rules stem from Accountancy Law No.127 of 1981 and its regulations, the State Budget Law, and from the Government Uniform Accounting System (GUAS).

Regarding the private and mixed sector, accounting and auditing principles are laid down by the Companies Act No. 26 of 1956 (amended by the Companies Act No. 159 of 1981), Generally Accepted Accounting Principles recognised and accepted by Chartered Accountants in Egypt, and more recently, from the Pronouncements issued by the Egyptian Institute of Accountants and Auditors.

9.3 The Egyptian Uniform Accounting System

Since 1961, national planning has become a way of life in Egypt. The ability to formulate plans realistically and to implement them is dependent, to a large degree, upon the availability of reliable accounting information at both the micro and macro levels of the economy. It is essential to obtain the information about projected plans and, for control purposes, to evaluate how effectively plans are being executed. This evaluation is also an important aid to

future planning.

It was felt by the government that a uniform accounting system, compulsory for all economic units in the public sector, would be very valuable. Accordingly, in 1966 Presidential decree no. 2125 provided for the formation of a consultative committee to study the uniform system. In 1968 the uniform accounting system was introduced by the Central Accounting Organisation (the CAO) and was made compulsory for all public sector enterprises, except banks and insurance companies.

9.3.1 Objectives of the UAS

The general objectives of the UAS, as stated by the CAO, may be summarized as follows:

(a) Provision of a chart of accounts embracing a wide range of comparable basic information, as well as several accounting statements which are required for planning , coordination and control at all levels of the organizational structure.

(b) Provision of links between the accounts at the enterprise level and the macro-level (social accounting). Such linkage would be achieved if the terminology, accounting concepts, standards, etc. were unified in such a manner as to meet the needs of macro-accounting.

(c) To facilitate the objectives of collecting, tabulating, and storing accounting information.

(d) To enable the government to measure explicitly the performance of public sector enterprises and make

comparisons with regard to financial or other similar targets.

(e) To provide information on the efficiency of public sector entities in terms of optimum allocation of resources and in comparison with other public sector entities.

(f) To provide the government with prompt information, thus overcoming some of the deficiencies inherent in the work of committees or bodies dealing with public sector accounts, in terms of their delay in reporting their findings to the government and their inability to examine regularly the financial and economic affairs of public enterprises.

9.3.2 General Criteria Underlying the UAS

In order to ensure the fulfilment of the above objectives, the uniform accounting system has been set out in great detail. In fact, it is more in the nature of an accounting handbook, as it emphasis the entries between accounts, sets out a uniform chart of accounts, prescribes valuation and measurement rules and standardises the format and content of financial reports as well as the accounting period.

Generally speaking, the following criteria are observed in the UAS.

(1) Simplicity and Clarity

The " chart of accounts" has been supplemented by detailed explanations and interpretations. However, the UAS is mainly limited to financial accounting without detailed coverage of cost accounting.

(2) Flexibility

In order to preserve flexibility and innovation as economic changes occur, the Uniform Accounting Law of 1966 set up a Permanent Special Committee (PSC) to provide a continuing review and evaluation of the UAS and to suggest revisions when necessary. Furthermore, the accounts code number in the accounts chart is regarded as a minimum level of coding, and public sector enterprises have the right to add additional items, depending upon their needs, providing that they consult the relevant minister and obtain the approval of the CAO .Finally, public sector enterprises have the discretion to compile any additional records which management believe necessary.

(3) Agreement With Generally Accepted Accounting Principles

The UAS maintained those accounting principles, terms, concepts and definitions which are generally accepted in Egypt. This is justified on the grounds that the introduction of substantial changes might cause undue confusion.

(4) Numerical Coding

Notation in the chart of accounts is in terms of decimal coding. This meets the requirements of economic units using the computer to process accounting data and permits the classifications to be expanded.

(5) Uniformity

The system is a uniform one and is concerned with

uniform accounting classifications and measurements, and uniformity of the financial period.

In the field of financial accounting, terms and definitions have been standardised, generally, on the basis of maintaining those which are accepted in practice.

Standard valuation principles have been laid down in respect of land, maintenance expenses, movements of inventory of commodity input, finished production, unfinished production, work in progress and debtors.

With regard to depreciation, several rules have been introduced, including the determination of depreciable assets, application of depreciation rates, accounting for differences between book value and replacement cost, treatment of written-off assets and of assets which are idle during the whole accounting period, depreciation of tools, etc.

9.3.3 Application of the UAS

Basically, the UAS is applied to all business enterprises in the public sector, with the exception of banks and insurance companies which are regulated by special laws. As far as the private sector is concerned, the application of the system was left to the relevant minister, who decided whether or not the system was to be applied according to its importance for national planning and control.

The UAS was introduced commencing with the fiscal year

1/7/1967--30/6/1968.

The term " economic unit" referred to in the introduction of the UAS is " that firm engaged in an economic activity whether in industry, commerce, agriculture, real estate, etc., including public organisations and government institutions, which is legally asked to prepare financial statements , even though it is not engaged directly in any of the indicated activities" [The CAO, 1976, p.5]. The "economic unit" may take one or other of the following forms:

- A public organisation or institution, for example, the General Petroleum Corporation.
- A Public company
- A co-operative or an establishment attached to a public organisation.

9.3.4 The Organisation and the Main Features of the UAS

The system is organised in three parts. The first contains the main features of the system and is divided into two sub-parts, the first dealing with the objectives of the system, the methodology used in its preparation, and the areas of economic activity subject to its application. The second sub-part is in four chapters: the first is concerned with the uniform chart of accounts to be followed; the second involves the principles, rules, procedures, terminology, and definitions to be followed; the third and the fourth chapters describe the number and format of the

financial and cash budgeting reports, and the rules to be applied in their preparation.

The second part contains five appendices. The first contains depreciation rates. The second provides the principles and rules to be followed in exercising financial control. The third deals with properties and definitions of periodic and analytical information concerning production capacities, quantity and quality of output, employment, commodity input requirements, various financial ratios and efficiency indices, and other information required from enterprises by the administrative and planning authorities. The fourth describes the special purpose records to be kept by public sector enterprises. The fifth appendix contains documents concerning the preparation, authorisation, and publication of the UAS.

The third part describes three standardized methods for classifying economic activities, along with a numbering system by type of industry, type of commodity, and nature of occupation.

The main features of the UAS can be summarised as follows:

- (1) The UAS affects all public sector enterprises except banks and insurance companies;
- (2) The financial statements are classified to provide information for planning and control at all levels of the economy, including the construction of national income

accounts;

(3) The system contains a general framework for cost accounting, mainly depreciation and inventory valuation, leaving specific details to be determined for each enterprise;

(4) Each public sector enterprise is required to present its audited financial reports which include:

- (a) Report of the Board of Directors
- (b) Financial statements and final accounts
- (c) Report of the auditor
- (d) Report on the efficiency of management

Notes as such are not permitted in the UAS, and any supplementary information has to be given in the report of the Board of Directors.

9.3.5 Chart of Accounts

Classification and coding of accounts and their definitions are an essential part of the system. Each account has been given a one-digit code, defined in detail, and an example of how and where it is to be used is given. The Egyptian chart of accounts is classified into nine main classes (1 to 9), with much emphasis on financial accounting.

The first four classes are: assets (code 1), liabilities (code 2), uses of resources (code 3), and sources (code 4). The first two classes constitute the balance sheet accounts, the second two constitute operating accounts.

Classes 1 to 4 are divided into sub-classes, further sub-classes and up to seven levels. This is mainly for analysing expenses and revenues in the accounting records. The first three code numbers relate to items which appear in the financial statements (see Appendix 9.1, format of balance sheet) and the last three or four levels are mostly for purposes of statistical and internal analysis.

Classes 5 to 9 are for cost accounting purposes. They are, however, divided only into sub-classes, mainly because the UAS is largely oriented towards financial accounting statements. For instance, out of the 795 pages of the UAS manual, only 12 pages (pp.127-138) are devoted to elementary definitions of the costing system. In fact the whole manual was basically concerned with balance sheet accounts and operating accounts. Figure (9-1) illustrates the Egyptian Chart of Accounts.

The chart of accounts is a comprehensive plan, which traces the movements between accounts, sets norms for accounting classifications and spells out valuation and reporting methods.

9.3.6 Systems of Accounts Documentation

9.3.6.1 Books of Account

Financial books represent an important base for the uniform accounting system, for they provide evidence for the verification of any transaction, and the accuracy of accounting results is dependent upon them.

Figure 9-1
The Egyptian Standardised Chart of Accounts

Balance Sheet Accounts		Operating Accounts		Analysis of Uses				
1	2	3	4	5	6	7	8	9
Assets	Equities	Uses of Resources	Sources	Production Centres Control	Production Services Centre Control	Marketing Services Centre Control	Administrative and Financial Centre Control	Capital Transaction Control
11	21	31	41	531	631	731	831	931
Fixed Assets	Capital	Wages	Revenues	Wages	Wages	Wages	Wages	Wages
			from current operations					
12	22	32	42	532	632	732	832	932
Projects under construction	Provisions and surplus forward	Commodity requirements	Subsidies	Commodity requirements	Commodity requirements	Commodity requirements	Commodity requirements	Commodity requirements
13	23	33	43	533	633	733	833	933
Inventory	Allowances	Service requirements	Revenues from securities	Services requirements	Service requirements	Service requirements	Service requirements	Service requirements
14	24	34	44	534				
Long Term Lending	Long Term Loans	Purchases for Sale	Transfer Revenues	Purchases for Sale				

The Egyptian Standardised Chart of Accounts (continued)

15	25	35	45	535	635	735	835	935
Financial Investment	Creditor Banks	Current Transfer Expenses	Profit from Housing & Land Reclamation	Current Transfer Expense	Current Transfer Expense	Current Transfer Expense	Current Transfer Expense	Current Transfer Expense
16	26	36					836	
Debtors	Creditors	Current Appropriated Transfers					Current Appropriated Transfers	
17	27							
Miscellaneous Debtor Accounts	Miscellaneous Creditor Accounts							
18	28							
Cash In Banks And On Hand	Results Of The Year							

Source: The Uniform Accounting System, pp. 24-25.

The uniform system permits an entity to choose whatever books are appropriate to its activities and circumstances, provided that they contain the details specified by the system with regard to analysis of assets, liabilities, expenses, and revenues.

The books of accounts are divided into: financial and cost books of account.

The main objective of the financial books of account is to record, classify, and summarise fully all the financial transactions of an entity in order to enable it to construct its final accounts and to present fairly its financial statements. The financial books of account include general journal, general ledger subsidiary journals, and subsidiary ledgers.

The principal purposes of the cost books of account are to permit a detailed analysis of the major activities of a public sector enterprise, to ensure adequate procedures to record the costs of a specific period, to give a functional analysis of expenses and to facilitate the construction of certain cost and production returns and budgets. The cost books of account include ledgers of wages, physical requirements, service requirements, current transferable expenses, job orders and finished products cost.

9.3.6.2 Financial Reports

Financial reports are given considerable attention. For instance, comparative figures relating to the various years

are required to be disclosed. In addition, the financial statements must be prepared in accordance with the principles of sincerity and consistency, and in accordance with the terms, definitions, principles and concepts of the UAS, and should present fairly the real financial position and the actual results of the public sector enterprises concerned after being reviewed by the CAO. The UAS , however, does not limit external reporting requirements to the financial statements mentioned above, but also requires the preparation of a set of standard reports in a specific form.

The UAS requires each public sector enterprise to prepare at the end of the accounting period the following financial statements:

- (1) Balance Sheet
- (2) Statement of Source and Application of Funds
- (3) Current Operating Account
- (4) Profit and Loss Account
- (5) Cash Flow Statement

9.3.6.2.1 The Balance Sheet

The objective of the balance sheet is to present fairly the financial position of the economic unit. The balance sheet must be prepared only on a horizontal layout. The arrangement of the balance sheet is similar to that found in most European countries; on the assets side , fixed assets are presented first , followed by investment assets, inventory, then the rest of current assets; on the liability

side, the equity accounts are first, followed by reserves and provisions, then long-term debt and current liabilities (see Appendix 9.1).

Valuation methods are confined to the historical cost concept; replacement value accounting is well known in Egypt but little used. Historical cost is defined either as acquisition price or manufacturing cost plus transport and installation expenses. When the historical cost is fully depreciated, but the asset is still in use, it appears at zero value on the balance sheet. The UAS also distinguishes between assets ready for operation and those under construction. Inventories are to be valued at the lower of cost or net realisable value.

Some characteristics of the balance sheet are worthy of comment. Land is always classified as a fixed asset regardless of the purpose for which it is held. This is due to the national philosophy which considers land as a part of the fixed national wealth. A distinction is also made between assets currently in use and those under construction, the idea being to facilitate control over investment projects and the computation of the capital-output ratios discussed below. However, in the case of completed assets, the system makes no distinction between productive and non-productive assets. Such a distinction would aid planning and control because it would reveal the available capacity of each entity. Organisation costs, interest and expenses incurred prior to operation, research

costs and costs of technical documents are also treated as fixed assets. This is because such items are regarded as part of national investment contributing to the creation of productive capacity.

With respect to the equity side, a new capital account has been introduced to represent the capital contributions repayable to the government. The long-term debt is comprised of two accounts: long-term national debt and long-term foreign debt.

The system fails to make clear distinctions between different groups of assets and liabilities. It recommends the current ratio and the acid-test ratio, but has a balance sheet which does not clearly indicate the total current assets and current liabilities. Although invested capital and working capital are used to calculate financial ratios, their definitions and the method of arriving at their amounts are omitted in the system.

It is evident that the balance sheet gives more details than does the conventional accounting approach. The important question, however, is whether the quality of detail is adequate. In a planned economy, balance sheet information is used to assist in resource allocation and to facilitate control. More specifically:

- 1) It gives an economically significant reflection of the economic resources controlled by the entity concerned, making a distinction between those resources that can, and those that cannot be shifted to alternative opportunities.

2) It provides a budget achievement report, which would show the entity's goals as well as the results of efforts spent in attaining them, so facilitating control of resources.

If these objectives are to be met, the financial position of the economic unit at any given time should reflect the economic value of its resources. The difficulty with the UAS is that the value of assets is stated in the balance sheet on the historical cost basis. Historical cost values are also misleading for resource allocation and administrative purposes; information on both current value and replacement cost value is needed, requiring multiple value statements of financial position.

By current value, we mean the current cash equivalent of all resources, if sold at, or shortly after, the date of the balance sheet. It thus shows the opportunity cost of resources utilised by the firm.

Replacement cost is the current cost of acquiring the same assets. The concept reflects long-term opportunity costs on the basis of the assumption that utilisation of the entity's resources will continue to be more profitable than would be expected in the best alternative, and so is important for allocative decisions.

The UAS classifies inventories into materials and supplies, work in process and finished goods, and uses historical cost for their valuation.

The question is whether these accounting rules are consistent with economic principles. If not, what effect

would the application of these principles have on the valuation of inventories and fixed assets ?

It is a commonly-held principle that the value of anything at a particular time can be fairly measured by its opportunity cost, defined as the price currently obtainable on the market for such item. From a buyer's point of view, the opportunity cost is the minimum price which must be paid in the market to acquire the item. To a seller, the opportunity cost of the same item is the maximum price obtainable for it in the market. The buying price is equal to the opportunity cost of acquisition, and the selling price is equal to the current value of disposition; thus both prices are economic measures of the item's value.

On this basis, the opportunity cost of materials purchased and used immediately in production is the market price of acquisition. However, in the case of materials held in stock for a period before their use in production, a difference may occur between the acquisition cost and opportunity cost. However, where the general price level is constant, the opportunity cost of materials held in inventory at the time of their use in production would be equal to the sum of the acquisition cost, plus interest on this amount from the time of acquisition to the time of use and any other costs incurred as a result of carrying raw materials in stock.

However, application of the accounting rule to charge raw material cost would lead to holding gains or losses to

be included with the profit or loss from production activities; thus the accuracy of performance measurement would be adversely affected. In addition, any evaluation of, or decision concerning the production activities of the firm, based on rate of return, will be misleading. Therefore, if they are to measure accurately the various activities of the firm, accounting principles need to incorporate the opportunity cost concept. Thus the application of economic principles when accounting for raw materials would require the following:

(a) Holding gains or losses should be kept distinct from profits or losses resulting from production activities and each must be recognised on time.

(b) The book value of materials in stock at any time should correspond to the current market value at that time.

(c) There should be recognition of and adjustment for gains or losses as they occur, so as to maintain intact the purchasing power of capital.

(d) The efficiency of inventory decisions should be judged by the ratio of holding gain or losses, while management efficiency with regard to production decisions should be judged on the basis of gains and losses resulting from production activities alone.

With regard to finished goods, the enterprise is in the mode of seller. The best measure of the current value of the final goods is its selling price. The valuation of unfinished goods at selling price involves significant

problems in practice, since it is not completed and a market price may not be readily obtainable. For this reason, it is usual to value unfinished goods at production cost incurred at their current stages.

The UAS usually bases depreciation expenses upon the historical cost of the asset in question. Assets are reported in the balance sheet on the historical cost basis, but provision is made for increases in the prices of assets, to convert historical cost to current replacement cost. The provision is accumulated from profit as the difference between the depreciation charge on a historical cost basis and on a replacement cost basis. It could be argued that this treatment is inconsistent. Since the operating account is intended to be based on economic rather than on accounting concepts, depreciation should be based on current replacement values to reflect the capital value consumed in current production and to correspond to the social accounting category of capital consumption.

A more appropriate method would be to add the amount allocated to provide for increases in assets prices to the depreciation charge and to include the result with the intermediate input items at the first stage of the account. If this were done, the depreciation charge would represent the actual consumption of the capital assets of the country in current activities and reflect its effect on the calculation of net value added at market prices.

All in all, disclosure of the replacement values of the

assets owned by different entities facilitates comparison, which ultimately can help to ensure efficient distribution of resources among various types of assets. It also provides a means of controlling the utilisation of economic resources and identifying unproductive investment.

9.3.6.2.2 The Current Operating Account

The current operating account serves as a link between micro-accounting and macro-accounting without distorting traditional accounting requirements. In a sense the account is a counterpart of the income and product statements in national accounting . Once again, all values are recorded at historical cost.

The current operating account is divided into three main sections (see Appendix 9.2). The first stage illustrates the value of gross product at market price and its related commodity input requirements, and the revenues generated by operations. The debit side shows intermediate consumption represented by a/c no. 32, physical requirements and a/c no. 33, service requirements, separated from factors of production costs, which consist of salaries and wages, interest including variance of imputed interest, rent including variance of imputed rents, and surplus of current operations. By adding depreciation to the costs of factors of production, gross value added at market prices is obtained. Thus, this side distinguishes between intermediate consumption and the value added created by an entity.

The credit side shows the various revenues that could

be generated by a public sector enterprise. This side is also helpful in calculating value added. For example, gross value added at market price can be obtained by subtracting from the total revenues the cost of intermediate consumption from the debit side.

All in all, the most important role at this stage is the determination of value added according to national accounting requirements.

In addition, the first stage also distinguishes between operating and non-operating costs and revenues, and thus shows the operating surplus or deficit. However, this is done on a non-conventional basis due to the inclusion of imputed elements and valuation of finished inventory at market prices, as explained in section 9.3.7.

The second stage shows the surplus or deficit brought down, current transfer appropriations, and resources transferred. The main purpose of this stage is to determine the current surplus or deficit which is equivalent to the surplus or deficit balances appearing in the traditional profit and loss account.

The third stage shows how the distributable surplus is disposed of.

9.3.6.2.3 Production and Trading Account

The production and trading account is based upon conventional accounting rules. It provides a functional classification of cost which assists in the control of

functional activities. This account is also divided into three main sections. The first section summarises the cost of production ($\text{Cost of production} = \text{Cost of production centres} + \text{Cost of production services centres} - \text{Changes in work-in-process inventory}$), the second reflects the gross production surplus [$\text{Gross production Surplus} = \text{Revenues from current operations} - (\text{Cost of production} + \text{Cost of purchased finished goods})$], while the third shows the gross production and trading surplus ($\text{Gross production \& trading surplus} = \text{Gross production surplus} + \text{subsidies} - \text{cost of marketing centres}$).

Production and trading expenses are classified firstly according to their nature into four groups (wages, materials, services, and current transfer expenses) and secondly according to cost centres. The main cost centres are production, services, and marketing (see appendix 9.3).

The following might be noted regarding this account:

(1) Unlike the current operating account, this account is not viewed as a final account, to which items of expenses and revenues are posted. It is seen more as a statistical account prepared outside the double entry system.

(2) Depreciation and other costs are not shown separately as in the Current Operating Account, but are allocated to various production and services centres, to be included in their "current transfer expenses". The objectives of this are to meet the need for classification of expenses by cost centres and to avoid duplication of disclosure between the

two accounts.

(3) There is a potentially misleading treatment of production and export subsidies, which are shown in the last stage. The intention is to show the effect of marketing on the net productivity of the firm; however a more appropriate method might be to deduct production subsidies from the cost of production sold, and to add export subsidies to the net sales.

9.3.6.2.4 Profit and Loss Account

This account is intended to reflect the cost of administration and its efficiency, represented in the difference between gross production and trading surplus and the net distributable surplus. It includes all other expenses and revenues not included in the production and trading account. It is divided into two sections: the first indicates the current surplus or deficit, while the second shows the distribution of the current surplus, if any, between the appropriated retained earnings, which include various reserves, surplus brought forward, and other items of distributed earnings.

Expenses are classified as administrative, financial, and current transfer appropriations. Revenues are classified as transfers, miscellaneous revenues, and revenues from investment in government bonds. The matching process of revenues and expenses results in a surplus or deficit, reduced by the amount of income taxes to give the surplus available for distribution. This profit is to be distributed

in accordance with the profit distribution law no. 44 of 1965.

This profit and loss account has no counterpart in the conventional financial statements of the UK or the USA (see Appendix 9.4). The significant difference is the amount of detail included in the UAS final accounts, which are not merely conventional reports on total performance, but are also an important element in the State Organisation's control mechanism. They enable the computation of ratios of various cost categories- either by nature or by cost centre- to revenues and the comparison of companies in order to assess their relative cost efficiency. The UAS converts the production and trading account and profit and loss account into statistical reports prepared outside the double entry system.

9.3.6.2.5 The Statement of Sources and Application of Funds

The UAS divides economic activity into two groups, namely current activity, which is represented by the current operating account, and capital activity which is represented by the statement of sources and uses of funds. This statement is intended to reflect the sources and uses of funds by measuring changes in financial position of the economic unit during the accounting period. Accordingly, it follows closely the balance sheet form and classification (see Appendix 9-5).

Sources of funds are grouped into three main sections

: internal financing, changes in working capital, and capital contributions and loans: The internal financing section shows increases in reserves, allowances, and surplus brought forward. The next section shows decreases in inventory, investments, debtors and cash. The capital contributions and loans section includes increases in long-term foreign and local loans, government contributions and creditors and bank overdrafts.

Uses of funds are grouped into two main sections: capital investment and capital transfers. The capital investment section shows fixed assets (except land), inventory, taxes and tariffs on investment in assets, and projects under construction (except purchase price of land). The capital transfers section reflects increases in purchased land, second-hand assets, increases in interest accrued before operations, long-term lending, investment in securities, debtors, cash on hand and at banks, deficit for the year, and decreases in long-term loans, creditors, bank overdrafts, and provisions and allowances.

The format of the statement reflects the influence of macro-accounting, as is apparent in the following:

1- The distinction between capital investment and capital transfer is mainly to satisfy social accounting requirements. Land improvement is treated as capital investment, while land purchase is treated as a capital transfer. The economic argument behind this is that the former adds to the national wealth, while the latter is only

a transfer of resources between entities. The same justification is used for increases in second-hand assets, and investment in securities and debtors. The UAS also considers as capital investment, advance payments and credits for purchasing goods. Such investment does not represented an actual addition to the wealth of the nation, but an increase in the financial rights of one economic unit in relation to others.

2- The distinction between the purchase price of fixed assets and inventory, and their related taxes and tariffs is designed to facilitate the computation of the incremental capital output ratio and the incremental fixed capital output ratio.

a. Capital-output ratio: This is the average annual amount of gross fixed and current capital divided by the annual sum of gross output.

b. Fixed capital-output ratio: This is the average annual sum of gross fixed capital to the annual sum of gross output.

c. Incremental-capital output ratio: this is the average annual amount of incrases/decreases in total capital to the annual amount of increases/decreases in gross output.

d. Incremental-fixed-capital output ratio: This is the average annual amount of increae (or decrease) in fixed capital to the annual amount of increase (or decrease) in gross output.

The above ratios are used to control the utilisation of capital and as a basis of macro-economic calculations for resource allocation.

3. The distinction between internal financing and other sources of funds is designed to facilitate the computation of gross and net saving of the enterprise.

4- The distinction between foreign and local sources and applications of funds is designed to assist the national imports and exports policy.

9.3.7 Micro-Macro Interrelation

In addition to the above needs of national accounting, the UAS also includes " Opposite Twin Accounts" which are created to link micro-accounting to macro-accounting.

There are certain services rendered or received by an entity which are not recognised in conventional accounting, but which are necessary for the construction of national accounts.

The uniform accounting system solves this problem by the creation of new accounts and the introduction of new treatments.

The UAS has introduced various accounting treatments which are not used in conventional accounting, namely imputed accounts, classification of transactions according to sector accounts, and deferred revenue expenses. In addition, the system has created a number of new accounts

which have no counterparts in financial accounting such as, projects under construction, intermediate consumption, resources and uses, and cost of self-constructed assets.

(1) Imputed Transactions

The system has created Opposite Twin Accounts to satisfy the requirements of both conventional and national accounting. These accounts appear, at the same value, on both sides of the current operating account. Three types of accounts are created for this purpose, as shown in table 9-1.

Table 9-1
Opposite Twin Accounts in the Egyptian UAS

Uniform Code Number		Uniform Code Number	
44	Variance of imputed rent	354	Variance of imputed rent
448	Variance of imputed interest	357	Variance of imputed interest
413	Valuation difference of finished inventory	358	Valuation difference of finished inventory
4183	Valuation difference of finished goods purchased for sale	359	Valuation difference of finished goods purchased for sale
271	Correspondent production movements at market price	137	Production movements at market price

The existence of opposite twin accounts does not mean that the accounts have no effect and can be neglected. In fact, they play an important role in linking the

requirements of macro-accounting with those of micro-accounting. For instance, there are two accounts created for imputed rent and imputed interest; a/c no. 354, variance of imputed rent and a/c no. 357, variance of imputed interest. The main purpose of this is to facilitate the calculation of factor incomes or value added at the micro and macro levels.

Account no. 354 represents the difference between the depreciation on assets and the rent that would have been paid if assets were used. Account no. 357 similarly represents the difference between the actual interest paid on outside loans and the imputed interest on investment capital based on the interest on loans provided by the National Investment Bank. Assets already included in account no. 354 are excluded when determining the imputed interest on capital investment, to avoid double counting. In order to cancel the effects of these balances on the micro accounting figures, a/c no. 447, corresponding to variance of imputed rent and a/c no. 448, corresponding to variance of imputed interest are created.

In addition, accounts 413 and 4183 assist in calculating the value of production at selling price according to the requirements of national accounting. Accounts no. 358 and no. 359 cancel the effect of these accounts and provide the accountant at the micro level with figures for the valuation of inventory at cost or market price, whichever is lower. In arriving at the figure of "surplus from normal operations", the surplus is influenced

by the imputed interest, but when calculating the final amount of distributable surplus, that is cancelled by the opposite accounts on the revenue side and the surplus then excludes the imputed costs.

Finally, in preparing and controlling the production plan, national planners need data about production value at the micro level. This is important for planning the supply side of the national economic development plan and for computing national income. Accordingly, two accounts are created: a/c no. 137, production movements at market price and a/c no. 271, corresponding to production movements at market prices.

(2) Classification of Transactions According to Sector Accounts

Transactions of the economic units with other public sector units are classified on the basis of sector accounts. The creditor accounts (a/c 261) for example, are divided into three sub-accounts, representing the public sector, the mixed and the private sector, and the foreign sector. This account is reserved for the enterprise's purchases of commodities and services, and closely corresponds to social accounting classification. It helps also in the construction of input-output tables and inter-industry analysis as well as in preparing consolidated accounts within a single sector.

(3) Deferred Revenue Expenses

The UAS defines these as organisation costs, expenses

incurred before operations, research and market costs, cost of technical documents, and interest incurred before operations. These costs are treated as fixed assets in the UAS, while they are considered as intangible assets in Western financial accounting. The rationale for this treatment is that they are viewed as a part of national investment, which contribute to productive facilities; they are therefore considered as fixed assets depreciated by 20% or over 5 years.

(4) Resources and Uses

The terms "resources and uses of resources" are used in the UAS instead of the terms "revenues and expenses" which are usually used in financial accounting, presumably with the intention of giving these items an economic significance different from that of conventional accounting. This attitude is also reflected in the inclusion of various items which conventional accounting would not consider to be actual revenue or cost, for example, inventory at market prices, work for internal use, and imputed rent and interest.

(5) Intermediate consumption

The intermediate consumption category represents purchases from other economic units of goods and services to be used in current operations. Thus, a clear distinction is made between final and intermediate consumption, to facilitate the calculation of value added created by each company and by the economy as a whole.

The UAS classifies intermediate consumption into commodity requirements a/c no. 32, and service requirements a/c no. 33. Commodity requirements include the costs of raw material, fuel, spare parts, etc. Service requirements include the cost of services acquired from others such as research and consultancy, advertising, maintenance, and computer rent, etc.

There are therefore three ways of classifying costs in the system: (a) by function, e.g. cost of production, marketing, administration and finance, (b) allocation to a particular product and period as direct and indirect costs, and (c) according to cost behaviour, such as variable and fixed costs.

The UAS also includes separate treatment of depreciation and customs duties, which are included with transfer payments in order to facilitate the calculation of value added at factor production cost.

(6) Projects under Construction

A distinction is made in the UAS between assets not yet used in production, and assets currently in use. The intention is to facilitate control over investment projects and to separate assets which are currently productive from those which are not. It also facilitates the calculation of various capital-output ratios as a means of performance evaluation.

(7) Cost of Self-constructed Assets

The UAS regards these costs as assets produced by the economic unit for internal use for productive activities rather than for sale, in contrast to conventional accounting which considered them as a capital expense which has no effect on the current operating account.

In the UAS these costs are shown on the debit side of the current operating account, representing the economic unit's use of resources in the construction of these assets, and on the credit side as revenue along with the amounts realised from the sales of goods and services.

The cost incurred in constructing and producing these assets is recorded in the capital control accounts and analysed into wages, materials, services and various transferred expenses accounts. The costs of these assets are added to the cost of fixed assets through the projects under construction account. The main purpose of this treatment is to facilitate the construction of the gross capital formation account at both the economic unit and sector levels.

9.3.8 The Unified Cost Accounting System

9.3.8.1 The Nature of the Cost Accounting System

The uniform accounting system includes a general, but imperfect cost accounting system. First, the framework refers to the various cost concepts, emphasising the importance of cost accounting information for control,

budgeting, performance evaluation and decision -making. It also touches upon the organisational arrangements for establishing a section or department for cost accounting.

Second, it is based on form rather than content, and it lacks an in-depth approach to cost accounting problems, merely providing certain definitions for cost terms , cost centres, and the process of collecting and arranging cost data. Third, the general principles for identifying cost centres are indicated.

Fourth, the UAS manual was basically concerned with financial accounts (i.e. classes 1 to 4), while classes 5 to 9 (cost classes) are largely left to be determined by each public organisation or public sector entity.

It is argued that this general framework of standardised cost accounting system represents the next stage in the field of accounting standardisation. Nevertheless, the uniform accounting system has been in practice for more than 20 years and has not made any serious step towards developing a cost system in practice.

9.3.8.2 Cost Structure

Cost structure is based on a classification of the operations of an economic unit into five major functions: production, production services, marketing, administration and finance, and capital operations. Thus cost centres are divided on the basis of functional classification.

9.3.8.3 Cost Categories

The major cost categories are those shown vertically in table 9.2. However, companies should also subdivide them in the manner shown in the chart of accounts. The matrix in Appendix 9-6 shows the items allocated to each cost centre as exercised by the General Petroleum Company for Exploration and Producing Oil & Gas (GPC), where costing system segregates costs between production and services both in defining the cost centre and in the analysis of the costs charged to each cost centre.

Table 9.2
Allocation Cost

Uniform Code	Cost Element	Cost Centres				
		5 (a)	6 (b)	7 (c)	8 (d)	9 (e)
31	Wages	531	631	731	831	931
32	Physical Requirements	532	632	732	832	932
33	Service Requirements	533	633	733	833	933
34	Goods Purchased for sale	534	634			
35	Current Transferable Expenses	535	635	735	835	935
36	Special Current Transferable Expenses				836	

- (a) Production cost centres
- (b) Production service centres
- (c) Marketing centre
- (d) Administrative and financial centres
- (e) Capital operations centres

The system requires the accumulation of the total cost for all cost centres by groups and individually and the total cost of each product. While it is possible to accumulate total cost for centres as a group, it is difficult to do so for individual centres due to the problems posed by allocating overhead costs.

However, there is no well-structured policy of allocation within the uniform accounting system, which gives only general guidelines on how to allocate costs to the major cost centres, leaving the detailed analysis to the entity itself.

9.3.8.4 Cost Centres

There are five groups of cost centres (see table 9.3):

Group 1: Production centres

These relate to the major activities of an entity. For example, in a car manufacturing enterprise the production centres might be classified according to the kinds of vehicle it produces e.g. saloon, bus, mini-bus, van, etc.. Alternatively, classification may be based on the nature of the activities contributing to the production of the final product. In GPC, for example, the unified costing system identifies separately the three natural phases leading up to production, namely: Geological & Geophysical Surveys , Test Drilling & Development, and Production Centres. Appendix 9-7 shows the current classification of cost centres in GPC within the framework of the UAS.

In the service sector, the type of service or method of

providing services might be used as the criterion. For example, the Egyptian Railways organisation could use the types of carriage as the criterion, e.g. compartment, loading carriage, tanker, etc..

Group 2: Production services centres

These centres provide services to the production centres, and their costs should be distributed to those centres according to a common base.

To do this, it is necessary to choose both a basis for the allocation and a percentage to be applied to the base. In practice, the choice varies according to the nature of the firm's business. The basis would represent some measure of the resources to be used, e.g. direct labour hours, total machine hour, total direct cost, total variable cost, etc.. Thus, the first step is to identify the common base and an allocation rate can then be established. This could then be made uniform throughout an industry, a public organisation or a group of companies which are similar in activities or products.

Group 3: Marketing centres

These are directly related to the activities associated with marketing the final product and include market research, correspondence, advertising, distribution of finished goods, etc..

Group 4: Administrative and financial centres

These include head office expenses, financial,

personnel, accounting and auditing, computer centre, etc..

Group 5: Capital operations centres

These relate to divisions and departments concerned with the installation of heavy machinery and tools, and production of equipment, etc. for the company itself.

9.3.9 Budgetary Control System

9.3.9.1 Objectives

The general framework of budgets in the UAS covers the activities of all units within each economic sector. The system provides only the main standardised forms and tables, leaving each entity to prepare detailed forms according to its needs, though the needs of national accounting and central planning must be given priority,

The main objectives of budgets as defined by the system are as follows:

1. To achieve optimal allocation of resources;
2. To co-ordinate the activities of an economic unit in achieving its objectives.
3. To provide a base for entity performance evaluation through comparison of actual results and planned targets.
4. To provide information needed by central planning and control authorities.

9.3.9.2 General Guidelines

The system specifies the general guidelines for preparing budgets to help public entities to set their budgets. However, they are broadly defined and largely

theoretical:

(1) Comprehensiveness:

The UAS requires that all activities of an economic unit should be budgeted as far as possible. However, the system permits an entity to add more budgets if appropriate to its needs. In preparing the budgets, the system requires the entity to distinguish between current and capital expenditure.

(2) Forecasts:

The budget estimates should be based upon as scientific as possible a forecast of the future.

(3) Aggregate Approach:

The budgets are based on aggregates, but the various public sector units must combine the budgets with cost accounts and classify the cost centres into production centres, production services centres, marketing centres, administrative and financial centres, and capital operations centres. That is, if there are 15 production cost centres then the budgets must be built to show all the fifteen centres separately and not under a general heading, such as production centres.

(4) Geographical basis:

The budget estimates should be classified on a geographical basis, reflecting the share of each area in the major activity in which the economic unit is engaged.

(5) Periods Within The Budgets:

The uniform system of budgeting is on a yearly basis,

though the budget must be divided into monthly and quarterly budgets.

(6) Uniformity:

The budgets must adhere to the standard forms.

(7) Participation:

Without real co-operation and consultation at various management levels, motivation will be lacking. Thus, the system ensures that participation must be the core factor in preparing budgets.

It is necessary for the budgeting and accounting functions to cooperate closely. The budget department and others prepare estimates of future revenues and costs based on historical data provided by the accounting department. Comparison between actual and budgeted costs and revenues requires that those figures be classified within an identical framework. Therefore, the same chart of accounts and classification of revenues and expenses must be used by both the accounting department and the budget procedures. To this end, the UAS uses standard forms of budget utilising the same chart of accounts, thus ensuring consistency, facilitating budget preparation and increasing cooperation between the relevant departments for economic planning purposes.

9.3.9.3 Types of Budgets

There are three types of budget:

(1) Physical Budgets: these show the production programme in

relation to capacity, and to input requirements, including manpower. They include the sales, production, manpower, materials usage, and inventory budgets . They are fundamental for building financial budgets and for physical performance evaluation.

(2) Financial Budgets: these are the financial expression of the physical budget, and reflect the financing plan of the unit. They also include budgets for expenses, such as service expenses, and financial investment operations. From these, it is possible to prepare accounts for the end of the budget period, represented by production, trading and profit and loss accounts.

(3) Cash Budget: this budget shows the projected cash inflow and outflow of a public sector entity, and identifies in advance the difference whether there will be sufficient cash during the period covered.

The number of budgets suggested by the uniform accounting system is 20. These are capacity and production schedules, production programme, actual production, utilisation of capacity, physical requirements, direct physical requirements, indirect physical requirements, service requirements, sales (domestic and export), employment, salaries and wages, capital operations, capital investment, value added and production, price statements (final product, input requirements), the expense budget, cash, projected income and loss account, projected balance sheet, and projected statement of sources and uses of funds.

Planning budgets are intended to fulfil planning authorities' requirements by the use of certain forms incorporated in the UAS. However, the system is subject to a number of failings (interviews with some key figures in the Petroleum Sector):

a) State enterprises conduct only short-term planning, and neglect long-term corporate planning. Nor is this short-term planning linked with the five-year national development plans. Thus economic units have no long-term objectives which can be divided into short-term annual objectives for budgeting purposes.

b) Planning budgets lack clear targets. Production budget, for example, may be set at a level less than the available capacity for the entity or department concerned.

c) Budgets are mainly based on the performance of the previous year, adjusted for expected changes in conditions for the coming year. Thus planning is largely based on historical conditions, whereas it should aim to satisfy market needs and to utilise the entire available capacity.

d) The method of estimating production quantities is inadequate because the added capacity expected from projects under construction is included, no allowance being made for delays, which may be considerable. As a result, there are always substantial deviations between actual and budgeted performance.

e) Lack of market surveys to plan for expansion leads to unrealistic production budgets.

f) The capital expenditure budget is shown in the form of a

list of fixed assets, with no indication of how the enterprise will finance its expenditure; nor does it show the expected added capacity from new assets nor the revenues and expenses expected to result from the added capacity.

g) Because wages are fixed by law, and the wages budget prepared on a time basis, workers obtain their wages whether or not targets are achieved, leading to rising production costs and excessive deviations between actual and budgeted wages, and between the actual and budgeted production costs.

h) A standard cost system is needed against which to measure the actual cost of each product, so that actual performance and the costs that should be incurred for the actual level of activity, can be reported. A flexible budgeting approach would also achieve this. However, neither standard cost systems nor a flexible budget systems are yet used.

i) Many authorities interfere in budget preparation and approval. Furthermore, budgets are prepared according to formats required by the UAS to provide information needed for national planning and control. The enterprise forwards all budgets and periodical reports to the next organisational level.

Thus, the budgeting carried out by industrial establishments in Egypt is restricted to a static or fixed budget, prepared for only one level of activity (e.g., volume of production). Comparison between results and the planned target does not take into account changed conditions. The rate of capacity utilisation is stated in

the preparation of the production budget, but cost behaviour and volume are not related, and no use is made of flexible budgeting.

A flexible budget based on knowledge of cost behaviour patterns should give management a sound basis for analysing and controlling variances between budgeted and actual costs. Such a budget is prepared, not just for one level of activity, as in a static budget, but for several levels. Its preparation requires knowledge of relationships between costs and production volume; it assumes that costs of labour, materials, or facilities used in production vary in relation to changes in the volume of activity, and reflects the costs necessary to achieve a given volume of activity.

Actual costs can be compared with previously established budgeted amounts, adjusted for varying level of production to evaluate performance. Thus, flexible budgets can help managers to choose among various ranges of activity for planning purposes, and to analyse actual results at the end of the planning period.

9.3.10 Responsibility Accounting

Responsibility accounting is a technique for exercising control over resource allocation and administration. Accountability is related to a responsibility centre, rather than to the whole entity or to a particular product.

Each centre is responsible for performing specified tasks which given means and resources, under the control of

the centre manager. An objective in the form of a predetermined level of achievement is usually set as a guide to actual performance. Costs and revenues from each responsibility centre are accumulated so that deviations from budgets can be attributed to the person in charge.

In capitalist economies, responsibility accounting usually has an intra-firm function, whereas in a socialist economy its function extends to include inter-firm and inter-industry comparisons. In other words, the whole economy is viewed as a large corporation with extremely diversified activities.

The financial statements of public sector enterprises in Egypt classify costs by cost centre and by nature. This double classification does not provide a substitute for responsibility accounting for internal management, and even for inter-firm comparisons, for variations in production conditions from one firm to another are likely to restrict its effectiveness.

Responsibility accounting requires a distinction between controllable and non-controllable costs, so that the responsibility centre is charged with only those costs which are significantly influenced by the manager of that responsibility centre. Such a distinction is not made in the UAS, though some public sector enterprises such as the Petroleum Sector Units [(e.g. General Petroleum Corporation)] have made the attempt (see Appendix 9-8).

The usefulness of the budget system for responsibility accounting is also limited in the following respects:

(1) Capacity is not distributed according to responsibility centres. Even if this were done, operations and processes may not be independent, so that capacity utilisation for some operations will be affected by bottlenecks elsewhere.

(2) The production programme is usually set by higher levels of management, with the intervention of the state organisation and the higher planning authority. The level of capacity utilisation is, therefore, outside the control of the responsibility centres.

(3) The reports for planning and setting performance standards are limited to the total performance of each economic unit. These reports need to be supplemented with additional reports based on responsibility centres to facilitate intra-firm control. The UAS pays little attention to this issue, as it is primarily concerned with the needs of social accounting and the higher control levels of the economy. The economy as a whole, however, can not be efficient unless attention is paid to the efficiency of the individual units of which it is comprised.

9.3.11 Evaluation

The uniform accounting system represents a very good start in improving accounting in Egypt, for it requires greater disclosure, links micro and macro accounting, contains a general framework for budgets and cost accounting, and facilitates the performance of Value For

Money Audit.

However, although it has achieved its objective of coordinating financial accounting with social accounting, many problems remain;

(1) The system does not distinguish between profit-making and non-profit-making, or between large and small enterprises. While the system takes some account of to differences between industrial, commercial and service entities (for example, a/c no. 411, net sales of finished goods, is for use by an industrial entity, a/c no. 417, services sold, is for use by a service entity and a/c no. 4181, net sales of goods purchased for sale, is for use by a retail entity), its major orientation is to meet the needs of large enterprises within the industrial sector.

(2) While the system uses some unusual accounting concepts, especially in the first stage of the current operating account, it is still mainly based upon conventional accounting concepts. For example, apart from the valuation of finished goods inventory at current prices, all other items are calculated on a historical cost basis. Thus value added and gross value added do not represent figures at current prices.

(3) There are many problems with those figures in the financial statements whose calculation relies on cost accounting data (e.g. the calculation of cost of finished goods, work-in-progress and internally manufactured goods), and, unless cost figures are accurately calculated, the

final accounts and statements will be unsatisfactory.

(4) There is no distinction between controllable and non-controllable costs. This distinction is very important, since performance evaluation at the company level should be related to what is controllable by management. This is a fundamental issue, since in a centrally controlled economy there is greater interference in an entity's affairs by higher authorities. Thus, what is at the discretion of management must be distinguished from what is done at the order of higher authorities.

(5) Although cost allocations are necessary, for cost centres are divided into five categories and within each category there must be a further division to give figures for each single cost centre, the system does not offer any clue as to the method of allocation to be used.

(6) The costing system does not contain a sophisticated variance system, suitable for control and performance evaluation, but merely compares planned and actual costs of the last year in the current budgets, with costs viewed only on a yearly basis.

(7) The system does not deal with the problem of transfer pricing, which is of key importance in performance evaluation and in the allocation of resources. The majority of interviewees argue that, unless a proper transfer price, based on shadow prices of intermediate inputs, is calculated, performance evaluation will be distorted.

(8) In measuring the effectiveness of management, the UAS uses ratios typically used in a free- enterprise economy

(for example, current ratio, profit margin ratio, and rate of return on investment). In a free market, these ratios are based upon market-determined prices resulting from the underlying supply and demand conditions; but in a planned economy, where prices for goods and services are administrative prices, the validity of these ratios remains doubtful. Thus other techniques are required to measure the efficiency of management in utilising its resources.

(9) There is no feedback system, and no attempt to compare actual performance with that planned by means of regular reports for periods shorter than one year. Although the budgeting system requires the division of budget estimates between months and quarters, there are no cost accounting or similar returns on a monthly and quarterly basis.

9.3.12 The Need for A Revision

It is thus argued that the UAS has several problems which affect its overall performance.

The author thus approached a number of people familiar with the UAS to ascertain their views of the system and the areas where improvements should be made.

The majority supported the need for revision, due to changes in economic and legal conditions since 1974 and progress in managerial methods and information processing. Some added that the problems encountered in the adoption of the UAS in various economic sectors also underlined the need

for modification.

It was suggested that this revision should be carried out through co-operation between the CAO , the users of the UAS, and representatives from different backgrounds, and that committees should be formed to study the main problem areas.

The majority of the sample (87%) argue that the revision has to build upon the structure and concepts of the UAS, since the soundness of its general architecture has been proven over more than twenty years of use. Furthermore, the system could not simply be thrown away, since companies have invested large sums in its implementation, and accountants and users of accounting information have been trained in its principles and mechanisms for many years.

Most of the respondents (77%) recommended that the revision should bring reform in the areas of terminology, the classification of events, the presentation of financial statements and asset valuation rules. They argued that terminology has to be improved to take managerial uses of accounting information into consideration, while 47% of them argued that classifications should be improved to take national accounting needs into account, as well as the benefits offered by computers. In elaborating on the theme of improved classification , almost all (93.2%) of the sample believe that a greater emphasis should be given to the management uses of accounting data. In addition, 70.8 % see a need for the UAS to be updated in accounting for various matters such as research and development costs,

profits on long-term construction contracts, and receivables and debts in foreign currencies.

With regard to the improvement of public sector efficiency, 73% believed that the revision should improve the financial and economic analysis performed on the basis of published financial statements, while a majority feel that the revision should include the establishment of a standard cost system to be used as a basis for performance evaluation.

When asked their opinion concerning the relevance of International Accounting Standards to Egypt, the majority felt they are not relevant. They argued that the UAS is a very good start towards setting accounting standards in Egypt, and that a greater degree of standardisation in accounting would be of particular benefit to the country. They pointed out that, because of limited financial and administrative skills, the government may need to undertake increasingly centralised cost-benefit analysis, and to involve itself, through the planning and control system, in all socioeconomic activities. 75% argued that standardisation of accounting will ensure better comparability, more effective consolidation and integration, sounder economic and fiscal policies, better control, easier education and training, and the development of a more unified overall accounting theory.

Those who criticised the UAS suggested that it is unwieldy, static, unimaginative, and very expensive, and that uniformity hampers accounting thought and skills.

9.5 State Audit

9.5.1 Introduction

Since 1964, the auditing function in the public sector has been undertaken by the CAO. Since then, many state auditing offices, at the local level and above, have been established throughout the country. These departments come under the supervision of the CAO, and more than 4,000 technical staff members work in them.

The focal points of state auditing at the present time are the public sector business enterprises, the sources of local construction, finance and taxes, banks and trust organisations, educational administration, revenue from imposing fines and confiscating property, joint-ventures in which the government participates by more than 25%, and projects using World Bank loans.

Meanwhile, chartered accountants have no authority to audit the accounts of public sector enterprises, and their business is restricted to the private sector. Likewise, government auditors do not have the right to audit private sector enterprises and they cannot control the work of chartered accountants.

9.5.2 The Public Sector Professional Body (The CAO)

Since the public sector assumed the leading role in the economy in 1961, the CAO has been the authorised professional body with responsibility for external audit in public sector enterprises and government authorities. It is

the highest authority in respect of state financial control over public wealth, and is an independent organisation responsible directly to the National People's Assembly.

9.5.2.1 Establishment and Objectives

The Central Accounting Organisation was established in 1964 (by presidential Decree No. 129) as an independent body attached to the Vice-President of the country to achieve control over public funds. In 1975, presidential Decree No.31 was passed to attach the CAO to the People's Assembly, in order to give government auditors more power and independence from the executive bodies of government.

The CAO exercises control over the whole public sector in Egypt including the Budgetary Control System and the examination of the adequacy of the regulations and methods adopted for safeguarding of public funds and preventing their abuse. The main tasks allocated to the CAO are:

(a) To audit public sector enterprises, and to assure their compliance to statutory requirements and related regulations.

(b) To supervise public sector enterprises in financial management, economic accounting, and technical matters , and to give an opinion about the accounting affairs of state organisations.

(c) To monitor the implementation of the economic development plan.

The following six central departments were set up :

(1) The Central Department for the Financial Control of Public Authorities and Organisations and Public Sector Enterprises. The Department audits the accounts and examines the books and records of these public sector bodies, and checks their auditors' reports and financial accounts.

(2) The Central Department for the Financial Control of the State's Administrative Agencies, and Local Administration Units, which has the following responsibilities: the auditing of pension and bonus accounts; the control of income and expenditure; the inspection of receipt and disbursement records, and the review of commodity stocks. In addition it audits loans and credit facilities as well as the final accounts of the state budget .

(3) The Central Department for Following up the Development Plan and Evaluating its Implementation, which exercises control over the projects of the economic development plan, and follows up investment , production, exports, imports, employment, and productivity.

(4) The Central Department for Financial Violation, which is responsible for checking compliance with administrative decisions, and giving opinions in regard to any financial violations by state administrative bodies and public sector enterprises.

(5) The Central Department for Research and Operations, which undertakes research to assist the CAO in carrying out their functions.

(6) The Secretariat.

9.5.2.2 Organisation and Administration

The CAO is composed of a President, a Vice-president, an undersecretary, an associate undersecretary, and an adequate number of technical staff. Subject to the work requirements of the organisation, more than one vice-president, undersecretary or associate secretary may be appointed.

The President of the CAO is appointed by a presidential Decree upon the nomination of the speaker of the People's Assembly after approval by the majority of the Assembly members in a special session. The status of the president of the CAO is equivalent to that of a Minister.

The president of the CAO may be dismissed by the decree of the disciplinary authority (often a presidential decree). No educational requirements are stipulated by law for the president of the CAO but, in practice, all presidents have been university graduates*. The vice-president and the undersecretary are appointed by the president of the CAO. Their function is to assist the president in the organisation and management of the organisation.

9.5.2.3 Functions and Responsibilities

9.5.2.3.1 Legal Requirements

The Articles pertaining to Law No. 129 of 1964

(*) It is worth mentioning that during the history of the CAO (1964-1989) no professional accountant has chaired the organisation. Four out of six chair of the organisation during this period were engineers, one was a colonel and the other was a professor of Public Finance. This suggests that the selection of the president of the CAO is political.

establishing the CAO reveals that the functions and responsibilities of the CAO are strictly based on:

(1) The concept of custodial accountability to ascertain the safeguard of public funds and compliance of an entity's accounts with statutory requirements and related regulations;

(2) The concept of accountability relating to the efficient and effective use of public funds. Provisions were stipulated in Article 5 of Law No.129 to determine whether national resources were used economically and efficiently to achieve the desired results or goals , and whether public sector economic units had considered alternatives which might yield the projected results at a lower cost.

The departments of the CAO provide auditing supervision on behalf of the state. The purposes of state auditing are to enforce financial and economic law and discipline, to increase economic effectiveness, to strengthen macro-control and macro-administration, and to ensure smooth progress in reform of the economic structure. These functions are discharged by supervising the revenue and expenditure of each government institution, and the revenue, expenditure and economic effectiveness of financial and monetary institutions, enterprises and other organisations concerned with public funds.

9.5.2.3.2 The Present Audit

To achieve its objectives, the CAO has to exercise effective control over public wealth, through the following

functions:

(1) Auditing the records of the general plan for social and economic development and the records required for monitoring its implementation.

(2) Auditing the costs and results of the various activities and comparing these with planned objectives; verifying that investments were implemented in accordance with planned expenditures and evaluating their results as compared with projected objectives.

(3) Controlling the projects of the social and economic development plan and monitoring their implementation with regard to investments, employment, consumption, production efficiency and reduction of construction and production costs, marketing, imports and exports.

(4) In exercising control over revenues and expenditures, the CAO members examine, review, and inspect documents, books, and registers to ascertain that the financial dispositions and account entries pertaining to collections and/or disbursements have been performed in a proper and regular manner in accordance with the provisions of the financial and accounting by-laws and the general rules of the budget.

(5) The CAO must examine and review personnel orders on appointments, promotions, increments, settlements, allowances, additional salaries, and similar items, as well as travel allowances and transportation expenses, to ascertain that they conform with the rules of the budget, other financial provisions, by-laws, and the relevant

orders. They must also examine and review the accounts of pension funds, service benefits and insurance, and social security and aid payments, and verify that they conform with the laws, by-laws, and applicable orders.

(6) Supplies and tenders for public works are also subject to the CAO's prior control.

(7) The CAO must inspect transactions of the public stores and warehouses and their various branches and examine their documents, books, registers, and accounts; investigate the reasons for cases of embezzlement, negligence, and loopholes in the existing work system which caused or facilitated these occurrences, and suggest corrective measures.

Two types of auditing prevail: (1) Financial Auditing, which includes auditing against violation of law and discipline, and (2) Economic-Effectiveness Auditing.

9.5.2.3.2.1 Financial Auditing

Financial auditing involves an independent review of the revenue and expenditure and final accounts of public sector enterprises, various departments and various levels of local government, and final accounts of state financial and monetary organisations, and is concerned with accuracy, compliance, completeness, authenticity and legitimacy.

One of the special fields of financial auditing is "auditing against violation of law and discipline", which emphasises compliance with the state's financial and economic guidelines, policies, laws and decrees,

regulations, rules and discipline.

9.5.2.3.2.2 Performance Evaluation Auditing

This type of auditing is concerned with the development of alternative approaches to increasing the economic effectiveness of an enterprise, an industry or a department, and the economy as a whole.

There are three major kinds of performance evaluation auditing: management auditing, programme auditing, and effectiveness auditing.

(A) Management auditing stresses the evaluation of managerial performance and efficiency. It is a process of looking inside the company to assess strengths and weaknesses, to form a view of what the company is good at doing. This involves an analysis of each and every part of the company, covering inter alia: management, labour, product, marketing, distribution, finance, physical assets, systems, plans, research and development. It measures the degree of efficiency of each entity in utilising the resources allocated to it.

(B) Programme auditing focuses on evaluating input/output performance, tapping the potential for reducing consumption and increasing output, and increasing the quality of production. It measures the extent of achievement of annual operating targets set for the various economic entities subject to the control of the CAO.

(C) Effectiveness auditing evaluates whether the state programmes have achieved their expected goals, and monitors the implementation of investment projects, to ascertain whether investment projects included in the national development plan are implemented within their estimated costs and according to expected time schedules.

9.5.2.3.3 The State Auditor's Report

The State Auditor is responsible for submitting to parliament an annual report upon the financial statements of all public sector enterprises and government agencies and ensuring that they are drawn up in the proper manner according to the UAS. All public sector companies are required to submit their final accounts for inspection by the CAO staff, at least two months before the Annual General Meeting for the General Assemblies. Furthermore, all public companies are required to fill in special forms designed by the CAO for the monitoring and evaluation of their activities.

There is no standard form for government audit reports in Egypt at present, and they vary with different auditing objectives and requirements. However, there are still some basic requirements to be followed, which include: (1) to represent the state's interest and to express an audit opinion according to the facts and evidence verified, (2) to distinguish right from wrong in audit findings and explicitly state the auditor's attitude, (3) to disclose

data accurately and based on conclusive evidence, (4) to stress the essential and main points, (5) to address problems and make specific suggestions, and (6) to write concisely and use appropriate wording [El-Sahan & Others, 1987].

Specifically, an audit report consists of the following five sections:

(1) A brief summary of the audit criteria, objectives and scope, the auditee's background, the audit process and the auditor's opinion or conclusion.

(2) Significant findings or problems, which disclose any violation of economic laws, financial laws , and discipline and regulations; findings or problems in financial receipts and payments and financial statements; and an analysis of the significance of these findings for the financial statements and the financial position.

(3) An audit opinion, which outlines significant findings or problems and any violations of economic law, discipline and regulations, and consequent recommendations, e.g. for the confiscation of illicit income, imposition of fines, deduction of funds, cutting down financial appropriations, suspension of bank loans, etc.

(4) Suggestions to improve management and efficiency based on any weakness identified during an audit.

(5) Attachments, which include all significant evidence and necessary data and financial statements.

Moreover, two kinds of report are prepared by the CAO

auditors after completion of the statutory audit.

9.5.2.3.3.1 The Balance Sheet and Final Accounts Report

The CAO prepares at the end of each fiscal year an annual report, which is called " the balance sheet and final accounts report" for each :

- 1) public sector enterprise
- 2) public organisation and its affiliated enterprises.

This report embraces the following:

- a) Report of the Board of Directors
- b) Economic and Financial Trends
- c) The Balance Sheet
- d) The Current Operating Account
- e) Profit and Loss Account
- f) Statement of Sources and Uses of Funds
- g) Production and Value Added
- h) Statement of Cash Flow

More specifically, the CAO technical staff will report to the board of directors, in writing, on the following:

(A) the procedures carried out, including the scope of their testing;

(B) balance sheet categories and other accounting documents which, in their opinion, require changes, together with any relevant comments to highlight disclosures not included in the financial statements relating to accounting policies within the framework of the UAS.

(C) conclusions on the above matters and the effect of any

audit adjustments on the results of the current accounting period as compared with the results of previous periods.

Since there are no formal audit standards for state auditors, the CAO performs financial auditing in the same way as private sector auditors. However, its opinions state whether the information in the final accounts of public sector enterprises is prepared fairly in accordance with the accounting principles set out in the framework of the UAS [S. Youssef, February, 1988].

9.5.2.3.3.2 The Performance Evaluation Report

The CAO must also prepare at the end of each fiscal year an annual report called "The Annual Report, Performance Evaluation and Follow up of the Implementation of the Economic Development Plan", for each public sector enterprise, public organisation, economic sector, and the state as a whole.

The report includes [G. Saad, December, 1987]:

- (1) Basic trends
- (2) Analytical trends
- (3) **Production** :
 - a. Finished products;
 - b. Production at fixed prices;
 - c. Production processes;
 - d. Production capacity according to process operation, and cost centre;
 - e. Capacity utilisation;

- f. Quality control analysis;
- g. Quality control for production activities centres.

(4) **Sales**

- a. Total of actual sales;
- b. Actual exports;
- c. Actual home sales;
- d. Movement of finished products;
- e. Actual costs per unit compared with selling prices.

(5) **Manpower**

- a. Manpower and wages;
- b. Permanent manpower growth;
- c. Net available working days;
- d. Absence for abnormal reasons.

(6) **Purchases**

- a. Purchases, inputs and prices;
- b. Inputs used and stock movement;
- c. Analysis of changes in purchase price for raw materials used.

(7) **Foreign Currency**

- a. Cash provision for investments and inputs.

(8) **Cost and Profit**

- a. Unit cost analysis;
- b. Marginal profit of sales;
- c. Statement of operating surplus.

(9) **Production and value added**

(10) Financial Analysis for the Sources and Uses of Funds

- a. Comparative statement for long term sources and uses of funds;
- b. Detailed statement for long term sources of funds;
- c. Detailed statement for fixed assets purchase;
- d. Detailed statement for current assets;
- e. Detailed statement of current liabilities.

(11) Investment Follow-up

- a. Situation of costs for projects under construction;
- b. Situation of costs for projects under construction within the financial year ended;
- c. Expenditure position;
- d. Sources and uses of funds for projects under construction;
- e. Situation of factory equipment in completed projects.

(12) Miscellaneous

- a. Statement of sources and uses of funds;
- b. Statement of cash flow.

The short-form audit report is seldom used in government audit engagements. For instance, the annual performance report for the General Petroleum Corporation for the fiscal year 1985/86 runs to 183 pages and consists of five sections, as follows:

The Central Accounting Organisation

The Central Department for Follow-up and
Implementation of Performance Evaluation

Petroleum Section

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 - 3.2. Wages and Manpower ratios
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 - 3.2.2. Productivity of manpower
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9.5.2.3.4 Submission and Publication of Reports

As a basic rule, the CAO should submit its annual reports to the People's Assembly, to which it is officially attached. However, in reality, the CAO annual report is submitted to the People's Assembly and the Head of the State [Amen, January, 1988]. However, after the approval of CAO has been given, a copy of the report should be sent to the

Ministry of Finance, the Ministry of Planning, the Central Agency for Statistics and Public Mobilisation, the Council of Ministers, and the management which has been subject to audit.

The CAO annual report is confidential ("absolutely secret", as shown from the stamps put on the CAO's reports) and is not available to the public, even for scientific purposes. The decision not to publish was made when heavy losses were being suffered by these enterprises immediately after nationalisation, presumably on the grounds that if the public knew that some public enterprises were in a critical financial situation, their confidence in the management (the majority of which are appointed by the Government) of those enterprises and consequently in the whole economic system of the country might be shaken.[Salah El-Din, December, 1987].

In theory, the socialist system of Egypt implies participation by the public in publicly-owned enterprises, including the right to be informed of the current state of these enterprises. The non-publication of the annual accounting reports hinders such participation.

Publication would also give potential investors regular information to enable them to make comparisons between investment alternatives, and would enable the public to analyse these accounts for the purpose of recommending various ways to improve the efficiency of these enterprises.

Some information of a sensitive nature should perhaps

remain confidential in the enterprise's interest, but other information could be disclosed to the benefit of interested groups.

Most of the interviewees strongly supported this suggestion, but restrictions, in their opinion, would come from bureaucratic officials, who benefit from non-publication.

9.5.2.3.5 Disciplinary Measures and Follow-Up System

Discovery of wrongdoing, all financial violation, and other irregular matters require prompt action by the CAO, whose "Central Department for Financial Violation" is required to investigate all financial violations to ascertain that appropriate disciplinary measure are taken against the individuals responsible. Under Article 3 of the 1964 law, the CAO technical staff, when discovering a financial violation, should tell the management involved. The CAO must be notified of the decisions in all cases of financial violations within two weeks and has the right to object to such decisions. In such a case, the CAO has the right to require the minister concerned to take action. The president of the CAO can order the prosecution of any civil employee if it considers that the disciplinary measures taken against him by his own employing economic unit are inadequate.

9.5.3 The Audit System

9.5.3.1 Post-Audit Approach

The CAO is involved with a post-audit function and has

left the pre-audit function to the internal auditors. This is the same in the U.K. and the U.S., where the NAO and the GAO rely on the procedures of the Accounting Officers in government departments.

9.5.3.2 Regularly and Continuous Audit Approach

The CAO is entitled to inspect all documents which they think necessary in the performance of their duties. They may also obtain any such information as they require for the purpose of their work from third parties who have worked on behalf of the company. Accounts, books, and records are, therefore, regularly audited and a continuous auditing approach is utilised, which minimises the time between the occurrence of a mistake and its detection.

To enhance the continuous auditing approach, all enterprises and authorities subject to the control of the CAO must provide CAO technical staff with a permanent office for the whole year. These staff are administratively part of the CAO, which pays their salaries. Thus, the CAO staff are able to perform their audit work independently from the managements of the enterprises and organisations being audited.

9.5.3.3 Auditing Techniques

The financial legislation does not specify specific auditing techniques, but those most frequently used are inspection, observation, reconciliation, confirmation, vouching, checking, comparison, accounts analysis and

analytical review. Analytical reviews include the analysis of fluctuations in account balances compared to budgets, amounts for the prior year(s) and any other appropriate base figures, and an evaluation of any explanations provided. They also involve the review of the financial position and performance of the auditee as expressed by significant performance indicators, comparing these indicators with those of other enterprises within the same industry [El-Afify & others, January, 1988].

In practice, the CAO employs sampling auditing techniques, whereby the auditor selects the accounts for certain periods on a random basis. In applying sampling auditing techniques, the CAO divides the accounting period into quarters, whereby the financial activities each quarter are reviewed, examined, and inspected.

9.5.3.4 Environmental Factors Influencing the Audit System in Egypt

Environmental factors have contributed a great deal to the present state audit system.

(1) National Economic Plan: National planning has influenced the development of accounting and auditing standards in the public sector, for it requires the prompt supply of data in an aggregatable and comparable form.

The state audit procedures with regard to the national economic plan take two forms:

(a) Audit of the information provided by economic units to the National Planning Board. This helps to guarantee the

objectivity of the information upon which the plan is based.

(b) Audit of actual activities, and the review of the efficiency of each economic unit, each sector, and the whole economy.

The actual results of each enterprise can be compared with its budget, on which investment programmes for the economy were based. Aggregation of all the results will be facilitated and planning and control by central government will be improved.

The state auditor will also know intimately each sector's activities, and could therefore play an important role in the economic planning process.

(2) The Uniform Accounting System: This has greatly facilitated the auditing function. Audit within each public sector organisation is more efficient, the audit process extends to the whole economy, and to the economic plan, which is based on standard information provided by the UAS.

(3) Public Interest: In a country where the bulk of wealth is in the hands of the government, the government should assure the public that its wealth is being managed in the most effective and efficient way. State audit helps to provide such assurance.

(4) Developments in Accounting Education: The accounting education system in Egypt has served the development of accounting and auditing, particularly since nationalisation. This is evidenced by the large increase in the supply of educated personnel to the public sector and government

institutions.

9.5.4 Staffing of the CAO

9.5.4.1 Selection and Remuneration

The selection and remuneration of CAO staff is completely different from that of private auditors. The CAO is a government organisation and its members are government employees, and their salaries, training and grades are determined by the Civil Service Law. In addition, the size of technical staff is laid down by a Special Labour Force Committee at the CAO, depending upon the amount of work and the constraints of the CAO Budget. Table 9-3 shows the number of CAO staff.

Table 9-3
Break Ddown of the Total Nnumber of CAO
Members into Experts and Clerks

	Experts*	Clerks	Total
Branch 1: For Following Up the Development Plan and Evaluating its Implementation	2463 **	1116	3579
Branch 2: For the Financial Control of Public Authorities, Public Sector Enterprises, and the State's Administrative Agencies	1880 ***	376	2256
	4343	1492	5835

Source: An interview with Engineer Gamal Saad, a member of the Technical Office of the Chairman of the Central Accounting Organisation; held in his office, Cairo Egypt on, 11/1/1988.

- * Experts means accountants, engineers, economists, lawyers, medical personnel etc.
 ** 95% of the total are accountants.
 *** Most of them are accountants.

9.5.4.2 Staff Qualification

A Commerce degree specialising in accounting , economics, business administration, or public administration is a sufficient qualification for membership of the CAO. In addition, specialists in engineering , medicine, sociology, and agriculture may also be needed to evaluate performance in these areas.

9.5.4.3 Staff Training

The CAO provides its own training programmes, and its members also benefit from special training programmes and workshops given by other institutions . The Central Department for Staff Training at the CAO is responsible for designing and executing training programmes for staff members [Interviews with some CAO staff, January, 1988].

New members are not allowed to attest records, reports, and financial statements of public sector enterprises until they have attended a training programme designed by senior staff of the CAO [February, 1988]. The CAO Training Plan involves two main programmes [E. Hemma, February, 1988]:

- (a) **An introductory programme:** This includes an introduction to the CAO, its departments, its administration, and its role; an introduction to the UAS, its objectives, chart of accounts and its main features, and a short course on the relationship between the CAO members and the managements of public sector enterprises, government institutions, etc.
- (b) **A comprehensive programme,** designed for all members at different management levels . It covers advanced courses in

Accounting Theory , Management Accounting, Cost Accounting, Auditing by Computer, and Foreign Languages. The courses range in duration from six to twelve weeks.

At the end of each programme, members have to sit an examination and must pass at a specified level. Any member not reaching the required standard has to repeat the programme . The results of the examinations affect the promotion and status of members and are recorded in the annual reports on the competence and progress of members, prepared by their seniors at the end of each year.

In addition to the training plan, there is a scholarship system to enable CAO members to study and train abroad, particularly in France and especially in the subject of financial analysis [El-Din, February 1988].

CAO members can achieve different levels of seniority as follows [M. Salah El-Din, February, 1988]:

Table 9-4
Levels of CAO Members

Title	Minimum Period of Experience
1-Apprentice Auditor	2 Years
2-Assistant Auditor	3 Years
3-Junior Auditor	3 " " "
4-Senior " " " "	3 " " "
	<hr/> 11 Years <hr/>
5-Controller	<hr/> By selection <hr/>

Grading within levels 1-4 occurs automatically and by seniority. To be a controller a person must be selected and should fulfil the following requirements:

- a) have spent at least 11 years on levels 1-4;
- b) have gained excellent reports during his previous service;
- c) pass an interview concerning his competence in accounting skills, and his ability to organise his department in an effective manner.

On the other hand, because the CAO members are government employees and their promotion is based only on length of service, they may not always meet the standards governing admission to the public accounting profession. They may also lack some of the professional attitudes of chartered accountants [Amer, 1969, p.56].

9.5.4.4 Competence of the Technical Staff

The CAO technical staff can as a whole be considered to be reasonably competent. Provision is made for the appointment of consultants specialists, such as engineers, lawyers, computer scientists, or medical and agricultural specialists. These experts are assisted by about 1492 administrative and general services staff.

It is fair to suggest that auditors with a university degree in commerce, without continuing professional training and education, do not necessarily possess the skills to audit the financial activities of the whole public sector and the utilisation of the resources allocated to the

national economic development plans.

Professional training for government auditors in governmental auditing activities has been internationally recognised as a means to develop auditing skills. In Egypt, professional training is rather neglected, and except at a limited level, few training programmes have been instituted by the CAO to develop the educational background and capability of staff members.

9.5.5 Evaluation

9.5.5.1 Evaluating the Role of the CAO

9.5.5.1.1 As A Consultative Body

The CAO is given a consultative role, and is allowed to submit comments concerning proposed financial laws and regulations. It has the right to produce opinions regarding the laws, regulations, and accounting policies used by public sector institutions and to suggest whatever appears necessary to develop or change such legislation and to follow-up their proposed changes [An interview with Mr. EL-Sahn and others, February, 1988].

Furthermore, because the CAO is attached to the Egyptian People's Assembly, which performs the control function over the Government Executive Agencies, it is required by law to submit special reports to the Assembly according to its instructions. For example, the CAO must prepare a special report, according to the order of the Assembly, on international contracts with the Egyptian

government, to ascertain that there is no corruption by any civil employee.

In addition, during the fiscal year, the president of the CAO may submit other reports on matters which, in his opinion, are of importance, or on matters entrusted to the CAO for examination by the People's Assembly or the Council of Ministers [Abdel Whab, February, 1988].

The Central Department for Research and Operations at the CAO is responsible for such studies and recommendations [Ibid.].

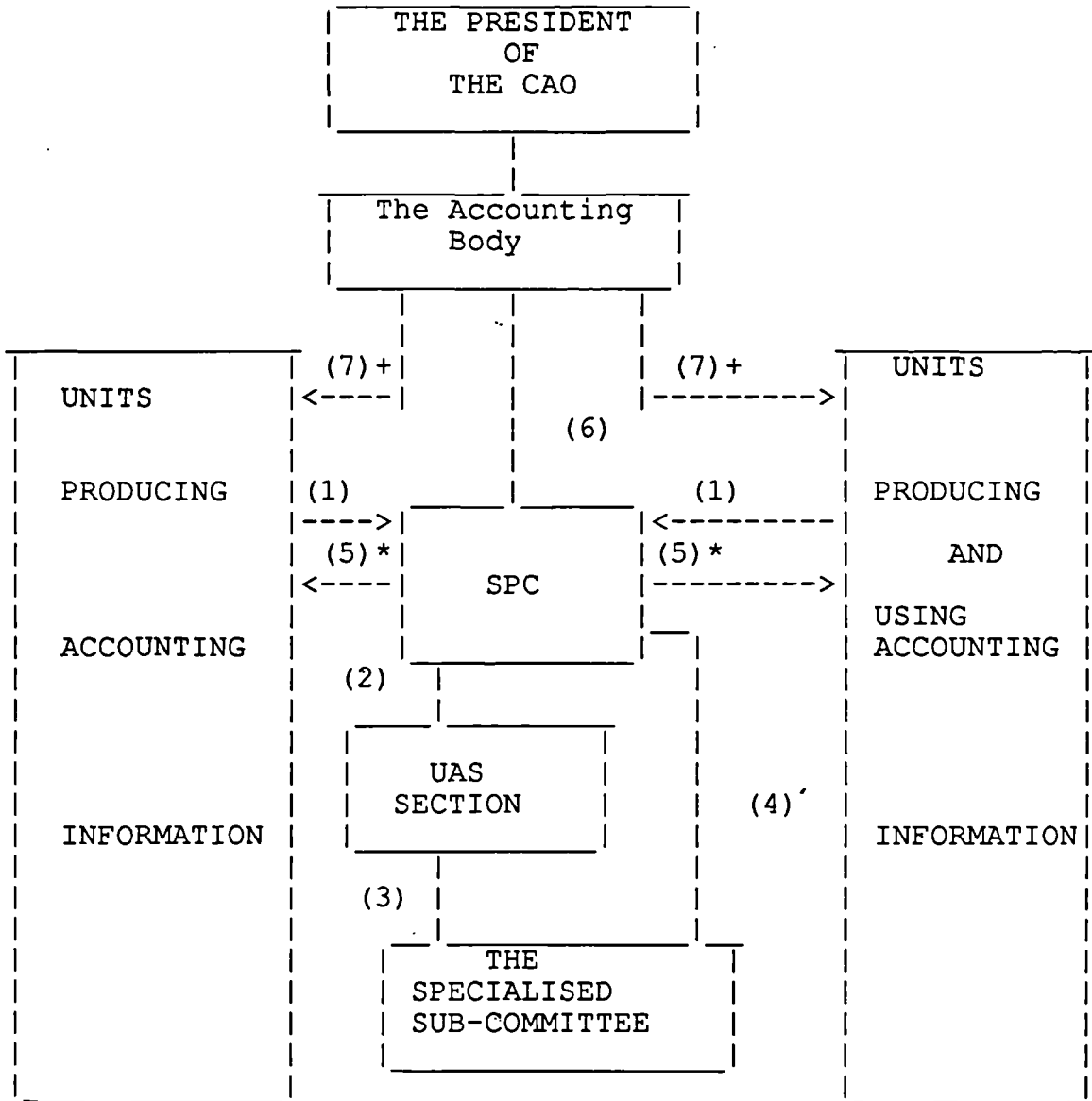
9.5.5.1.2 As A True Professional Body

With respect to public sector accounting in Egypt, there is a Uniform Accounting System which must be followed by all publicly-owned companies, and a Special Permanent Committee (SPC hereafter) to supervise it with regard to its code, terminology, concepts, and accounting policies. The Committee also assures the compliance of the UAS with the objectives of international accounting standards as well as of national accounting [Mr. H. Raaghib, December, 1987].

The Committee, since its inception in 1968, has produced 608 recommendations in the forms of interpretations, answers, and treatments, resulting from the practical requirements of the implementation of the UAS in different economic activities [Mr. R. Amien, January, 1988]. Figure 9-2 illustrates the process of interpretation and development of the UAS.

Figure 9-2

THE PROCESS OF INTERPRETATION
AND
DEVELOPMENT OF THE UAS



The arrows illustrate the direction of studies in the process of interpretation and development of the UAS, while numbers accompanying arrows represent the number of steps in that directions.

- * steps 1-5 represent the interpretation process only.
- + steps 1-7 represent the change or development process and this stage requires the agreement of the President of the CAO.

The Committee members are chosen by the Chairman of the Central Accounting Organisation from among expert accountants, professors, and economists [see Appendix 9-6].

Although the creation of the SPC has proved to be an important step towards implementing the uniform accounting system, while ensuring flexibility and innovation to keep up with economic changes, it cannot be considered as a true professional committee like the ASC in the U.K or the FASB in the USA, but rather a "Technical Committee".

However, when asked their opinions regarding the role of the CAO as a true professional body, all the interviewees answered that the CAO is not organised as a professional body, but as a governmental agency which seeks to supervise all economic activities in the public sector.

The researcher believes that, because of the great authority and responsibilities of the CAO and its influence on the accounting and auditing profession in Egypt, it needs to be reorganised as a strong public sector professional body. To achieve this it is suggested that an Institute is needed, to evaluate the status of CAO members , to develop accounting and auditing guidelines, to establish codes of conduct , to supervise materials, and to act as a clearing-house for activities. As Professor Briston suggests:

The best chance that the public sector auditor has of achieving these reforms is by creating a professional body to represent him. This would improve his status, which is far too often seen as lower than that of private sector accountants, and would

encourage local colleges and universities to provide training . The professional body could also provide recognition at different levels of training, as in Tanzania , instead of regarding a person as either fully qualified accountant or as nothing at all. Finally, for such a body to succeed, it must be recognized in more than one country [Briston, 1979, p.326].

When asked for their opinions regarding the above suggestion, most of the interviewees strongly supported it. However, they added that its implementation might need major changes in the structure and the functions of the CAO and that it would, of course, need a new Presidential Decree.

9.5.5.2 Evaluation of the Audit system

All in all, state audit in Egypt has persisted for a relatively long period- a feature that is both an asset and a liability. It is an asset since it has provided much stability and has helped in expanding the auditing scope to ensure full accountability and in assisting better evaluation of public sector operations. It has not been confined to the stewardship function, but has also paid considerable attention to performance evaluation.

It is a liability in that, despite the emphasis on full accountability, adequate performance evaluation audit is still in doubt. Such an audit based upon simple ratio analysis, and a comparison between actual results and budget estimates is really a very limited audit.

This limitation is due to many factors which can be grouped into two categories;

(1) The environmental factors, which are related basically to economic growth and the socioeconomic-cultural system, inadequate accounting education and research, and an inadequate indigenous supply of technical manpower.

(2) The technical factors, which are those relating immediately to the CAO. This group includes: limitations imposed by legal requirements, lack of continuous accounting education and professional development programmes, the absence of generally accepted auditing standards, low salaries, and the absence of a well-organised public sector professional body.

In order to enhance the scope of performance auditing and to satisfy the need of sophisticated information for effective state planning and control, there is a need to develop audit techniques, and professional standards, and to acquire practical experience of how efficiency and effectiveness auditing should be performed.

In many countries, government audit institutions have attempted to develop a new set of standards to fit the requirements of the new purposes of audit.

In the U.S., considered a leader in this field, attempts to develop generally accepted auditing standards have been made since the 1950's. A more detailed revision was made in 1981 and was designed to :

- a. Expand the explanation of some standards.
- b. Separate the standards for financial and

compliance audits from those for economy and efficiency audits and programme results audit.

c. Incorporate standards relating to audits in which automatic data processing systems are used by the entity.

d. Add a standard to make more specific the auditor's responsibility for detecting fraud and abuse in governmental programmes and operations [U.S.G.A.O.,1981, P.ii].

Generally Accepted Auditing Standards developed by the GAO are being recognized internationally as a frame of reference to improve the quality of public sector auditing, serve as criteria to evaluate audit organisations, expand the auditing scope to ensure full accountability, improve evaluation of public sector activities and operations, provide considerable assurance of compliance with laws and regulations, provide sufficient evidence to determine whether fraud, abuse, or illegal acts have occurred, stimulate self-improvement, save time by reducing duplicate auditing through improvement of original audit preparations, and serve as a guide for public sector audit training and education.

Despite the broad scope and objectives of the auditing function for the public sector in Egypt, this function has never been structured or conceptualised by the CAO or any other professional body. The CAO has no frame of reference to guide its technical staff and there are no generally accepted auditing standards. Consequently, the auditing judgements made by CAO members are matters of opinion and may differ from one auditor to another.

Egypt should adopt modern government auditing standards, techniques, and procedures to ensure accountability of public funds, reliability of financial information, and credibility of financial reports. To make this possible, there seems to be a need for a study to evaluate the efficiency of the CAO. The CAO should be reorganised in a new form to offer sound solutions to the several challenging new areas in public sector accounting and auditing. As Dahmash states:

"There is a need today , as never before, for an exchange of professional ideas and experiences in government accounting and auditing. The more complex things are, the more difficult it is for management to obtain accurate information. The auditor's role has become more and more one of identifying opportunities for improvement in modernizing accounting and auditing systems and suggesting how programme changes and management needs can be realised [Dahmash, 1982, p.91]."

9.6 Summary and Conclusion

This chapter has defined problems which have a major effect on the overall performance and efficiency of the UAS and stressed the need for urgent revision in the system towards macro accounting as well as towards economic decision-making at the micro level. It has argued that, unless the entire system is approached in an integrated and comprehensive manner, contradictory results counter to the objectives of the system must be expected.

An example of this is the unsatisfactory cost accounting and budgetary control system in the economic units, which consists of the components mentioned in the UAS

with various additions to them made by the economic units. These additions are made to fill in gaps in the UAS, but they do not solve the defects and perhaps even make them worse.

In a country where all public sector units are, to a certain extent, treated as divisions in one large company, the control system at the micro-level must be given greater attention. Only this can provide the data needed for (a) planning and control at the macro and micro level, (b) increasing efficiency and, (c) enhancing the state audit function.

Without such a system the whole planning and control system would be based on unreliable data and would not serve the objectives for which it was adopted, i.e. to ensure a balanced and accelerated rate of economic growth.

CHAPTER TEN

THE CURRENT THREAT TO THE UNIFORM ACCOUNTING SYSTEM

10.1 Introduction

Previous chapters have emphasised that accounting uniformity in Egypt was born of its environment and this environment continues to influence accounting development.

However, the uniform accounting system seems less secure than before because, when Sadat's government in 1974, moved from a socialist to a planned market system, accompanied by a degree of democracy, this inspired a reassessment of the relevance of the UAS. As a result, there is now a strong lobby in Egypt for the adoption of International Accounting Standards (IAS) and the strengthening of the accounting profession. Furthermore, a change in the training and qualification of accountants is taking place.

In fact, the Syndicate of Commercial Professions represented by the Egyptian Society of Accountants and Auditors, has taken a serious step in the development of accounting standards in Egypt by holding national and international conferences on accounting and auditing standards which have resulted in the adoption of IAS and the establishment of a professional accounting body with powers of self-regulation and standard-setting. In particular, the Egyptian Society of Accountants and Auditors is now responsible for developing Statements of Financial Accounting Standards (SFAS). The Institute started its task by creating three technical committees to study accounting standards and auditing guidelines and to make

recommendations, taking into consideration the existing political, economic, social and accounting environment in Egypt. The first four SFASs were issued in November 1987.

The main purpose of this chapter is to discuss the new trends in setting accounting standards in Egypt and to assess the applicability of this approach to the economic development planning process in the country.

The chapter starts by looking at the current pressures which encouraged this tendency and assessing their impact on uniformity in the country. Subsequent sections describe the creation of the Egyptian Accounting Board , its relationship to its constituency; the role, the structure and the procedures of the Board. Finally, the disadvantages associated with the new approach will be analysed.

The data in this chapter were gathered during interviews with seventy five individuals from different backgrounds, working in government institutions and organisations in Egypt, and from responses to a questionnaire administered to 175 accounting academics, professionals, and government officers.

Interviews and questionnaires are limited as research devices (see appendix 1.2). However, their use was justified in this case due to the tremendous lack of literature and scholarly work and partly because it is not possible to carry out scientific, practical testing on this subject, as may be done in areas such as the applied sciences.

The study was conducted in Egypt during the Autumn of 1987. Initial contact was made with the government institutions concerned, seeking their approval for this study. It was also important to obtain the approval of the individuals and government bodies who were chosen to be interviewed.

Time spent on each personal interview varied and ranged between one and three hours. However, some individuals were interviewed more than once and some interviews extended to involve the weekend holiday. In conducting the interviews, however, many difficulties and problems were faced. These included communication with people who either avoided being interviewed, despite formal approval from the bodies concerned and previous agreement upon appointments, or were unable to keep appointments or fulfil obligations. As a result, a planned period of ten weeks to carry out the whole survey in the capital and some local cities in fact extended to four months, at an early stage in carrying out this study.

Interviews and questionnaires were conducted with members of the Special Permanent Committee, who have played an important role in setting and reviewing the UAS, and with members of the CAO, financial managers of the Petroleum Companies, accounting firms, academics, chartered accountants, the Egyptian Institute technical Committees, and some government officials (see appendix 1.3).

Different accounting issues were used as a basis for the discussion in conducting personal interviews.

10.2 Current Pressures Threatening the UAS

10.2.1 Political and Economic Environment

After Egypt adopted the open-door policy, Investment Law No.43 of 1974 was passed, giving incentives such as tax exemptions to foreign, Arab and Egyptian investors. As a consequence, many new business enterprises were established to benefit from this law.

A demand was created for professional accounting firms, which in turn caused many local accounting firms to spring up, and international accounting firms to establish a presence in Egypt. As a result, pressure groups have developed : the accounting profession, Islamic modes, international accounting firms, international accounting bodies, and international political groups. To satisfy all these pressure groups, various changes occurred in the political, economic, and social environment.

The first move come in 1979, when the government of Egypt established the Capital Market Authority, and introduced major reforms in financial legislation (e.g. companies, tax, and stock exchange laws). The second move occurred in 1986, when the accounting profession succeeded in the establishment of a strong professional body.

10.2.2 The Establishment of the Capital Market Authority

To strengthen the economic open door policy the government decided to reactivate the capital market in Egypt. Thus on December 15, 1979, Presidential Decree no. 520 was passed providing for the establishment of the

Capital Market Authority (CMA) which enjoys autonomous judicial status with its seat in Cairo and with the power to establish branches or offices in Egypt and in world financial centres [CMA, Cairo, 1982].

The CMA was formed primarily to determine the information published by quoted companies, and to ensure their compliance with financial reporting requirements. When a company seeks a stock exchange listing, or a listed company seeks to issue new securities, the CMA has to approve a statutory document giving information to the public. The CMA may also need to approve the proposed audit programme in these conditions, and inspect completed audit files. [Ibrahim, February, 1988].

Immediately after the establishment of the CMA, working groups were formed to study the legal and organisational framework governing both primary and secondary markets in Egypt. The work of these groups culminated in the issue of recommendations for the removal of impediments to the market by suggesting amendments of the existing legislation and regulations with the purpose of channelling savings towards securities.

At the same time, a study of means of developing the capital market in Egypt was undertaken by the CMA in collaboration with the International Finance Corporation. This study was financed by USAID and UNDP. This suggested major amendments to the legislation governing the market. These amendments materialised in three main laws in

late 1981:

- (1) The General Regulations for the Stock Exchange
- (2) The Companies Law no. 159 of 1981
- (3) The Income Tax law no. 157 of 1981

Mr. A. Ibrahim, the Chairman of the Financial Operations Sector of the CMA said in interview that the CMA was modelled on the SEC. He stated that he had asked the chairman of the accounting standards committee about the body which should enforce the accounting standards. The reply had been that this would be the task of the CMA. As a result, the CMA changed its organisational structure and created a new Financial Operations Systems Department to monitor accounting regulation and the accounting standards issued by the profession.

10.2.3 Enhancement of the Role of the Stock Exchange

The development of the stock exchange and the other financial markets should lead to wider share-ownership and a continuing increase in the number of listed public companies. As a result, shareholders, creditors, stock exchange authorities and other interested parties will press for the development of and adherence to accounting and auditing standards, so that financial statements will be more susceptible to legitimate analysis [Dr. Fagg El-Nour, February, 1988].

In interview, Dr. M. Hamed, the Chairman of the Cairo Stock Exchange, stated that a noticeable aspect of the Egyptian Capital Market was the absence of well-organised

institutions for processing and analysing financial information and providing professional services to investors. He added that the investor-oriented approach should be enhanced by accounting policy-makers in setting accounting standards. In other words, investors would wish to ensure that accounts show "a true and fair view" [Dr. M. Hamed , January 1988].

On 15th November 1987, the Union of Arab Stock Exchanges held a conference in Cairo, under the auspices of the Cairo Stock Exchange, on the importance of financial information and disclosure systems for the promotion and enhancement of securities markets in the Arab world. The conference recommended the speedy establishment of a uniform Arab Accounting System to be used by the Arab world. Legislation should continue to be tightened up. Joint-stock companies should be required to maintain proper books of accounts and establish effective internal control procedures so that accounting records could be kept up-to-date and management made aware of the current state of the business. The rights, duties and responsibilities of directors, managers, and auditors should be more clearly defined in legislation. The conference made an urgent request to joint-stock companies, auditors, and Arab Stock Exchanges to provide all useful information about securities to serve investors' needs [El-Gomhoria , 17/11/1987].

All of these developments could lead to a greater demand for the complete range of services which the

accountant provides, so that accounting firms would continue to grow. All this would increase the need to regulate and organise the accounting profession in Egypt in order that it may function properly [Mr.A . Ibrahim, February, 1988].

10.2.4 The American Influence

The United States has tended to influence strongly accounting principles worldwide as its economic influence has spread through foreign direct investment [Radebaugh, 1975, p.46]. Egyptian accounting is, therefore, expected in the near future substantially to reflect this influence, not only through investment but also through an extensive education and training programme carried out by the U.S. Agency for International Development (USAID) in Cairo.

In the last fifteen years, Egypt's open-door policy has improved the legal framework and the general climate for foreign investments. As a result substantial foreign investment has flowed from the U.S.A. at both governmental and individual levels. It is thus not surprising that American accounting and auditing practices should follow this flow of capital.

As a result, American accounting firms and accountants have come to Egypt, and American accounting principles, concepts and procedures are likely to be transferred, as suggested by Seidler:

"the international accounting firm remains probably the most effective vehicle for the transfer of Anglo-American accounting skills to other countries. Their principal influence is

exerted when they hire, train and utilize local nationals to practise the Anglo-American accounting skills [Seidler; 1967, p.776].

In addition, a large number of students are sent by the Egyptian Universities to receive their education at U.S. Universities. USAID in Cairo and the Egyptian Government have pledged to cooperate in a project to send up to 750 assistant lecturers in Egyptian Universities to receive their higher degrees in U.S. Universities after only two years.

However the Egyptian Government has developed the project into a Ph.D programme; under the new arrangements the U.S. will finance the first two years only, and the Egyptian government will finance the remaining years.

Furthermore, USAID has financed two projects through the National Academy of Science, Massachusetts Institute of Technology and Cairo University to expand technical and professional expertise in planning activities and project reviews. From 1978 to 1982 the Egyptian - U.S. Business Council and USAID were pledged to cooperate in a project to train up to 400 managers in the industrial sector [Driscoll & et al, 1978, p.52]. In addition, USAID granted the Egyptian Government, through the Syndicate of Commerce, \$2 million to set up a national training centre for practising accountants and auditors. The Syndicate, represented by the Egyptian Society of Accountants and Auditors, has already established a Training Centre which is called 'The Egyptian

Institute of Accountants and Auditors [Prof, Dr. M. A. Hegazy, December, 1987].

As a result, accounting thought and practice in Egypt may tend to reflect the influence of the USA not only through direct foreign investment but also through many other factors such as the spread of American accounting textbooks and journals (either in English or translated into Arabic), the exchange of staff , the growth of professional accounting firms, membership of American professional bodies of accountants, international accounting conferences, etc.

10.2.5 International Accounting Firms (The Big Eight)

As the Egyptian economy has attracted multinational corporations, so the large international accounting firms have tended to follow to provide audit and other services. It has long been an accepted maxim in accounting that 'where a businessman goes his accountant will follow' [Abu-Ghazalah, 1978], and Egypt has been no exception.

The international accounting firms are now organisations of considerable size and scope. Although initially most of them evolved through mergers of major firms in the U.S.A. and the U.K., they now encompass a network of partnerships, associations, special relationships and other business structures which span the world. They are not restricted to audit services but cover a whole range of other financial services such as taxation, management advice, executive selection, etc.

In the case of Egypt, one obvious result of the

nationalisation programme and of the establishment of the Central Accounting Organisation was a substantial reduction in the amount and quality of work available for private sector accountants. The Big Eight firms left Egypt in 1965 and the number of professional accounting firms was reduced to a handful. However, the increasing role of the private sector and foreign investment in the economic development plans (40%, in the current plan) after the introduction of the open-door policy in 1974, together with the government denationalisation programme, provided a major stimulus for private sector accountants, for many of the foreign firms investing in Egypt have insisted upon local chartered accountants rather than subjecting themselves to government audit. As a consequence many accounting firms have sprung up and enjoyed rapid growth. There are now more than 50 accounting firms in Egypt, 10 of which are of considerable size [Samy, February, 1988].

It is clear that the Big Eight are now attempting to enhance their presence in Egypt. There are eight international accounting firms associated with some of the largest Egyptian accounting firms, as shown in Table 10-1. Furthermore, the first and second international conferences on Accounting and Auditing in Cairo in December 1980 and 1986 respectively, included speakers from Peat Marwick Mitchell, Arthur Andersen, Coopers and Lybrand, Binder Hamlyn Fry, Robson Rhodes, Jolliffe Corke and Inter Conseil (Paris).

Undoubtedly, as these firms have become established in Egypt their activities have affected the Egyptian accounting profession and its practices. Much of their work has been embodied in various staff and other manuals [Shawki, January, 1988].

Table 10-1
The Egyptian Accounting Firms and
their International Correspondents:

Egyptian Firms	International Firms
1. Z. & H. Hassan & Co.	Peat, Marwick, Mitchell & Co
2. M. Shawki & Co.	Arthur Andersen
3. F. S. Mansour	Coopers & Lybrand
4. Al. H. Shahawi	Price Waterhouse
5. M. Wissa, M. Zarrouk & Co.	Arthur Young & Co.
6. Barsoum & Abdel Aziz & Co.	Binder Dijker Otte & Co.
7. Abou saada & partners	Spicer & Oppenheim International
8. Ramez M. Hakim & Co.	Touche Ross & Co.

10.2.6 International Accounting Committees and Political Groups

More than one international organisation has been active in the attempt to harmonise accounting practice since the early seventies. The work of the International Federation of Accountants (IFAC) and the International Accounting Standards Committee (IASC) is well known (see chapter 3). Egypt has been a member of the IASC since 1980 and its professional groups are obliged themselves to

conform with International Accounting Standards [Prof. Dr. A. Mahmoud, December, 1987].

Similarly, various regional organisations have also contributed to the development of cross-frontier standards. In Europe there are the Union Europeenne des Experts Comptables Economiques et Financiers (UEC); in the Americas the IAA; in the Far East there is the Confederation of Asian and Pacific Accountants, and in the Arab World there is the Arab League.

The Arab League has affected the movement towards uniformity in Egypt in the following ways:

- (1) An Egyptian member has been on the Permanent Consultative Committee for Industrial Statistics and his participation greatly enhanced the arguments for uniformity inside the Arab World.
- (2) The chart of accounts adopted by the League has been, with very slight modification, that of Egypt.
- (3) Based upon the League chart of accounts, many countries have been encouraged to establish a uniform accounting system (e.g. Iraq, Syria and Tunisia).

Regionalism deserves greater emphasis, since it has a significant relationship to a country's need, including the accounting activities and training. Enthoven (1986, p. 34) pointed out that:

"An effective regional accounting plan-and related planning activities- could include: (1) an inventory of skills and requirements; (2) the educational, training and institutional format and

desired changes; (3) necessary legislative amendments; (4) financial and technical support required from domestic and international agencies and institutions to improve accountancy within the region."

Accordingly, Egypt and other countries in the region , instead of trying to import accounting and auditing standards which have been shown to be irrelevant to their unique environment, must concentrate on developing their own practices. This would be done through the orientation of the education and training programmes for public sector accountants, harmonising legal aspects, and establishing a body of knowledge in the region from government accounting associations.

Training and education could also be made more efficient and effective on a regional basis. University and institutional programmes could be harmonised, and research could be carried out into enterprise, governmental and national accounting, accounting needs for economic analysis, , financial management and management budgeting. Professional examination and certification systems could be organised and mutually recognised, to the advantage of all concerned. Training programmes and manuals could be designed jointly, research carried out on a mutually beneficial basis, and human and material resources effectively pooled. Interchange of staff and students could be facilitated and some aspects of accounting education at university level usefully centralised.

Accounting and business legislation is another area of regional concern. Harmonisation of legal aspects may be carried out by the League, but this could presumably be more effectively handled by a regional professional body.

Another international incentive for harmonisation comes from the international agencies. Some organisations, such as the World Bank, the United Nations Centre on Transnational Corporations (UNCTC) and the Organisation for Economic Co-operation and Development (OECD) have in recent years involved themselves in the harmonisation of accounting standards.

In an interview, Dr. A Salem, Under-secretary of the Ministry of Finance, asserted that there was indirect pressure from the international agencies, especially the World Bank, on the Egyptian government to accept international accounting standards in preparing financial statements and reports for projects that might be financed by the Bank.

Briston has also argued that the World Bank and other development institutions usually insist upon the use of an international firm of accountants to audit the projects which they finance [Briston, 1978, p. 110].

Evidence also indicates that international accounting firms tend to follow the American GAAP in their audit of such projects. An example of this was given by Mr. Maurice C. Mould, a financial advisor to the World Bank, who stated that:

"The World Bank spent five years trying to convince the general manager and the board of directors of a certain authority in a developing country that they should revalue the assets. . . .and in the end... they had new asset value.... One day the project officer arrived at my office and said, " Now look what we have done! we have got a qualified audit report.".... The auditor was a foreign firm which stated that the presentation of the value of the assets was not in accordance with generally accepted accounting principles, and therefore they had qualified the report. We asked them what the generally accepted accounting principles were, and they said, well, there really aren't any for the country concerned- we used the United States GAAP, Therefore, the financial statements are not acceptable as far as we are concerned" [Mould, 1983, p. 86].

10.3 Current Approach for Setting Accounting Standards

10.3.1 The Establishment of A Strong Accounting Professional Body

The president of the Egyptian Institute in its position paper presented in the national conference on accounting and auditing in November 1987, explained why Egypt needs an active accounting professional body by arguing that " at a certain stage of a country's economic, political and social growth, a well-developed accounting profession is needed to serve the growing economy of the country. At the present time, Egypt has reached a stage of economic and social development where a highly organised accounting professional body is needed. In the accounting literature it has been firmly accepted that the development of the accounting profession in any country is widely affected by changes in environmental factors. In return , the profession should be in step with society, responding to changes in its environment, and to the general climate. Therefore, the

degree of development in the accounting profession and its contribution to society differs from one country to another. Thus, it has been recognised that the creation of a professional accounting body has always been the first vital step in the development of the accounting profession in both developed and developing countries" [The Egyptian Institute, 1987, p.1].

He added also that " for a long time, the role of independent accountants was weak, particularly as a result of the nationalisation scheme in 1961 and the dominant role of public sector accountants and government auditors in the application of the UAS. However, dissatisfaction with accounting data has been laid at the doorstep of public sector accountants, and there was a call for private sector accountants to have the chance, side by side with public sector accountants, to contribute effectively to the implementation of the social and economic development plans by acting as co-auditors of public sector companies. This coordination between public sector and private sector accountants, it was argued, would initiate a general agreement on accounting standards.

It was argued that action to increase the standardisation of accounting in the private sector was needed, both to deal with the real problem of too much flexibility in the choice of accounting policies and the unreliability of auditors' reports as a basis for granting loans or investment decisions.

As a result, with the encouragement and participation of the Egyptian government and USAID, a group of Egyptian chartered accountants formed the Egyptian Institute of Accountants and Auditors" [The Institute, 1987, p.3].

10.3.1.1 The Creation and Organisational Structure of The Accounting Board

The Egyptian Institute of Accountants and Auditors (hereafter the Institute or EIAA) is at present the chief body within the private sector to pronounce on financial accounting policy. The Institute was born out of a series of national and international conferences on the establishment of accounting and auditing standards in the country.

However, the establishment of accounting standards rests on a tripartite structure, the Financial Accounting Standards Board (hereafter the Board), the Higher Financial Accounting Standards Committee (hereafter the Higher Committee), and the Technical Committees: the Financial Standards Committee, the Auditing Guidelines Committee, and the Ethical Standards Committee.

(1) The Foundation Board

The Institute is governed by a fifteen-member Board of Trustees, whose general purpose is to advance accounting and to set standards of financial accounting and reporting. It is primarily responsible for: (1) appointing the Higher Committee's members, the technical committees' members, and sub-committees and task forces, (2) reviewing the budgets and operations of the Institute, (3) periodically reviewing

the basic standard-setting structure, and (4) exercising general supervision.

The Board was established through a ministerial decree by the Ministry of Finance. It is composed of:

3 members from the Egyptian Society of Accountants and Auditors;

2 Members from the division of accounting and auditing of the Syndicate of Commerce;

1 Member from the CAO;

3 Members from the Faculty of Commerce, Accounting Department, Egyptian Universities;

Under Secretary of State for Finance (Chairman of the registration committee of accountants);

1 Member from the Taxation Department;

1 Member from the Commercial registry;

1 Member from the Capital Market Authority;

1 Member from the Arab Costing Association;

1 Member from the Society of Financial Management.

The Board has a separate budget to finance its expenses, funded by the member organisations; and also by the UN and USAID. It has also a permanent secretariat to help in drafting its proposals and publishing the standards, which are mandatory. Members of the Board are part-time and unpaid, and the Board normally meets monthly.

(2) The Higher Committee

This committee consists of eleven members who are knowledgeable about the problems and impact of financial accounting and reporting. Professionals in accounting tend

to dominate the Committee [EIAA, 1987, p. 11]. Except for the chairman, members serve one-year terms without remuneration and their attendance or functions may not be delegated by them to others. The Higher Committee does not, as yet, have a set of formal procedures.

(3) The Financial Standards Committee

The Committee consists of seven members; 2 professors, 3 practitioners, a member from the CAO, and one from the Ministry of Finance. The Higher Committee delegates to it the authority to establish and improve standards of financial reporting by defining, issuing, and prompting such standards; conducting and commissioning research and surveys, and holding meetings, hearings and seminars.

The committee members serve part-time and for three-year terms. They are appointed by the Foundation Board, who take into account their previous occupation.

10.3.1.2 The Role of the Board

In common with similar bodies in other countries, the Board has two main functions. First, it has a production function: to develop standards and decide on best accounting practice. Second, it has a marketing function: to ensure that the standards produced are accepted within and outside the profession and complied with, thus maintaining the accounting profession's influence in the regulation of accounting practice. The relative importance of these two functions, as evidenced from the UK and US experiences, may

vary over time and between different issues [Taylor et al, 1986, p.60].

10.3.1.3 The Board's Constitution

Unfortunately, no constitution has yet been established for the Board. However, the production function of the Board can be recognised in the objects and terms of reference laid down in the Second Cairo International Conference's recommendations and the position paper presented by the President of the Board at that Conference in 1987:

Objects: The Board's objects shall be to define accounting concepts, to narrow differences of financial accounting treatment and to codify generally accepted best practice in the public interest. These objects would encompass:

- (a) fundamentals of financial accounting and the application of financial statements;
- (b) definition of terms used;
- (c) questions of measurement of reported results and financial position;
- (d) the content and form of financial statements;
- (e) fundamentals of auditing guidelines and professional ethics;
- (f) helping in the improvement of the UAS and the establishment of a uniform cost accounting systems for specialised activities ; and
- (g) developing criteria for measuring the financial and economic performance of public and private sector.

Terms of reference: The principal charge of the Board was :

" The board should set the 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 board should set programmes for the study of uniform accounting systems for specialised activities such as banks, insurance companies, gas and oil, manufacturing....etc; and should develop criteria for financial economic and efficient performance as guidelines" [Second Cairo International Accounting Conference recommendations].

From the very beginning the process used by the Board for accounting policy formulation was to be broadly defined, taking cognisance of diverse segments of society, and thereby opening the accounting policy-making process to outside interests as well as representation within the profession. In addition, the charge refers to different types of standards. Some standards involve definition of concepts, some will be intended to lead to uniform accounting treatment and some simply involve a codification of established existing practices in the UK, the US, and internationally. Furthermore, the charge outlines the possible scope of accounting standards. They may cover fundamental accounting principles, measurement issues, disclosure of information (content of financial statements) and the manner in which disclosure is made (form of financial statements).

10.3.1.4 Financing and Legal Status of The Institute

However, although the Board has been formed and its

members nominated, some critical issues remain unresolved, namely its legal form and the raising of finance for the Institute.

Financing did not become an issue for the Institute until the grant of the government and the USAID finished. Even at that point, the issue was not whether financing was possible but who should finance the Institute [Dr. A. Shawki, 1988]. The fear was a conflict of interest should financing come from a single source or from a particular constituency.

However, the issue the Institute is now dealing with is that of obtaining a broad base of support through a funding system which provides a relatively long-term flow of funds. The problem is a difficult one and most of the alternatives initially proposed by the Institute Council are still being explored. These alternatives include:

- 1) Contributions from organisations which nominate Trustees;
- 2) Surcharge levied by the Syndicate Professions on members;
- 3) Surcharge levied by the Cairo and Alexandria stock exchanges on listed companies based upon a percentage of the value of their listed securities;
- 4) Financing the institute through the state budget.

There are major problems in implementing of any one of these recommendations. The first recommendation would necessitate the cooperation and affirmative vote of all nominating organisations. This has been considered most

unlikely. There is also little hope that the exchanges or the Syndicate would be encouraged to collect the Institute funds.

Another suggestion was that approaches be made to appropriate international professional organisations to provide some corpus for the Institute, or to underwrite a long-term guarantee of funds to be raised by assessment.

The idea of bringing the Institute under the supervision of the government and financing it from public funds reflects the attempt by the profession to solicit government support and to search for a long-term funding method, to give it internal as well as external strength.

The Board formed a special committee to study both issues [Dr.A.Shawki, 1988]. The committee recommended that the institute should be organised in the same way as the "National Planning Institute", which comes under the Ministry of Planning; the "Scientific Research Institute", which is controlled by the Ministry of Scientific Research; the "Higher Administrative Institute", which is administered by the Ministry of Administrative Development, or other similar establishments. All these establishments are financed by government and public funds.

The committee recommended that the institute come under the Ministry of Higher Education, the Ministry of Scientific Research, or the Ministry of Finance. However, up to the end of February 1990 no decision had been taken [Arafa, 1990].

10.3.2 Accounting Standard-Setting Process

10.3.2.1 The Stages of the Process

In his introduction to "Towards A Charter for the Accounting Profession in Egypt", the President of the Egyptian Accounting Board specified the procedure to be used in setting accounting standards in Egypt. This procedure was described as a middle ground between the US and the UK experiences. The President summarised the reasons why the profession chose this procedure as follows:

First, from their reviews of different approaches and visits to a variety of major accounting professional institutes in different parts of the world, they had concluded that the UK and US approaches are the best for Egypt.

Second, the lack of financial resources for a full-time paid Board and the desire to achieve what is termed "democratic decision" in setting accounting standards had encouraged them to accept the UK and US practice as a basis for setting standards in Egypt.

The process of formulating accounting standards consists of the following stages:

- (1) A problem is identified and selected for study.
- (2) A discussion memo, which states the problem in the form of issues, is prepared and circulated for written comments.
- (3) An exposure draft is prepared and circulated for written comments.
- (4) A public discussion is held, and views of interested

parties are received.

(5) A proposed standard is prepared and introduced to the Higher Committee which may approve it or not.

(6) In the case of disapproval, a public hearing should be held, and views and comments of interested parties are received.

(7) In the case of approval, a final statement is issued.

10.3.2.2 Rules of Procedures

According to the Rules of Procedure adopted in September 1987 by the profession, the Board is to issue Statements of Financial Accounting Standards which would either establish or improve the standards of financial accounting and reporting. The Board is required to seek constructive comments and suggestions from any outside party concerned with or affected by the financial reporting process. Participation on the part of interested persons and organisations is to be encouraged, and viable channels for the communication of viewpoints and opinions are to be created.

A responsibility of the Board is actively to solicit and give careful consideration to comments and written responses from those outside interests. Both oral and written comments from Chartered accountants, accounting firms, the stock exchange, trade unions, the Central Bank of Egypt, the CMA, government organisations, the CAO, university accounting and auditing departments, users, and

others are forms of responses to be transmitted to the Board [The Institute, p.10]. This is one side of the communication process. The Board, in turn , issues written pronouncements to outside parties.

(a) **The Exposure Drafts**

Each exposure draft will include: the proposed statement of financial accounting standard, the proposed effective date of application , background information, a brief summary of research results if a research project was undertaken, the experience of other countries, the basis for the Higher Committee's conclusion, and a summary of the more significant and relevant points of view communicated to the Committee through written comments, position papers and public hearings, and such other information as the Committee may determine.

An exposure draft or notice of issue of an exposure draft will specify the time and manner in which individuals and organisations may comment. A statement will be exposed for public comment for at least 60 days, unless the Board deems a shorter period more appropriate. [Awadallah, January 1988].

(b) **The Public Hearings**

The basis for a public hearing is generally a discussion memorandum, but the Board may also hold hearings with respect to an exposure draft of a proposed statement of financial accounting standards. The Board will determine the

number of public hearings to be held on a subject. Each notice of public hearing will state the time, date, location and format of the hearing, a brief statement of the subject and purpose of the hearing, the date or dates by which would-be participants should notify the Board and send their position papers and outlines of oral presentations, the duration of oral presentations; and other pertinent procedures [Dr. A. Awadallah, February, 1988].

10.3.3 The Work of the Board

The first venture of the newly-formed Egyptian Institute in setting rules for financial accounting standards came in September 1987, when it drafted four statements concerning Financial Disclosure, Accounting for Depreciation, Inventory Valuation, and Accounting for Changes in Foreign Exchanges.

These standards are little more than Arabic translations of the original texts of their counterparts in the international accounting standards. For instance, the title of each statement, the table of contents, the number of paragraphs, and the headings of paragraphs are identical with those of the international standards.

Supporting this view , Dr. Y. Abu-Taleb said that during the Second National Conference held in Cairo in September 1987 to discuss drafts of the previously mentioned standards, there were many opponents, who argued that they were there to discuss and issue accounting standards relevant to local needs, and not to give approval to the

acceptance of the international accounting standards [Dr. Y. Abu-Taleb, February, 1988].

The Institute committed itself to drafting all accounting standards proper to Egypt's environment by the end of 1988 [The Second National Conference on Accounting and Auditing, September 1987,p. 4]. In practice, this meant that it was committed to completing the translation of all the international accounting standards to be applied in Egypt, without any modification for local needs.

Some interviewees, especially professionals and few academics, argued that since the necessary human talents for standard-setting procedures are extremely scarce, the IAS could be instantly available to assist in solving pressing problems, that it would be cheaper to translate than to initiate new standards, and that IAS would foster confidence in the national accounting practices.

In response, the following arguments may be raised:

- 1) There is no evidence to prove that the IASC and other international organisations are actually achieving their objectives, and even the member countries do not give them full support.
- 2) The IASC is not based on a sound conceptual basis, in that there is no general agreement that the users of financial statements in all participating and non-participating countries need similar information. As Kirk (Accountancy, 1983, p.100) states:

"Supra-national standards setting is just not a reality. Differences in the purposes and uses of financial reporting from one country to another are profound. These differences can complicate the possibility of international standards. Until we have some common understanding of what the objectives of financial reporting are, it will be very difficult to get meaningful international standards".

3) The adoption of the IAS will be construed as an infringement on national sovereignty- and possibly on public sector sovereignty as well, since it casts doubts on the ability of the professionals in Egypt.

4) The IAS are not generally compatible with the local environment, that is, the language, business law, government priorities, social concepts, ownership, tax system, and economic goal and priorities.

10.4 Disadvantages Associated with the Current Approach

10.4.1 The Issue of Social Choice

The Board, from the very beginning, accepted operating procedures aimed to encourage broad public participation in the standards-setting process. These procedures raise a number of issues. First, it is stated that the Board is to work in the "public interest". This is a necessary condition if standards produced by a private sector professional body are to have general application. However, while the Board's pronouncements may affect a wide range of interested groups, it is likely that in practice the Board will have direct contact with only a small proportion of those affected. The Board's interpretation of the public interest is likely to be influenced most strongly by the views of those who will

have to implement a standard and those who comment during the exposure period. The need to make choices in the public interest thus presents the standard setters with considerable problems as to how they define public interests and measure the effect of alternative policies upon them. This problem of social choice is much debated in the literature and there is, as yet, no general agreement about how to deal with it.

Second, emphasis is placed on the importance of consultation, through invitation to comment on proposals and through direct contact between the Board and other bodies concerned with financial accounting reporting. If a standard is not adhered to, then the credibility of the whole process may be threatened. Consequently, it is necessary, as far as possible, to ensure in advance of a standard being issued that its content will be acceptable.

An ex-chairman of the FASB has rightly said:

"general acceptance can only mean that an overwhelming majority of those affected do not object to a particular standard. It can also mean that a standard must be acceptable to a very small minority with political clout," [Baxter, 1986, p.10].

Moreover, standard-setting has proved much more of a political process than was at first expected. In Britain, for example, all six accounting bodies must be persuaded to give their approval, and various sectors (such as banks) have shown that their strong opposition can force delay and compromise [Ibid].

Third, there is intense pressure from constituents in western developed countries to set and refine accounting standards. However, this will not be the case in Egypt for many reasons, namely: the degree of government involvement in controlling the economy, the very nature of the infrastructure of the accounting profession and the lack of an institutional framework to organise the constituents' opinions and positions for participation in the standard-setting process in Egypt.

10.4.2 The Issue of the Production of Standards

The development of an accounting standard can take a considerable time. For example, the ASC in the UK, from its creation in 1970 up to December, 1985, issued 38 exposure drafts, resulting in 23 statements [Taylor et al, 1986, p. 62].

The private sector Egyptian Institute committed itself to issuing all relevant accounting standards by the end of 1988 [The Institute, 1987]. However, it has so far produced only eight statements with an average period of around eight months. It is admitted that, in the Board's early stages, there is a need to produce some standards quickly, so that the Board is seen to be doing something. However, it is not acceptable that it should attempt to translate all International Accounting Standards which have not been geared to the economic development needs of Egypt.

It has been suggested by the UK and US experience that

greater development time has been needed as the ASC or FASB have moved into more controversial topics where a consensus is harder to achieve, such as inflation accounting, R&D, and foreign currency translation. Furthermore, as the demands on companies from accounting standards have increased through the existence of an extensive number of standards, and as the novelty of this form of regulation has worn off, compliance with standards has become increasingly uncertain [Taylor et al , p. 66].

10.4.3 The Issue of Enforcement

The touchstone of accounting standards set in the private sector is the degree of compliance [Watts, 1981, p. 15]. Without adequate authority, enforcement procedures, and sanctions against offenders, standards will only be complied with when it suits the preparer of the financial statements to do so [Stamp, 1979, p. 105].

The president of the Board puts forward three possibilities for the enforcement of accounting standards. These are:

- (1) Legal enforcement of some kind; Companies Acts, Taxation laws, or Accountancy law;
- (2) The Capital Market Authority and The Stock Exchange;
- (3) The self-regulation approach.

However, he did not recommend one approach rather than another.

The interviews all led to the conclusion that accounting and auditing standards must be set by a

professional body of high technical calibre and that government must give legal support to the work of the standard-setting body if its pronouncements are to be credible and enforceable. In addition, it is recognised from the interviews that failure to set up a supervisory or enforcement mechanism which satisfies the government position in controlling the economy will seriously reduce the effectiveness of standard-setting in the private sector.

Both Dr. Fag EL-Nour, the chairman of the CMA, and Mr. Ibrahim, the chairman of the Financial Operations Sector of the CMA, recommended the US model of enforcement. Mr. Ibrahim went on to say that one of the main sanctions against companies which breach accounting standards is that they suffer a qualified audit report.

10.4.4 Susceptibility of Standards Produced by A Private-sector Profession to Legal Attack

Nowhere is it more apparent that an assessment of standard-setting must be wide-ranging than in the area of legal susceptibility. Moreover, the assessment should anticipate the results of an effective effort to provide standards for professional self-regulation. Standard-setting brings with it the possibility of private-sector rule-making slipping into legal territory.

When standards produced in the private sector become authoritative to the extent that they are used and enforced by the private sector, the public sector, and the courts, the legal status and culpability of the standards becomes an

important concern. The Wheat report (1972) stated four legal avenues by which the private sector profession might be susceptible to legal attack:

- (a) inflicting tortious injury upon a company whose reported financial position or results of operations are affected thereby,
- (b) violation of antitrust law,
- (c) an unconstitutional or otherwise improper delegation of power by the SEC, or
- (d) violation of the federal Administrative Procedure Act, (p. 44).

Professional standards are, for example, vulnerable to attack on antitrust grounds because they are assertedly "inherently unreasonable" or their pronouncements had "a discriminatory impact upon certain business". To the Wheat Committee

"private and professional organisations are not immune from the antitrust laws and a number of cases have been successfully brought in the past against private standard-setting bodies. These cases demonstrate that it is where superficially objective standards have been utilised for the purpose of reducing competition or injuring others who are differently situated economically that antitrust principles clearly apply," [p. 45].

The susceptibility of accounting standard-setting bodies to legal and governmental attack will probably continue as long as they continue to set standards.

10.5 Egypt's Social Needs and The Establishment of A Strong Accounting Profession

Given that Egypt is making determined efforts to have a strong accounting profession, it is worth asking what such a profession with powers of self-regulation and standard-setting does to serve local needs.

10.5.1 Dominance of the Public Sector

In Egypt it is considered a proper function of the government to ensure that the economy, including the private sector, is regulated in the public interest. The government thus exercises an extensive control over the economic affairs of the country, with eighty per cent of the social and economic system controlled by the public sector.

Although the private sector is expected to play a significant role in the economy, private ownership of resources is restricted or guided by government directives, for example, in respect of wages, welfare benefits, taxation, utilisation of foreign exchange and so on.

The expansion of the public sector over the last thirty years has created challenging circumstances for business managers, planning and controlling authorities and for accountants. As a result, new lending institutions, government banks and other government agencies with a set of less experienced officials have come on to the scene. In turn, greater reliance is placed on the information provided by accounting statements in making judgements regarding the creditworthiness, efficiency, etc. of various undertakings.

In this environment, regulation of accounting by a uniform accounting system is thought to be the solution.

10.5.2 Irrelevance of the Stock Market As A Mechanism of Regulating Accounting In Egypt

In interview, several authorities in Egypt argued that the recent changes are very important for the establishment of a strong capital market (which to most is synonymous with a flourishing stock exchange) and would make foreign investors more prepared to invest in Egypt. They would also create a need for training a number of accountants and auditors to satisfy the demands of companies for qualified accountants to prepare financial statements and certify their correctness. The interviewees concluded that audits by independent auditors are the most obvious means for preventing frauds and misappropriation of assets. It is in this stewardship function rather than in measuring performance that an accounting profession would have its greatest immediate value to the Egyptian capital market.

While it is by no means clear that such arguments are valid, nevertheless, they are made as ritualistic obeisance to the institutions of the British and American capital market and without consideration of the conditions peculiar to Egypt.

However, one can find similar arguments in Western accounting literature. Scott has argued that developing countries should learn from the strong accounting profession in developed countries in order to develop a strong capital

market. He stated that:

"In advanced nations confidence is engendered by public accountants' auditing of financial records and physical assets and by their attesting to management's representations about company status and operating results. This attesting function is extremely important in fostering capital markets in developing nations." [Scott, 1970, p.52].

He also argued that financial standards are necessary for a capital market capable of fulfilling the needs of an industrial country. [Ibid p.51]. However, these arguments have been challenged by other accounting authors.

Briston [1986, p.23], stresses the unsuitability of such arguments to developing countries and points out that the introduction of obligatory external audit did not come until almost fifty years after the formation of the first professional accounting bodies and long after the Industrial Revolution in the UK.

In the same way, the introduction of accounting standards did not come about in the UK until 1970, seventy years after the requirement for compulsory external audit. Certainly accounting standards could not be regarded as a prerequisite for a flourishing capital market. Briston also suggests that there is no evidence to suggest that a stock exchange itself is necessary for economic development or growth.

Scott has stressed the weakness of the accounting profession in France and W.Germany compared with its counterparts in the UK and US. [Scott, 1970, pp.135-140], as

has Zappala in respect of Italy [Zappala, 1973, p.111]. Despite the weakness of the accounting profession in these countries, they enjoy some of the strongest economic growth in the world. In fact, Japan, which may be considered as having the highest economic growth in the world, has been assessed of having a weak accounting profession.[Arpan, et al, 1981, p.29].

Some of the interviewees argued that it may well be that Egypt could benefit from the experience of these countries, particularly France, in the improvement of its accounting system and capital market structure.

More seriously, Briston has challenged the independence of the external auditor,[Briston, 1986, p.23] due to the fact that an auditor reports on the activities of the same management which appoints and pays him. Other accounting authors have challenged the independence of the external auditor, including Briloff (1972, 1973, 1981), Dyckman (1974), Boland (1982), Higgins (1961), Davidson (1971), and others.

Many other accounting writers have questioned whether the benefits of the orientation towards external auditing outweigh the costs. Briston and Perks estimated that the annual cost of external auditing in the UK was £200 million for 1975/76 and £250 million for 1977 [Briston, 1977, pp.48-50], while Fanning estimated the cost to be around £750 million pounds [Fanning, 1981].

Moreover, many accounting writers have questioned the role of the external auditor in society. Buckley has argued

that the external audit has shortcomings from a management viewpoint. He argues that it does not account for non-fiscal elements, and is oriented towards the past rather than the future; failing in three kinds of analysis:

"it fails in comparative analysis, i.e. in evaluating the effectiveness of the client's plans, procedures and operations versus those of competitors; it fails in integrative analysis, that is in evaluating the efficiency of functional interaction within the firm and it fails in interpretative analysis, for example in relating fiscal data to current decisions." [Buckly, 1969, p.68].

If the US and UK accounting profession and external audit are under such heavy criticism in their own environment, then they should not be too readily applied to a developing country such as Egypt.

The stock market in Egypt cannot be regarded as a significant force regulating accounting and auditing practices in the country, because of the relatively small number of companies whose accounting comes under its purview. Legal control is effected by the Companies law, Investment law and Tax legislation. However, as far as the publication of financial statements is concerned, accounting records are not required to conform with tax law, and the Companies Act established the basis of legal control over accounting and accountants.

The Companies Act of 1981 requires every firm to prepare a profit and loss account and a balance sheet, and to have them audited by a chartered accountant each year. It

also specifies the relationships between a company and its auditors that are not permitted. Furthermore, while the EIAA may recommend more progressive reporting requirements and auditing standards, usually following the pronouncements of the IASC, they seldom seem to become general practice, as they are not binding on private sector accountants. This approach of self-regulation of accounting and accountants is essentially by accounting conventions and by professional ethics of conduct. This is a typical example of the UK influence on accounting.

It is interesting that, when discussing self-regulation by auditors, Scott suggests that it is doubtful whether accountants of developing countries would exercise the personal discipline necessary to make the British "social-conscience" form of ethics a satisfactory form of audit control [Scott, 1970, pp. 109-110]. However, one should not forget that even in the UK, the so-called social-conscience of accountants has been questioned on several occasions.

10.5.3 The Irrelevance of the International Accounting Standards to the Egyptian environment

In the discussion of accounting development in Egypt we have shown that, because Egypt has a very large and dominant public sector economy, owned and controlled by the state, accounting uniformity was sought as a solution.

Unfortunately, the recommendations which resulted from the Cairo national and international conferences on accounting and auditing (June 1980, December 1980, December

1986, and September 1987) suggested that a strong attempt is being made by private sector accountants to encourage Egyptian accounting to adopt the American and British approach, which would give them a dominant position.

Arguing in favour of such an idea, Donald Chaplin one of the participants, suggested that :

"...in order to provide for development of auditing standards, an on-going process-committee, a council or some other mechanism-be set up to establish auditing standards that have the force of law..," [Donald Chaplin, 1986].

More specifically, he recommended the US system because of its effectiveness. He called for the Egyptian Government to play a positive role in the standard-setting process, both for accounting and auditing, by granting the " Capital Market Authority" in Egypt the same authority which has been given to the SEC in the USA. He argued that, if the American experience is relevant, as he believes it is, the Egyptian capital market authority or some other mechanism must have an important role to play in setting both accounting and auditing standards. More specifically, the authority should have the power to:

1. Veto accounting principles which it finds unacceptable or promulgate principles if the standard-setting body fails to act within a reasonable period of time, and
2. Refer cases of auditor negligence to the Syndicate for discipline or, if this is insufficient or ineffective, refuse to accept the audit reports of negligent auditors. The law provides adequate penalties for fraud but not a process for dealing with negligence [ibid.].

In Chaplin's opinion , the authority should not need to exercise these powers frequently if the private sector professional body behaves responsibly. However, the existence of these powers should ensure rapid progress in the improvement of Egyptian financial statements.

Those who argue that Egypt should adopt the Anglo-American approach assume, by implication, that it is optimal, and that there is thus no question about its validity for Egypt, regardless of its environment .

However, in both the UK and the US, the primary users of financial statements are considered to be the shareholders and creditors, while the needs of the government or the public sector in both countries are largely ignored.

Because in Egypt, the primary users are the National Planning Board and governmental agencies, Egyptian information needs are better served by the UAS which provides financial statements relevant to the socio-economic development planning of the country, with integration of micro and macro accounting. Such integration is not a characteristic of financial reporting in the USA and the UK.

Some accounting writers, acknowledging that the UK and US accounting systems do not serve the needs of developing countries such as Egypt, have urged them to adopt international accounting standards.

Thus, the Second Cairo International Conference of

Accounting and Auditing, which included many accounting professors from both the UK and the US such as Bromwich, Baxter, Enthoven and others, recommended the international accounting standards as the best means of improving accounting principles in Egypt. The second recommendation from this conference stated that:

The formulation of Accounting Standardsshould be based primarily on the accounting standards published by the International Accounting Standards Committee after taking into consideration the existing economic, social needs and specific accounting environment in Egypt.

Some participants argued that Egypt, as a first step, should translate and adopt without change the international accounting standards set forth by the International Accounting Standard Committee, [Chaplin, 1986]. It was argued that the IASC standards provide sufficient flexibility to accommodate reasonable alternative accounting principles, but will both narrow present Egyptian alternatives and improve disclosure immediately upon their adoption. Chaplin asserted that international accounting standards have a certain force and authority which may make it easier for vested interests to accept them. They will also reduce the costs of international companies operating in Egypt.

Opposing this view, Briston states:

"....Developing countries should be encouraged to devise a national accounting system which will meet their own information needs. If anything , international accounting and auditing standards will make this task considerably more difficult,

for not only will they result in an immediate bias towards the UK and the US systems but they will also create a class of private sector accountants and external auditors who will resist the introduction into the system of a stronger public sector emphasis. Finally, they are likely to make it much more difficult for host governments to exercise effective control over MNCs, for both the MNCs and private sector accountants and auditors will agree that the system of financial reporting and external auditing which is used in the US and the UK and which argued to be satisfactory in those countries is surely more than adequate for a developing country" [Briston, 1984, pp. 10-11].

Briston, and Samuels and Oliga have also drawn attention to the domination of the IASC by members from western countries, and the American or British education of many members from developing countries. These factors mean that international accounting standards, in essence, are no more than "internationalisation" of the domestic standards of these dominant members [Briston, 1978, p.116, and Samuels & Oliga, 1982, p. 72].

To Samuels and Oliga, the drive to harmonise accounting principles and practices in developing countries with those in the rest of the world presents conceptual and practical problems of far wider dimensions. They argue that international accounting standards assist those making decisions at an international level, but that within a developing country, it is not clear what information should be used as a basis for economic decision-making. The whole of the cost-benefit literature emphasises that economic decisions in a developing country should be based on a knowledge of shadow prices and shadow costs, of foreign

currency flows, and of opportunity costs, based on world prices rather than domestic prices. The point here is that the accounting profession in Egypt should try to assist in designing reporting systems that are most useful for economic decision-making within the country.

In supporting this view, Pomeranz states:

"From the point of view of the less developed countries, the approach may not make available data needed to promote national goals," [Pomeranz, 1982, p.17].

Furthermore, Parker states that, " International standardisation is relevant only to a small number of countries,..., and to a minority of companies within each country," [Parker, 1981, p.430].

These arguments with regard to the adoption of the IAS in Egypt, bring to our attention arguments for and against imported national standards from other countries. Some may suggest that Egypt should formally adopt " ready-made" accounting standards from other developed countries, which could be done at virtually no cost.

In favour of such a course, it is claimed that:

"Professional accounting bodies in underdeveloped countries generally lack the resources necessary to introduce accounting standards and auditing standards of their own; by adopting international standards they can not only import, at virtually no cost, the benefits of the development nation's expertise in these matters, but they also help to discourage the proliferation of differing sets of national standards around the world," [Stamp & Moonitz, 1979, p.34].

At first, such arguments appear reasonable, especially

in the case of Egypt, where monetary and skilled human resources are in insufficient supply. Briston, however, counters this argument thus:

" The suggestion that developing countries can import the accounting system of a developed nation at virtually no cost reveals a dangerous lack of sympathy for the real problems that face those countries. The US or the UK system,....., is an enormously expensive system to operate. It requires a substantial investment in educational resources to train accountants to a level which is often excessive relative to the often routine work which they are required to perform and in subjects which are often only of marginal relevance to a developing country. The system itself places far too much importance upon external audit , and it has been estimated that this function alone costs around 750 million each year in the UK," [Briston, 1984, p.10].

In addition, Parker, discussing the reasons why Australian accounting standards are different from those of other countries, notably the US and the UK, concludes that " Australian accounting standards are justifiably different from those in other countries because Australia is different from those other countries," [Parker, p. 430].

The logic behind Parker's conclusion is even more compelling in the Egyptian case, for Australia is, economically, politically, and socially less different from the USA and the UK than is Egypt, whose economic, political, cultural, religious and social structure are completely different from those of the UK and US.

Briston therefore expresses concern that:

"In spite of the virtual irrelevance of the UK and, by inference, US accounting to the modern economic environment, this system not only

continues to thrive in most developed countries but is also gradually being established in a predominant position in many developing countries,"

His conclusion is:

".....each country has its own political, social, economic and cultural characteristics, and it is highly probable that the goals and thus the information needs of the managers of the economy will differ from one country to another. As a consequence, each country should be encouraged not to standardize the structure and specifications of its information system, but to create a system appropriate to its own needs," [Briston, p. 12].

The majority of interviewees contacted in the course of the current research, do not recommend the adoption of the international accounting standards in Egypt. When asked if they thought that international accounting standards should be adopted in Egypt, 61 of the interviewees replied "no" , 39% replied "yes" [see table 10-2).

Table 10-2

Q: In your opinin do you think that Egypt should accept the IAS?

	Yes	No	Total
No. of Respondents	31	49	80
	39%	61%	100%

Of those interviewees who rejected the idea of adopting international accounting standards in the country, the answers were [see Table 10-3]:

Table 10-3

I do not agree because:

1. IAS are irrelevant to Egypt needs

	Yes	No	Total
No.	34	15	49
	69%	31%	100%

2. Due to the lack of qualified accountants

	yes	no	total
No.	17	32	49
	35%	65%	100%

3. IAS are not recognised by the founding members in their countries.

	Yes	No	Total
No.	17	32	49
	35%	65%	100

4. They would threaten the National Planning process

	Yes	No	Total
No.	33	16	49
	67%	33%	100

Thus 69% argued that such standards were not suitable for the economic , social and political environment in Egypt, while 67% argued that the adoption of the international accounting standards would affect the national planning process, since these standards are primarily concerned with the MNCs rather than local needs.

10.5.4 Environmental Needs For Uniformity In Egypt

If the uniform accounting system is to achieve its objectives, then the right environmental factors must exist. Indeed, as Enthoven once stated, accounting should serve its environment and should be in tune with it. The relationship between the UAS and its environment in Egypt is evident.

M.H.B Perera (1989, p. 150-154) suggested six postulates which favour the adoption of a uniform accounting system in any country. This section, therefore, is presented to show how environmental factors favour the continuing need of the UAS in Egypt.

Postulate 1: The heavier the Government's involvement in economic affairs, the greater the need of uniformity.

In Egypt the planning of the economy is the responsibility of the Ministry of Planning. The socio-economic development plan is prepared centrally by the experts at the Ministry, approved by the Basic People's Assembly and implemented by the Planning's Committees at the state and municipal levels.

Postulate 2: The more urgent the need felt for economic development by a central government, the greater the desirability of uniformity.

Since Egypt's independence in 1952, it has felt the need for economic development. Since 1956, when the first five-year development plan was introduced, the country has had six five-year development plans. The latest started at the beginning of 1982, and current plan covers a period of five years, starting from 1987.

Postulate 3: The lower the level of accounting education in a country in comparison with industrialised countries, the greater the need for uniformity.

The nature of the qualification of Egyptian accountants suggests that their level of sophistication is very weak. Accounting education in Egypt is based on classroom lectures, text book problems and solutions and written examinations. This has tended to produce very traditional and limited accountants, and has not encouraged independent thinking. Those Egyptian accountants who have qualified through experience have gained that experience by copying the practices of their trainers. Therefore the bulk of Egyptian accountants lack the ability to judge independently alternative accounting systems and to select those which suit the country's needs.

Accordingly, it could be concluded that the level of education in Egypt encourages the implementation of the UAS.

Postulate 4: The less the availability of trained management, the greater the need for uniformity.

Under the system of managing public enterprises by public organisation, most Board of directors have been appointed not because of their qualifications or managerial skills, but for other reasons. Recently, the Press, the Specialised National Councils, and Parliament explained that the failure of most Egyptian public enterprises has been caused in part by the lack of qualified management.

The appointment process and the frequent changes in the Board of Directors have contributed to the weakness of the management of Egyptian public enterprises. The UAS assists

by providing information needed for managing and planning, and it also facilitates the performance of the functions of managers and planners, especially if they have not been trained to handle the work required of them.

Postulate 5: The lower the professional status of accountants, the more important is uniformity to protect society in general.

A detailed discussion of the status of the accounting profession was the subject of Chapter 8, where it was shown that the profession is not well established in Egypt. Few professional accountants in Egypt have a university degree in accounting or any other academic qualifications.

The profession established an accounting professional body in 1986, but in practical terms, its recognition is very limited. The role of the profession is considered to be to conduct compliance audits of financial accounts with no concern for their social or economic relevance. Thus, the accounting profession in Egypt performs merely a mechanical function with no significant role to play within society.

Postulate 6: Culture-based societal values and accounting uniformity

Postulate 6.1: The more the members of a society identify their own interests with the interests of the society, the greater the acceptability of uniformity.

Since 1952 the government has declared socialism as one

of its three main dogmas (freedom, socialism, unity). This socialism has been interpreted to mean the ownership and control of all business activities by society, represented by the State, and since then the State has owned, operated and controlled all business activities.

It can be argued, then, that the Egyptians identify their own interests with the interests of the society, so that a uniform accounting system has found acceptance in Egypt.

Postulate 6.2: The larger the Power Distance in a society, the greater the acceptability of uniformity.

Because Egypt is a socialist country, the top management of Egyptian enterprises, regulatory bodies and the national planning board should all have common interests and objectives in respect of the units they supervise.

Hence the objectives of operational managers of Egyptian enterprises are identifiable with those of the groups exercising legal or financial control over their operations. Therefore the information needs of those managers would be closely related to those of the controlling bodies, so there should be little resistance, if any, on their part to a uniform accounting system in Egypt.

All in all, then, Egypt provides a very suitable environment for a uniform accounting system, and one which is very inappropriate for a British or American style accounting system.

10.6. The Egyptian Case

The majority of the interviewees argued that Egypt may well be better off by reducing the power given to private sector accountants, for several reasons:

First, Egypt has accepted central planning as a way of life and the state controls all economic sectors. In addition, the public sector is very large and dominates the economy: the government will need information concerning the efficiency and effectiveness of the use of its economic resources rather than information relevant to the status of its shares on the stock market, as provided by the UK/US accounting system.

Accountants cannot, therefore, ignore the requirements for economic decision-making within the public sector. It is necessary to be able to ascertain how social and economic development plans are working and whether funds are flowing into or out of Egypt; rather than whether accounts are prepared according to International Accounting Standards, which serves the needs of the small number of private and foreign investors that constitutes only a small part of the capital market in the country.

Second, the first problem in the formation of a capital market in Egypt, as indicated in chapter six, has been to provide the machinery to facilitate initial distributions of securities. Furthermore, as credit decisions in Egypt are based on political and social factors rather than on economic growth, the need for external audit reports is

minimal, and even if they are necessary the state auditor can assume responsibility for this work. In addition, Egypt has a very weak capital market and resource allocation is mostly in the hands of the government, which allocates resources according to social needs.

Third, the independence of the external auditor, which is the very essence of external audit, is highly suspect in Egypt, where family ties and friendship connections are a very important factor in appointing an external auditor. In November 1988, the management and the board of directors of El-Rayan, El-Helal and other financial investment companies were publicly accused of misappropriation of construction funds and certain unethical dealings. In numerous statements made to the press, it was made clear that the companies' accounts had been audited by large accounting firms. In analysing the causes of these frauds, Dr. S Abu El-Naja strongly questioned the role of the independent auditor. He stated that "...the auditor was appointed by the General Assembly of these companies and he cannot report the facts... if he does he may be dismissed by the the Assembly in its next meeting. Furthermore, the management and board of directors pay the fees and remuneration of the auditors so he cannot work against the will of the board" [Al-Ahram, 8 November 1988].

As happens in such situations, the government asked the Central Accounting Organisation to audit and examine the books, records, and accounting procedures of these companies

for the purpose of determining their financial position.

It is thus doubtful whether Egypt should be urged to adopt such an external audit system without consideration of alternative methods of control, such as a greater reliance upon internal audit and state audit, which may be made appropriate for protecting society in these circumstances.

Fourth, the great significance of the public sector in Egypt, and the deficiencies that exist in public sector financial management, demand better methodologies, practices and training in this vital sector of the economy.

It has been claimed that Egypt needs skilled personnel who can plan and budget public programmes, develop and operate management information systems, account for expenditure, and evaluate the results of plans and targets, relating this factual information to future budgets and plans.

As far as the training of accountants is concerned, Egypt has to assess whether its accounting education system is in touch with its socio-economic environment. Strong institutes of accountants might not have regard to the socio-economic requirements of the country and might try to exert pressure on government agencies, economic and planning bodies, and institutes of education to develop accounting and training in accordance with their own self-interest.

Furthermore, experience has shown that local institutes of accountants, especially where they are given a monopoly of external auditing, as on the UK pattern, are more concerned with protecting that monopoly by resisting change and creating excessively high training requirements for qualified accountants, and with extending the amount of work available to them by taking over work from the government auditor.

This invasion of public sector work by private sector firms in the fields of traditional and efficiency audit and management consultancy, represents a major barrier to the development of state audit in Egypt.

Fifth, the Egyptian Accounting Board has unfortunately accepted the implementation of international accounting standards. Merely translating international accounting standards would not be very helpful to Egypt, and in the long term would be of little benefit to the current accounting regulatory system. This is one of the faults of the local profession which, perhaps by default, has oriented itself to serve the needs of multinational corporations. Indeed, if anything, international accounting standards will make the overall improvement in accounting system considerably more difficult, for not only will they result in an immediate bias towards the Anglo-American system but they will also create a class of private sector accountants and external auditors who will resist the introduction into the system of a stronger public sector emphasis. The success

of the UK/US accounting profession in bringing accounting reports closer to economic reality rather than to legal convenience has not been especially obvious and it is difficult to believe that the Egyptian Board will not be motivated by self-interest into embracing law rather than economics.

Unfortunately, despite the many drawbacks relating to a strong accounting profession, there is strong pressure for changes in the law which will strengthen the position of private sector accountants.

10.7. Route To Development

One objective of this study has been to identify to what extent Egypt needs to establish a strong profession and the essential factors needed to support the development process. All the respondents agreed that an active profession needs an active accounting organisation to direct its activities (see table 10-4). They added that at a certain stage of a country's economic growth an organised accounting profession is needed to serve the economy. Egypt has reached a point of economic and social development where a recognised professional accounting body is needed.

In the search for a type of accounting body suitable for Egypt, all the interviewees strongly recommended that the social and economic environment must be considered when regulating the accounting profession. To achieve social and economic development, they recommended that the accounting

profession must not be given a free hand to regulate itself, nor should it be regulated totally by government. A balance should be established between insiders and outsiders to regulate the profession.

Table 10-4

Q. Please indicate whether the establishment of the following are essential to the improvement of accounting practices.

	Not Needed	Needed	Total
(1) Active accounting organisation			
No.	23	60	83
	27.7%	72.3%	100
(2) Official auditing pronouncements			
No.	9	74	83
	10.8%	89.2%	100
(3) Code of professional conduct			
No.	8	75	83
	9.6%	90.4%	100
(4) A test for certification			
No.	4	79	83
	4.8%	94.2%	100
(5) Effective education programme			
No.	5	78	83
	6.1%	93.9%	100
(6) Cooperation with regional accounting organisation			
No.	7	76	83
	8.5%	91.5%	100
(7) Post-graduate training programme			
NO.	8	75	83
	9.8%	90.2%	100
(8) Effective accounting research programme			
No.	6	77	83
	9.2%	90.8%	100

However, when asked their opinions about government involvement in the development of accounting and auditing practices, 78 % of the sample were in favour (see table 10-5).

Table 10-5

Q: Do you agree that the government involvement in development process has enhanced accounting practices in the country?

No.	Yes	No	Total
	62	18	80
	78%	22%	100

Q. If you agree, how can the government improve these developments?

a. By providing financial support and effective accounting legislation.

50	30	80
62.5%	37.5%	100

b. By establishing a government agency responsible for advancing accounting practices.

44	36	80
55%	45%	100

c. By establishing a semi-governmental body the members of which come from different backgrounds, to advance accounting practices.

64	16	80
80%	20%	100

Q. If you do not agree, would the formation of an independent professional body with power of self-regulation and standard-setting lead to improvement in accounting practices in the country?

20	60	80
25%	75%	100

This is a recognition of the fact that the political and social climate in the country has forced them to solicit government involvement for several reasons. First, officially backed accounting rules, laws, and regulations would be more readily enforceable than those adopted without government approval. Second, greater credibility would be achieved if the government declared its support for the profession. Third, the involvement of the government in the

development process would ensure its financial support (62.5 % of the sample supported this view).

Fourth, these findings seem to be in line with the general belief within the profession that, without government approval nothing much could be done to improve accounting practices and the status of the profession. In interview, some executive members of the Egyptian Institute Council strongly supported this view, saying "In the last meeting of the council, we discussed this issue and the obvious thing was the general agreement on the involvement of the government in the development process, without this support nothing much could be done ".

Some interviewees argued that the accounting standard-setting process itself should not have been delegated to the accounting profession, for it was inevitable that the need to satisfy the wishes of corporate clients would lead to unsatisfactory compromises. They added that, given the difficulty of training and retaining high calibre accounting staff, the power given to private sector accountants should be reconsidered. Government should consider reducing the advantages given to private sector accountants, which would both make it easier for the CAO to attract staff and encourage the restructuring of educational resources to meet their needs.

They claimed that Egypt cannot afford to waste trained accounting personnel and scarce financial resources upon

unnecessary and irrelevant accounting services. Instead, these resources should be directed towards more relevant and productive services. This is still very possible in Egypt, for the accounting profession is not yet strong enough to resist such a change.

10.8. General Characteristics of the Proposed Structural Framework of the Accounting Regulation Process In Egypt

The purpose of this section is to outline in general terms the features of a proposed general framework of accounting regulation in Egypt. Throughout the study the emphasis has been that accounting in Egypt is oriented towards planning and control at the micro and macro levels for the purpose of providing socio-economic decision-making information, to assist the socio-economic development of the country.

The relevance of the UAS to its environment is thus evident. Therefore it is the theme of this study that the accounting regulation process in Egypt should be based on the UAS, and that it requires evolutionary change rather than revolutionary.

The preceding chapter set out the improvements that should be made to accounting in Egypt. These include a significant revision of the UAS cost accounting and budgetary control systems, value for money audit, and current value accounting. Regarding the regulation of accounting, extensive efforts should be made to set up a

national professional accounting body under the supervision of the National Peoples Assembly or a Government Ministry. Furthermore, professional links between the various groups of accountants (private, public sector, government, etc.) should be integrated within this body in order to utilise their potential accountancy functions in the total economic framework.

The study concludes that, if these improvements were carried out, an integrated body of accounting should emerge that would be of great service to the socio-economic development of the country.

We therefore specify the general characteristics of the proposed framework in the following sub-sections, which summarise the discussion presented in the preceding chapters in order to bring the proposed framework into focus.

10.8.1 Structuring the Accounting Regulation Process

Issues that must be dealt with in structuring the process of accounting regulation,

- (1) The establishment of an active national professional accounting body; and
- (2) The relationship between the body and its support structure.

10.8.1.1 The Creation of A National Professional Accounting Body

In the search for a type of accounting body suitable for Egypt, the UK and the US models were investigated, a

comparative study of international accounting regulation was made, and interviews with parties interested in the establishment of accounting standards in the country were conducted. It was concluded that the social and economic environment of Egypt must be considered when regulating the accounting profession.

The UK and the US models were found to be inappropriate, for they are based upon the self-regulation of the profession and standard-setting process, which assumes democracy and pluralism. As such they depend on the responsiveness of their leaders to the demands of their constituent social groups, and, in particular, to the demands of those affected economically by their legal and semi-legal pronouncements.

In a country where a highly organised profession on the pattern of the UK/US is a potential challenge to its political and accounting systems, the idea of implementing such a model seems irrelevant and unlikely to survive.

As a result, the model regarded as appropriate to the Egyptian environment is a national professional body to be founded by special legislation by the Egyptian People's Assembly. This body should be organised in such a manner as to provide a "common body of knowledge". The body should be governed by a Higher Council and should also be under the supervision of the Parliament.

It would be the aims of such a national body to improve

accounting and auditing practices in government, public and private sectors, to organise the gradual application of the UAS in the private sector, and to develop the accounting education system in relation to the socioeconomic needs of Egypt. It would perform the following tasks:

(1) improve the status of the government auditor, which is far too often seen as lower than that of private sector auditors;

(2) promote research on uniform accounting and performance auditing;

(3) issue regular publications pertaining to up-to-date methods, international aspects, etc;

(4) give training courses, and set examinations on public sector and government accounting and auditing and grant, by means of tests, etc., protected titles in various areas of accounting specialisation;

(5) provide recognition at different levels of training, as opposed to the system whereby a person is either a fully qualified accountant or has no professional recognition at all.

(6) prepare a comprehensive survey and projections of accounting demand and supply. This survey should set forth the demand and outputs at all levels and areas of accounting, and delineate the functions and types of accountants.

(7) direct accounting development- education and practice- in the light of the socio-economic requirements identified in the above survey.

(8) set up accounting development centres at universities to up-grade instructors, and perform a variety of related developmental, training and research activities.

More important, the new body should strive to create effective coordination between educational and training institutions and the public and private sector accountants, in order to gear the training and outputs to the specific requirements of society. As discussed previously, three broad functional accounting areas can be distinguished in Egypt:

(a) education and training: largely spearheaded by the universities;

(b) private sector professional accounting: composed of persons working in private sector industries and professional entities; and

(c) public sector professional accounting: composed of accountants and auditors associated with governmental accounting activities, public sector enterprises, CAO, teaching and practice.

Each of these three areas fills a significant socio-economic task; the need has arisen for those functional areas and institutions to be coordinated under the supervision of a national body which would guide, appraise and assist their operations. The new body would be involved in the appraisal of their programmes, courses and areas of coordination, the allocation of certain human, material and financial resources, and other aspects pertaining to

accounting knowledge, skills and practice in Egypt.

It is suggested that this body should be financed mainly by the government with contributions from public sector enterprises and government agencies and institutions, sales from publications, and fees from conferences and seminars.

Finally, for such a body to succeed, it must be recognised in more than one country. One possibility is that the African Organisation of Supreme Audit Institutions or the Arab League could provide such recognition; the establishment of a national professional accounting body for the various groups of accountants and auditors (state and private) based upon a series of highly relevant examinations recognised locally and regionally would greatly enhance their status.

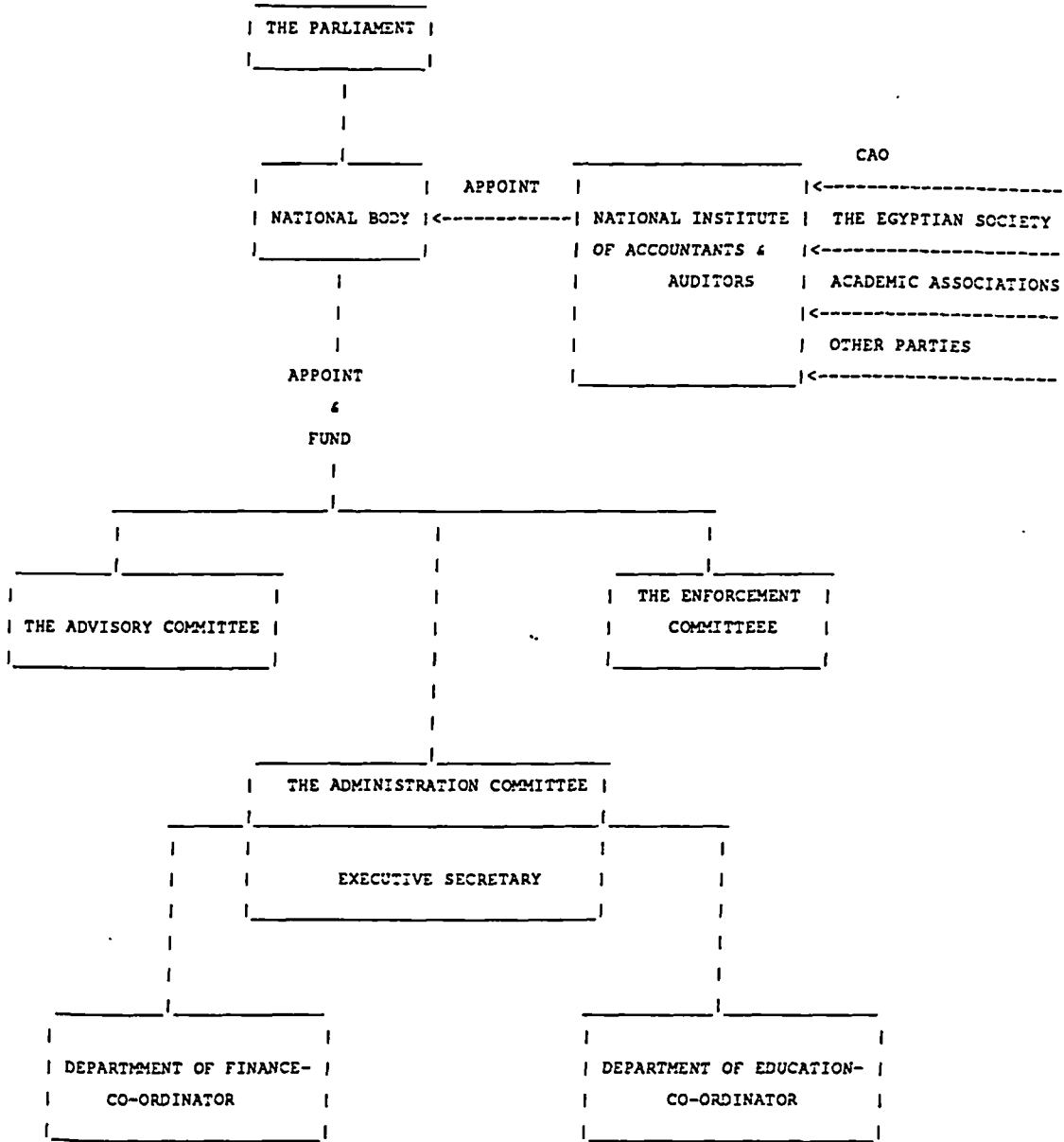
10.8.1.2 The Organisational Structure of the National professional Body

A diagram of the proposed structure is presented in figure 10-1. The organisation has a tripartite structure: (1) the Advisory Committee; (2) the Administrative Committee; and (3) the Enforcement Committee.

Each committee should include members who should represent various backgrounds, groups and technical expertise.

Figure 10.1

THE EGYPTIAN NATIONAL PROFESSIONAL ACCOUNTING
BODY ORGANISATIONAL STRUCTURE



10.8.1.2.1 The Advisory Committee:

The job of the Advisory committee would be:

- (1) To define the users needs, through empirical research and the study of their behaviour.
- (2) To establish a conceptual framework. This should be deduced from the general theory of users needs, which would be based in part on empirical studies, in part on inputs from direct users and members of the committee.
- (3) To ensure a linkage between accounting education in Egypt and the needs of the UAS.

The committee might include a senior official from the CAO as chairman, for that office is already responsible for accounting-related matters in the UAS and state departments. One or more committee members might be accounting academics, because they are the only people with the necessary theoretical background and familiarity with new developments in accounting. Other members might include one or more representatives from the Ministry of Planning so that a linkage between planning needs and the UAS could be enhanced. It would also be helpful to include one or more representatives from the Ministry of Finance and the Central Bank of Egypt, so that information related to imports, exports, state revenues and expenditures, maintaining public wealth, controlling foreign currency and other policy-making needs could be incorporated into the revision. The committee might also include members from the CMA, the Stock Exchange, banks and tax authorities, so that information needs related

to stock exchange regulation and tax requirements could be satisfied in accounting rules and standards.

It might be necessary for the committee to be supported by team of researchers who would establish the theoretical framework and identify the needs of users, by inquiring directly into their expectations.

10.8.1.2.2 The Administration Committee:

The task of this committee would be to implement and enforce any revision, or up-dating of the UAS formulated by the advisory committee. This could be achieved by the preparation of general guidelines for the practical implementation of these improvements, a development programme for CAO staff, guidelines for improved practices, publication of professional literature, discussion groups and seminars, training programmes and supplying educators and accountants with materials.

By including representatives of various user groups, the committee would be sensitive to their needs and would ensure that the system satisfied those needs.

In addition to administering the UAS, the committee would liaise between the advisory committee, the enforcement committee and accountants. It could implement and enforce the UAS and would be in a position to suggest to the advisory committee modifications which would bring the UAS into conformity with users needs. Thus, there would be continuous integration and feedback between the design,

implementation and enforcement processes.

10.8.1.2.3 The Enforcement Committee:

Enforcement of the UAS and auditing guidelines in Egypt is a straight-forward process. The majority of Egyptian enterprises are state-owned and controlled. When a principle or standard is ready, a decree from the President of the CAO or, more strongly, from the National People's Assembly could be enacted. Compliance with this decree should be monitored in a "cooperation process" between the enforcement committee and various law enforcement agencies, such as the Ministry of Finance and the tax department.

Through its external audit of all economic units and state departments, the CAO has the authority to enforce compliance with the System. Furthermore, if all internal auditors at all economic units and state departments were attached to the CAO, rather than to various economic units and state departments, then the internal audit staff would be able to ensure compliance with the system.

Furthermore, by applying the UAS to the private sector enterprises, compliance with the system can be secured in a "cooperation process" between the enforcement committee and the Capital market Authority, the Stock exchange and the Companies Registry Office. In addition, the involvement and the coordination of chartered accountants activities within the new body would enforce them to secure compliance with the UAS and auditing guidelines issued by the body.

10.8.1.2.4 The Co-ordinator's Task

The co-ordinator's tasks would be to co-ordinate, control and evaluate all accounting developments within each department. The Department of Finance would be responsible for reforming accounting systems throughout the government and private sector through the establishment of a professional committee and procedures. The co-ordinator of the Department of Education would be responsible for expanding and improving accounting education to meet the demand for graduates of varying levels of education. Such appraisals are expected to result in an "accounting development plan" based upon both (1) the socioeconomic plans, and (2) an inventory of the present position and future needs regarding accounting manpower. Such a comprehensive plan may cover a 5 to 10 year period, and presumably would be coordinated through the new body, universities and training centres concerned with the development of accounting education and practice.

10.8.1.3 Financing The Body

Finance for the different activities of the Body should be granted from the general budget of the state.

10.8.2 Changing Parameters for Improving the Overall Performance of the UAS and Accounting Regulation Process

As discussed elsewhere, the new body must consider what factors will affect its ability to enhance professional standards. For instance, accounting education and training

in Egypt require a comprehensive and systematic approach, covering all levels and institutions of accounting. The structuring of accountancy fields (e.g., financial, auditing, managerial, government and public sector) including related activities and resources will have to be closely coordinated. The institutionalisation of accounting professionals (educators, state and private sector practioners) may require closer linkages in order to develop qualified accountants and auditors at all levels and areas of specialisation necessary for the country's needs and objectives (economic plans). Further, overlap in responsibilities with private sector professional bodies and other public-sector bodies has to be considered in structuring the accounting and auditing standard-setting committees. To provide meaningful guidelines for regulation and accounting development, the new body must continually redefine its responsibility, co-ordinating its activities with professionals, academics, and other bodies.

10.8.2.1 Changing Parameters to Prevent Private-sector Domination

To coordinate the field of accounting and auditing regulation, not only for the public sector but also for other sectors in the economy, the new body will need to expand its standard-setting authority.

The important issue here is that the recommendations of the international conference in 1987 called for the establishment of a national institute by a ministerial

decree from the Ministry of Finance. However the private sector profession has so far resisted such a move. As mentioned in previous sections, the Egyptian Society of Accountants and Auditors, without consulting other professional bodies, established an Egyptian Institute, to work within the Society and oriented mainly to serve the needs of the private sector entities and multinationals using the Anglo-American approach. In addition, a committee was established by the society to recommend the legal form and the best methods of funding the institute, as mentioned earlier. However, three years later, the committee's report had not appeared and there was little or no hope that necessary recognition would be obtained. As a result, the Society incorporated the Institute within the Syndicate of Commerce Professions; The Egyptian Society of Accountants and Auditors Division [Dr. Arafa, February, 1990]. This division was established by the Ministerial Decree No. 40 of 1972, as a substitute for the "Egyptian Guild of Accountants and Auditors" which was established in 1946. The main purpose of this change is to unify accounting and other related sciences (economic, business administration, and insurance) into one organisation; The Syndicate of Commerce Professions.

This leads one to conclude that the Society's efforts failed for lack of co-ordination between the bodies that educate accounting graduates (universities and other academic associations) and those who finally use them (i.e.

the Ministry of Finance- which employs the bulk of registered accountants in the private sector as well as other graduates in government departments and also the CAO which employs a great number of graduates as external auditors for public sector enterprises), lack of government support, and shortage of funds. The initial funding for the Society came from USAID. Unfortunately, the availability of funds has been limited as the closing date of the project was 1988. The effort to set accounting standards or to coordinate accounting fields in Egypt cannot be achieved without the availability of funds and government support.

It is thus concluded that the Society's effort represents no more than the hope of key figures in the private sector profession to sustain a powerful position in the accounting regulation process in the country. Furthermore, the government still recognises the importance of accounting information for the process of decision-making in the country, and therefore is reluctant to allow the Society to play the main role in organising accounting and auditing activities. Success is most likely to be achieved by balancing the efforts of all interested parties under the supervision of the government through a national professional accounting body to co-ordinate these efforts.

10.8.2.2 Changing parameters based upon Research

Professional accounting, in general, has not been geared adequately to Egypt's economic development needs ; while the educational training and research programmes are

neither linked effectively to those needs nor do they reflect the future requirements of accounting. Insufficient research has been directed towards such areas as improving capital formation, non-financial measurements, value for money audit, etc.

Economic changes in the country should impel the new body to strengthen its research capability in order to broaden their responsibilities into new areas.

As economic reform progresses, numerous new types of financial transactions, which were not important for accountants in the past, come into being. For example, the objectives of fair distribution of wealth among individuals, full employment, a pollution-free environment, political and economic independence, cultural improvement, human resource development and so on cannot be measured by monetary units alone. Accordingly, the need for measurement of social costs and social benefits to be used in project analysis has been emphasised. It is thus suggested that the new body should establish such measures, based upon the country's socio-economic development policies.

At the macro level, non-financial measures could be used as criteria for evaluating the relative importance of sectors and projects in meeting social development objectives, which include improvements in health, education provision, reduction of pollution, full employment, better living accommodation, migration from cities to rural areas, and so on. The use of non-financial measures at the micro

level would help managements to accomplish their objectives by means of improved planning, control and decision-making and encourages organisations and the public to be more aware of social performance.

All in all, non-financial measures are necessary to achieve social planning and control, internal and external assessment of the social performance of organisations, the possible disclosure of social performance and its attestation by an independent audit.

Further, until recently, operating funds required by state enterprises came mainly from the state budget, except for a small portion borrowed from banks or retained by the company. Since the open door policy, some enterprises are now permitted to issue shares and sell bonds to meet their financial requirements. As a result, accounting for shares and bonds must be incorporated into the UAS.

More important is the reform of the pricing system. Instead of all prices being set centrally by the state, state-owned enterprises are now authorised to sell that portion of their output which exceeds the production quota and at a price determined by the enterprise itself. Meanwhile, the free market price for the producer's goods is established, where prices are regulated in accordance with the law of demand and supply. The scope of state control over prices will gradually be reduced, and floating prices will exert greater influences on the economy. This gives

rise to a situation whereby market prices, floating prices, and state-controlled prices are functioning simultaneously. Sometimes the differences between these prices can be very significant. As a result, a problem faced by accountants is determining on what basis they should value inventory and fixed assets.

Furthermore, the pricing system affects the identification of production costs and the determination of income, as well as the assessment of economic performance.

In addition, the open door policy has produced considerable horizontal contact among enterprises, in which a number of intangible items, such as specific technologies, patents, trademarks, and the right to use production sites, are involved, calling for special treatment in the accounts. Consequently, efforts must be directed toward searching for theoretical and practical solutions to these problems.

It is thus concluded that the tasks assigned to the new body are: to forge new theories and methods, taking into account characteristics prevailing in the country, so as to meet the requirements of economic reform; to review existing accounting principles and regulations and to discard those not in line with the spirit of the socio-economic development process; and to modify and improve the UAS.

The research performed by the new body should be analytical, empirical, evaluative, and directed toward systematically dealing with the problems arising from the application of the UAS or as a result of the changes in

social and economic factors.

The Body can use several strategies:

(1) Using its own staff to do research: This can be achieved by increasing full-time staff and complementing them with a growing number of academics and practitioners.

(2) Sub-contracting research: This can be done through universities and practitioners, especially in topics on which it is difficult for CAO staff to generate speedy research results. This cooperation should be on a full-time, contractual basis.

(3) Leveraging: Due to the fact that there are limits to the resources for research in accounting development, it is recommended that experts do some of the work while CAO control is maintained over the output. This "leveraging" role can also be used as the CAO coordinates research undertaken in universities and other organisations. In such a role, the CAO serves as a "central location" to exchange information about research projects underway and discuss additional research needs.

10.8.2.3 Changing parameters Based upon the state of the Art

It has been argued that the UAS should serve users' needs. To this end, it would be appropriate to use a method of deduction, whereby principles and practices would be generated from general theories and concepts, related in the main to the expectations and behaviour of users. Users in Egypt include public sector enterprises, public

organisations, Ministry of Planning, Ministry of Finance. Other are the Central Agency for Administrative Control, the Central Bank of Egypt, The Investment Bank, the Central Agency for Public Mobilisation and Statistics, Capital Market Authority and others. It will be necessary for the new body to investigate the needs of these users in implementing and up-dating the UAS.

10.8.2.4 Changing Parameters toward the Establishment of A Comprehensive and Integrated Information System

A well co-ordinated accounting system should be established on the basis of the country's developmental objectives, including information needed to construct social accounts for development planning purposes, to assist the planning and control of micro units, and to construct traditional and PPBS budgets for the government.

Since data inputs to the accounting information system are outputs from other information systems, lack of co-ordination may harm the operation of the accounting system. Thus, the information provided by other systems needs to be examined before it is possible to establish an effective accounting information system.

The information provided must be relevant to economic analysis and policy. Current value measurements are preferable to historical value measurements for social accounts, capital output ratios, shadow pricing, feasibility studies, government budgeting, etc. Both financial and non-financial measurements should be included.

To play its role in socio-economic development, an accounting system must identify, measure and communicate all the information needed for both micro and macro purposes. Information which is appropriate for business enterprises does not suffice for macro development planning; information about foreign exchange, import, export, employment, environment, social welfare as well as net income and liquidity, needs to be collated, measured appropriately, and reported in a comprehensible and uniform manner.

10.8.2.5 Changing Parameters toward the establishment of Relevant Accounting Theory And Principles

What is a "conceptual framework", and why has it become an issue in the development of accounting? The purpose of developing accounting concepts is to establish a sound accounting theory, which the CAO can use in reviewing the UAS. The concepts are not standards or rules, nor are they intended directly to resolve accounting systems problems, but they are intended to be tools for solving such problems.

It is not expected that Egypt should have its own accounting theory and principles, but that it should seek those conventions and principles within the general accounting theory which are relevant to its socio-economic development.

It may be argued that Trevor Gambling's "Societal Accounting Theory" is a more advanced comprehensive and relevant accounting theory. According to Gambling,

accounting must take account of the direct and indirect flows of any transaction; thus, double entry accounting should reflect both transferable and cultural wealth. Transferable wealth is defined as the direct economic flow of wealth, which is currently recorded by the debit and credit relationships. Cultural wealth, according to Gambling, is the inevitable externality which follows any economic transaction.

10.8.2.6 Changing Parameters toward Employing the UAS

Criticism of the UAS has not been directed at its preparation process so much as to the system's deployment, or lack of deployment. As to the interviewees, a harsh critic of both CAO staff and public sector enterprises' accountants, has little to say about the UAS or the means by which it can be improved. The effectiveness of the system lies in the educational programmes of accountants. By solving the education problem, the system problem would also be solved. The graduate, however, is taught the accounting of developed countries, not of developing countries. Therefore, dramatic increases in the output of the accounting education institutions would not solve the problem. The "content" of the graduates skills must be changed.

This content depends on the curricula of accounting education. The current passive role of accounting education is the result of the insistence of academics upon the techniques side of accounting while giving scant attention

to the necessity of approaching accounting problems in an analytical and critical manner. Even though they are now teaching the UAS in universities, they are not producing the kind of accountants who comprehend the advantages of uniformity in accounting, for students are only taught uniformity as a set of techniques. The importance of uniformity to its environment and the links between the environment and accounting have been ignored by academics.

It is of vital importance that accounting education in Egypt in general and the teaching of uniformity in particular should be significantly changed. Unless accounting education can produce accountants who understand the need of the environment for uniform accounting, and the experience of other nations with uniformity and the link existing in these other nations between uniformity and its environment, we will witness either stagnation in the development of uniform accounting or even a threat to its current position.

The role the new body can play in these issues is often indirect, and yet, it would be a fatal mistake for this body to be unaware of the system's potential use and misuse.

Issues involved in application of the system have been divided into two main categories:

(1) professional education activities which promote the use and understanding of the system;

(2) professional means to promote, monitor, and enforce the system.

The audience for the UAS falls into three general categories: those who have an interest in it (users of the accounting data), those who are affected by it (accountants in public sector enterprises); and those whose services are determined by it (CAO staff).

The first category has been the target of much attention in the field of accounting uniformity. CAO policy has been to receive questions and comments from these groups, for answers or interpretation, without their attendance at CAO meetings or other relevant discussions. It is recommended that the CAO should permit these users to attend SPC meetings and due process procedures and it should take every opportunity to discuss current issues with public sector accountants, explaining its views and gathering additional input.

As mentioned in chapter eight, the training of prospective accountants is unsatisfactorily enmeshed in accounting uniformity and the UAS programme at universities. Whether or not students of accounting receive adequate training about accounting and auditing rules, knowledge of uniformity is necessary for them to obtain certificates. A test for certification, constructed and scored by the new body, should contain at least three sections related to the standards: an auditing section, a section on accounting theory and a section on the UAS.

At present, there is neither an examination system for certification nor are all graduates required to take the

continuing education diploma offered by universities to keep their knowledge up-to-date. The training programme and a test for certification are still the formal educational means by which the CAO can secure the successful application of the system.

In addition, it is recommended that all accountants and auditors whether in the CAO, public sector enterprises, public organisations, government agencies and institutions, banks, insurance companies, and private sector enterprises should obtain a licence before these engagements.

To obtain such a license a graduate, after completion of an approved period (2 years) of practical experience in any of the above-mentioned organisations, should be registered for a two-year (diploma) course with the body or the university and should pass a professional examination to be prepared and graded by the body.

Various official accounting certifications should be given for various levels of skill according to the specialisation and the level of sophistication. For example, at the upper level would be the certified financial accountants, certified management accountants, certified government accountants, and certified internal auditors, while at the middle level would be the licensed financial, cost, government, and internal accountants. At the lower level would be the bookkeepers.

10.8.2.6 Changing Parameters toward Current Value Accounting

The benefit to users of information for socio-economic planning will be limited if historical measures are used as the basis. As we have seen, social accounts are based on current value measures, which provide a better basis for projects appraisal, shadow prices, capital output ratios and productivity measures. Current values are also required for realistic government budgeting and value for money audit.

Current value measurements can be substituted for historical value measurements, or used as an extension of them. However, although it is less effective as a decision-making tool, a general price index may be a necessary interim measure.

10.8.2.8 Changing Parameters toward Value For Money Audits

We have seen that audit in Egypt is a commercial audit as well as a value for money audit. The audit in public sector enterprises gives greater consideration to the economic costs of materials and labour, the efficient use of resources or the effective achievement of previously set objectives, despite their importance to the development process and for performance evaluation. However, there is a great call for the enhancement of the concept, techniques and procedures of this type of audit. Briston and Russell have argued that a full and regular value for money audit should be adopted in nationalised industries in Britain as

well as in developing countries. They stated that:

"our conclusion from the previous section was that whichever approach to efficiency is adopted, the method of evaluation should be a regular audit rather than an ad-hoc study" [Briston, R., and Russell, P. 1984, p.14].

Meanwhile, value for money audit cannot be successfully applied without an accounting system capable of providing accurate and comprehensive information at the right time. Since the UAS was designed with public sector needs in mind, it is capable of providing such information. Current cost accounting is the best basis for value for money audit, due to the greater reliability of the cost data so obtained. The planning programming budgeting system is needed to identify the country's objectives and the ways in which these might best be achieved. Finally, the establishment of non-financial measurement standards would enhance the ability of CAO staff to apply value for money audit.

10.9 Summary and Conclusion

This chapter has shown that Egypt, like many other developing countries, is under pressure from Western countries, especially the U.S. and the U.K., regarding the accounting system to be followed for decision-making at the micro and macro levels. This pressure takes various forms, including the influence of a powerful accounting profession, multinational companies as well as the Big Eight and the World Bank. The prevailing argument is that the US/UK accounting regulation approach is the best, not only for developed countries but also for developing countries.

Those who argue that Egypt should adopt the Anglo-American approach assume, by implication, that it is optimal, and that, there is thus no question about its validity for Egypt, regardless of its environment.

Since accounting deals with monetary, business and economic transactions, the state of economic development of a country should be of major relevance when creating accounting and auditing standards. If we accept the argument that the current accounting system in any society represents a response to the information needs of that society, then the UK/US accounting system is not adequate even for its own environment. There are many environmental factors which are given little consideration by the generally accepted approach, for example the government's need for accounting information for various decision-making purposes. It could be argued that the current UK/US accounting system is still geared towards the nineteenth century capitalism by which it was shaped. The survival of this system is mainly due to a very powerful accounting profession working very hard to perpetuate the system, which brings to it huge financial rewards.

Even if it were assumed that the current UK/US system is adequate for current UK/US accounting environmental needs, it should be remembered that the most prominent features of this environment are: (1) a powerful and dominant accounting profession oriented largely towards auditing rather than accounting, (2) a very strong capital

market, and (3) a government which is only rarely directly involved in the day-to-day operations of various entities.

Does this environment bear any relationship to that of a developing country like Egypt? Clearly it does not and thus a totally different accounting regulation approach has been adopted in Egypt, where the environment encouraged the emergence of uniformity.

All in all, the advantages of the UAS far outweigh its disadvantages. Unlike the diversity approach, it is not restricted to the needs of a single sector and can be designed to serve both private and public sector users. Indeed, the Egyptian experience has shown that it is very useful in providing the government with valuable information needed for macro-economic planning policy making, development planning, and public wealth control, as well as that needed for emphasising efficiency as opposed to mere financial compliance in the field of audit. Furthermore, the UAS provides the means whereby micro and macro accounting are linked.

Unfortunately, the new changes in the UAS environment which were recommended to strengthen accounting and auditing in Egypt seem calculated to operate to the benefit of private sector accounting firms in general and the international accounting firms and multinational companies in particular. These remedies and changes are now being implemented and there is a strong lobby for changes in the law which will enhance the position of accounting profession

and accounting offices in the country.

In many ways this could be very harmful. The establishment of a strong private sector accounting profession is likely to lead to an emphasis, in both training and practice, upon routine external auditing and upon external financial reporting: areas which have already been demonstrated as being of a low priority for the purposes of economic development [Briston et al, 1985, p.31].

Thus, the concept of accounting diversity is not relevant to the Egyptian environment due to the fact that it would hinder the improvement of the overall accounting system in Egypt.

It is, therefore, suggested that the power given to private sector accountants should be reconsidered. Government should consider reducing the advantages given to private sector accountants, which would both make it easier for the Central Accounting Organisation to attract staff and encourage the restructuring of educational resources to meet their needs. A more unified approach is desired, involving the whole structure and process of accounting education, training and professionalisation.

The best chance that accountants in Egypt have of achieving these reforms is to outline a national professional accounting body to represent them. This would improve their status, which is far too often seen as lower than that of accountants in other countries, and would encourage local faculties and universities to provide

continuing education and professional training.

It would be the aims of such a national body to improve accounting and auditing practices in government, public and private sectors, to organise the gradual application of the UAS in the private sector, and to develop the accounting education system in relation to the socioeconomic needs of Egypt.

More important, the new body should strive to create effective coordination between educational and training institutions and the public and private sector accountants, in order to gear the training and outputs to the specific requirements of society.

The new body would be involved in the coordination between various groups of accountants and institutions, in the appraisal of their programmes, courses and areas of coordination, the allocation of certain human, material and financial resources, and other aspects pertaining to accounting knowledge, skills and practice in Egypt.

The adequate fulfilment of these initial requirements, associated with a restructuring of the accountancy education and training programmes, practice requirements and associated potential legal amendments, will lead to a greater and better output of Egyptian accountants for all sectors of society in future years.

CHAPTER ELEVEN

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

11.1 Summary

This study has argued that Egypt is a developing country with a socialist structure, and that its accounting system has to serve the needs of this environment. The accounting objectives and functions therefore tend to be different from those in the West. Also the enterprise is not visualised as a private business undertaking, but as an entity in the context of the national economic plan. While, for example, in setting accounting principles or standards Western countries are influenced by the profit-making motive, in Egypt the focus is more on physical production to serve public requirements. However, as is seen in other developing countries (socialist and capitalist), while the aims of accounting may be different, the means (e.g., assumptions, standards, procedures and techniques) tend to show great similarities. For example, cost-benefit or cost-effectiveness analysis, decision-making frameworks, and accounting and auditing standards and procedures show great similarity.

In this economic environment, the State, by means of the uniform accounting system, supervises the economic activities of different units, examines the execution of the state plan and the state budget, strengthens its control over the micro as well as the macro economy, and satisfies the management needs of the different economic units. As for accounting control, the State has established a specialised body, the Central Accounting Organisation, under the

Egyptian parliament, which is charged with the responsibilities of implementing the UAS and administering the accounting of the whole economy.

Unfortunately, Egypt is currently under pressure to make drastic changes in its accounting and auditing systems and education. Nevertheless, it is encouraging to see how this socialist country, with a public ownership of more than seventy per cent, is aware of the need to adopt effective and efficient accounting and auditing methods to pursue its future development problems, including the implementation of the policy of opening to the outside world. Thus the objectives of this study are:

(1) To study and evaluate existing accounting regulation methods in different parts of the world (whether imposed by the government or introduced by the accounting profession) in order to suggest an accounting system that could be adopted by developing countries for micro and macro purposes;

(2) Since the system proposed was based on uniformity, to study the experience of Egypt in utilising uniformity within its accounting system;

(3) To study the effects of the measures introduced by the accounting profession on the overall performance of the UAS.

Accordingly, the thesis has been divided into two parts: the first dealt with the first theme (chapters 2-4) and the second part with the second and third themes (chapters 5-10). The first part was an examination of the

literature on accounting regulation. Chapter 2 examined the role of accounting in modern societies, various accounting systems and the characteristics associated with each system. It also dealt in more detail with the uniformity concept and the major areas of controversy surrounding uniformity. The second section, presented in chapters three and four, was an examination of the historical development of accounting regulation in different parts of the world and of the major environmental factors which led to the preference for one approach over another.

The second part of the thesis examined the evolution of the accounting uniformity in Egypt, and assessed the current threat to this approach. This part (chapters 5-10) provides a comprehensive picture of accounting regulation in Egypt and of the uniform accounting system.

In order to clarify the underlying philosophy, it appeared desirable to obtain an insight into Egypt's political, social and economic structure (chapter 5). In addition, a brief overview of the current structure of the capital market was also presented (chapter 6).

Chapter seven dealt with the environmental factors, historical and contemporary, which have influenced the evolution of accounting in Egypt. The historical development of certain factors was discussed to highlight their role in affecting accounting in Egypt in general and their current influence on uniformity in particular. It was found that in

a planned economy the vertical integration of the decision-making process encourages accounting uniformity.

Chapter eight discussed the accounting education system and the status of the accounting profession in Egypt. Emphasis was placed upon the importance of these two components in the process of developing accounting and auditing standards.

Chapter nine examined the internal workings of the Egyptian uniform accounting system, and the content of the accounting reports generated by the system. The primary emphasis was directed towards the system's organisation, accounts classification, the objectives and content of the required financial statements, and the cost control system. The chapter also paid particular attention to the performance-evaluation auditing concept within the framework of the UAS. It was found that in a planned economy, accounting information replaces market calculations in the allocation of the economic resources of the society. It was argued that the state auditor and the performance-evaluation auditing concept are the best tools by which to achieve these objectives.

Chapter ten concentrated upon the new approach to producing accounting regulations in the country, namely, "generally accepted accounting standards". Emphasis was placed upon the constitution of the Egyptian Accounting Board; its approach to standard-setting and procedures, and the disadvantages associated with this approach; the threat

to the UAS was also assessed.

The empirical study was aimed at determining the effects of the establishment of a strong accounting profession on the overall performance of the UAS. In addition, the empirical study is important in indicating how uniformity should be further developed in the area of standard setting.

There has been little published material on the socio-economic, political and regulatory environment of accounting in Egypt, and even less on accounting education, the profession, and the information needs of Egypt. Therefore, it was necessary for the author to make a long visit to Egypt in order to collect general data on the Egyptian environment and its accounting needs, supplemented by in-depth interviews.

The main emphasis was placed upon detailed investigation of the relevance of International Accounting Standards to Egypt and the role of the accounting profession in influencing accounting regulation in the country. This was done by means of a closed-end questionnaire submitted to 175 persons, chosen from among groups interested in the accounting regulation process. In-depth interviews were also held with several key figures.

11.2 Conclusions

Accounting regulation has long been considered as a method of ensuring the reliability of accounting reports.

Standardisation of the manner in which accounting reports are prepared can ensure that accounting regulations are of real value to their environment.

The approaches to accounting regulation have varied from country to country. In some countries the accounting profession has the major role in shaping the standards-setting process. In other countries, regulation is carried out through government agencies or legislation. In either case, the status and size of the accounting profession are important factors in determining who formulates accounting regulations. For example, the very powerful professional accounting bodies in the UK and the US have taken the lead in developing the accounting systems in those countries. In Continental Europe and Communist countries, on the other hand, the accounting profession is poorly-developed due to the greater involvement of their government in controlling and supervising economic affairs, accounting regulation included.

In the case of developing countries, there is a strong reason to propose that accounting standards should be formed by a governmental professional accounting body. Regulation of accounting cannot, for many reasons, be left to the accounting profession alone. A strong accounting profession, on the UK or the US pattern, will aim at a monopoly of external auditing, will maintain a strong influence over financial reporting through the standard-setting process, will in its training and educational programmes be overly

concerned with external auditing and financial reporting, will have a strong influence upon the contents of accounting curricula at universities and technical accounting institutes, and might well stifle progress in those areas of accounting which are most crucial for economic development and efficiency.

Furthermore, given the difficulty of training and retaining high calibre accounting staff, it should be recognised that the UK or USA systems are enormously expensive to operate, placing far too much importance upon external audit, which alone has been estimated to cost around £ 1000 million each year in the UK (Briston, 1984). Many accounting authors in Western countries have questioned the role of external reporting in the UK and US compared with its social cost.

Many developing countries, however, are under pressure from Western countries, especially the U.S. and the U.K., regarding the accounting system they should follow for decision-making at the micro and macro levels. This pressure takes various forms, including the influence of the accounting profession, multinational companies, textbooks, and the accounting education offered to students from developing countries undertaking professional and academic training in the West.

Thus, the pressure has two aspects: a professional one exercised through accounting methods and procedures applied by accounting firms and multinational corporations, and a

theoretical one exercised through accounting books and education. This pressure usually has one theme, which is to suggest that the US/UK accounting regulation approach is the best to be followed, not only by developed countries, but also by developing countries.

If we accept the argument that the accounting system in any society should respond to the information needs of that society, then the UK/US accounting system is not adequate even for its own environment. There are many environmental factors which that system ignores, for example the government's need for accounting information for various decision-making purposes. It could be argued that the UK/US accounting system is still geared towards the nineteenth century capitalism by which it was shaped. The survival of this system is mainly due to a very powerful accounting profession, working hard to perpetuate the system, due to its huge financial rewards.

Even if it were accepted that the current UK/US system is adequate for current UK/US accounting environmental needs, it should be remembered that the most prominent features of this environment are: (1) a powerful and dominant accounting profession oriented largely towards auditing rather than accounting, (2) a very strong capital market, and (3) a government which is only rarely directly involved in the day-to-day operations of economic entities.

This environment does not bear any relationship to that of Egypt and thus a totally different accounting regulation

approach has been adopted, which has encouraged the emergence of uniformity.

The most important factor which has resulted in uniformity is the nationalisation of the Egyptian economy, 1956-1961, which resulted in vertical integration of the decision-making process at both the micro and macro level.

The institutional structure of the Egyptian economy required readily aggregatable and comparable accounting data and accounting uniformity was sought as a solution.

National planning requires data based on a uniform accounting system, including uniformity at the planning phase, i.e. standard formats of plans sent to the planning agencies at the top level, and uniform accounting returns provided during the implementation stage.

The lack of trained management was an important factor, since the uniform accounting system facilitates the national planning function, especially if there is a lack of trained personnel. It also facilitates accounting education and the transfer of managers and accountants between different public organisations and economic units.

Finally, the Arab League's uniform chart of accounts was an important factor in the development of uniformity since this chart was first used as part of the uniform accounting system of the military factories and economic establishments introduced by the Ministry of Planning in 1966.

Thus uniformity in Egypt was born of its environment and this environment continues to influence accounting development.

However, not all factors emerged simultaneously. Some factors had an early influence, e.g. the necessity of having adequate accounting systems in different economic sectors or industries. Other factors emerged only after nationalisation. National planning is one such factor, currently the most prominent in the drive towards greater uniformity. Thus, there has been a process of gradual development and improvement of the Egyptian uniform accounting system.

Moreover, not all environmental factors fully support the uniformity approach, as evidenced by the position of certain strong individuals in the accounting profession and the universities, the denationalisation programme and open-door policy, and the inability of the uniform accounting system always to work smoothly in both its accounting and auditing aspects.

This opposition has hindered the improvement of the accounting system in Egypt by (1) proposing to create accounting and auditing standards on the lines of those promulgated by the International Accounting Standards Committee; (2) establishing a strong accounting profession (with powers of self-regulation and standard-setting, on the UK/US pattern, (3) the enhancement of training institutions, with particular emphasis upon an accounting and auditing

institute to represent professional accountants and auditors and also to study methods of training prospective accountants . Furthermore, the application of the uniform cost accounting system and of auditing standards is very weak in most Egyptian economic units.

Unfortunately, the remedies suggested for the strengthening of accounting and auditing in Egypt seem calculated to operate to the benefit of private sector accounting firms in general and the international accounting firms in particular. These remedies are now being implemented and there is strong pressure for changes in the law which will enhance the position of chartered accountants and accounting firms .

Several authorities argue that these changes are very important for the establishment of a strong capital market, which to most of them is synonymous with a flourishing stock exchange, and would make foreign investors and institutions more prepared to invest in Egypt. While it is by no means clear that these arguments are valid, nevertheless, they are made as ritualistic obeisance to the institutions of the British and American capital market and without consideration of the conditions peculiar to Egypt.

The first problem in the formation of a capital market in Egypt, as indicated in chapter six, has been to provide the machinery to facilitate initial distributions of securities, such as the availability of investment media, the establishment of well-developed financial institutions,

the desire of the public to purchase securities, etc..

Moreover, experience has shown that external audit is far from perfect, and in particular the reality of auditor independence is highly suspect (see chapter ten, section 10.3.11). It is thus doubtful whether Egypt should adopt such an external audit system without consideration to alternative methods of control, such as greater reliance upon internal audit and state audit.

What is needed in Egypt is an overall improvement in its accounting systems, at both micro and macro levels, recognising the importance of performance evaluation, providing accounting information to facilitate such evaluation and attracting suitably trained staff into the public sector. In order to maximise the benefits of such overall improvements to accounting in Egypt, this study recommends the following:

1. Standardisation in accounting must be conceived and practised as a system within a general and broad parent framework of accounting, in which the three accounting systems, enterprise, national, and government are better integrated, from a structural and informational point of view.
2. This framework should have the following general characteristics:
 - (i) co-ordinated socio-economic objectives;
 - (ii) integrated and relevant information system;
 - (iii) relevant accounting conceptual framework;
 - (iv) a national chart of accounts with reasonable

flexibility as well as sectoral charts of accounts;

- (v) current value accounting;
- (vi) increased concern with efficiency audit rather than regularity audit;
- (vii) a complete uniform cost accounting system, including budgeting, accounting returns, variance analysis, etc., must be developed within the overall uniform accounting system to ensure compatibility between all segments of the system and between economic units.

In order that such improvements can be achieved, improvements in regulation, institutions and accounting education are needed. In particular:

1. All accounting-related regulations should be based on socio-economic benefits rather than mere accountability and control.
2. Training and educational patterns warrant review, and extensive international and regional assistance will be needed. Training for public sector and state accountants should be reassessed at separate government institutes or universities.
3. Accounting education should be geared towards the teaching of environment-related materials and oriented towards decision-making, critical analysis and initiation.
4. The teaching of uniform accounting should be

included and given priority.

5. Accounting teachers and students should be urged to undertake accounting research which relates accounting to its environment in Egypt.
6. Accountancy teachers should be given the chance to co-operate with the CAO , and use their knowledge to improve accounting in micro and macro units as consultants to public sector enterprises or advisors to the SPC. This would improve the financial management function in public sector enterprises as well as accounting education.
7. The accounting profession should be given legal recognition, regulated by an accounting act, and supervised by a national professional body.

The fundamental failure in the attempt to bring about an overall improvement in the accounting system in Egypt may be ascribed mainly to the establishment of a powerful accounting profession which assumes that the UK/US accounting system is appropriate for Egypt. This is due to several factors:

i) it is a system which provides very high rewards to auditors, so that local accountants will be biased in its favour.

ii) Egypt was a British colony for 75 years, so that the regulation of the accounting profession, companies acts, and auditing requirements have all closely followed those of the UK, which it is in the interest of local accountants to

preserve.

iii) the USA, since the adoption of the open-door policy in 1974, has tended to spread its accounting system into Egypt through its foreign investments and its foreign aid programme.

iv) there are a number of other factors, including the spread of British and American journals and textbooks in Egypt (either in English or translated into Arabic), the exchange of staff and Western education sources, academic professional education of Egyptian students, the spread of membership of American and British professional accounting bodies, international accounting conferences, etc.; these are all very important in the orientation of the accounting system towards UK/US practices.

v) there is the encouragement now being given by the World Bank, the UN, IMF, and other regional and international financing agencies to the improvement of the accounting infrastructure in Egypt, from a requirement that an international accounting firm be brought in as auditors and/or consultants to major projects in Egypt, to assistance in the development of a local professional accounting body. It is doubtful whether either the international accounting firms or the Egyptian Accounting Board are the best agencies to devise a national accounting system which will meet Egypt's own information needs.

vi) the Egyptian Accounting Board has, unfortunately, accepted the implementation of international accounting standards. Yet, merely translating international accounting

standards is not very helpful to Egypt, and in the long term would be of little benefit to the current accounting regulation system. If anything, international accounting standards will make overall improvement in accounting system considerably more difficult, for, not only will they result in an immediate bias towards the Anglo-American system, but they will also create a class of private sector accountants and external auditors who will resist the introduction into the system of a stronger public sector emphasis.

The great significance of the public sector in Egypt, and the deficiencies that exist in public sector financial management, demand better methodologies, practices and training in this vital sector of the economy.

It has been claimed that Egypt needs skilled personnel who can plan public programmes, develop and operate management information systems, account for funds, and evaluate performance, relating this information to future budgets and plans.

The need, therefore, is first for management accountants and bookkeepers and then for the audit function to be based upon internal rather than external audit, and upon efficiency audit rather than financial audit. This would involve a considerable change in the emphasis of training of accountants to concentrate upon management accounting rather than financial accounting, upon economics rather than law, upon responsibility to the public rather than to shareholders, and upon efficiency in the use of resources rather than satisfaction with the correct

recording of the results of poor decisions.

It has, therefore, been suggested that the power given to private sector accountants should be reconsidered. Government should consider reducing the advantages given to private sector accountants, which would both make it easier for the Central Accounting Organisation to attract staff and encourage the restructuring of educational resources to meet their needs.

The best chance that the public sector accountants have of maintaining their powerful role is to create a public sector professional accounting body to represent them. This would improve their status, which is far too often seen as lower than that of private sector accountants, and would encourage local faculties and universities to provide continuing education and professional training.

11.3 Recommendations

(1) The Creation of A National Professional Accounting Body

It has been argued that at a certain stage of a country's economic growth an organised accounting profession is needed to serve the growing economy of the country. Egypt has reached a point of economic and social development where a recognised professional accounting body is needed.

In the search for a type of accounting body suitable for Egypt, the UK and the US models have been investigated. In addition, a comparative study of international accounting regulation has been reviewed, Furthermore, interviews with parties interested in the establishment of accounting

standards in the country were conducted. It has been seen that the social and economic environment of Egypt needs to be considered when regulating the accounting profession.

The UK and the US models have been found to be inappropriate in the Egyptian environment, for they are based upon the self-regulation of the profession and standard-setting process, and may be regarded as a potential challenge to the local political and accounting systems.

As a result, the model regarded by the researcher as appropriate is the creation of a national body to be founded by special legislation by the Egyptian People's Assembly. This body should be organised in such a manner as to provide a "common body of knowledge". The Body should be governed by a Higher Council which is the policy making team of the body and should also be responsible to the Parliament. The Chairman of the body should be appointed by a Presidential Decree after the nomination of the Parliament. Members of the Council should have different backgrounds and represent various institutions interested in accounting data such as, Central Accounting Organisation, Central Bank of Egypt, the Egyptian Society of Accountants and Auditors, accounting firms, Capital Market Authority, Ministry of Planning, Ministry of Finance, Tax Authority, Universities, the Stock exchange, and private and public sector enterprises. Each organisation should nominate its representative. The body should have a permanent secretariat to help in carrying out day-to-day administration, in drafting suggestions and publishing statements and regulations, which should be

mandatory, to form advisory committee to act as consultant to the body, and technical and specialised committees for accounting standards, auditing standards, professional ethics, accounting education, enforcement and management accounting.

It would be the aims of such a national body to improve accounting and auditing practices in government, public and private sectors, to organise the gradual application of the UAS in the private sector, and to develop the accounting education system in relation to the socioeconomic needs of Egypt. It would perform the following tasks:

- (1) improve the status of the public and private sector accountants, which is far too often seen as lower than that of accountants in other countries;
- (2) promote research on public sector accounting, private sector accounting, and performance auditing;
- (3) issue regular publications pertaining to up-to-date methods, international aspects, etc;
- (4) give training courses, and set examinations on public sector, private sector, and government accounting and auditing and grant, by means of tests, etc., protected titles in various areas of accounting specialisation;
- (5) Make suggestions on the curricula of accounting and other related sciences at universities, and on educational materials and books for use in accounting and auditing for the professional training institutions.
- (6) provide recognition at different levels of training, as opposed to the system whereby a person is either a fully

qualified accountant or has no professional recognition at all.

(7) prepare a comprehensive survey and projections of accounting demand and supply. This survey should set forth the demand and outputs at all levels and areas of accounting, and delineate the functions and types of accountants.

(8) direct accounting development- education and practice- in the light of the socio-economic requirements identified in the above survey.

(9) set up accounting development centres at universities to up-grade instructors, and perform a variety of related developmental, training and research activities.

A major role of the new body would be to create effective coordination between educational and training institutions and practising accountants in both public and private sectors, in order to develop qualified accountants at all levels and by areas of concentration, necessary for Egypt's needs and objectives. As discussed previously, functional accounting in Egypt falls into three main areas:

(a) education and training, particularly in universities;

(b) private sector professional accounting: composed of persons working in private sector industries and professional entities; and

(c) public sector professional accounting: composed of accountants and auditors associated with governmental accounting activities, public sector enterprises, CAO, teaching and practices.

Each of these three areas fills a significant socio-economic task; the need has arisen for those functional areas and institutions to be coordinated under the supervision of a national body which would guide, appraise and assist their operations. The new body would be involved in the appraisal of their programmes, courses and areas of coordination, the allocation of certain human, material and financial resources, and other aspects pertaining to accounting knowledge, skills and practice in Egypt.

As far as the licensing of accountants is concerned, it is recommended that this process should remain under government authority and organised and handled by the proposed body. This recommendation seems in line with the current situation in Egypt where all the professional regulations in the private sector (through Ministry of Finance and Companies Act) and public sector (through CAO, uniform accounting system, and some laws and regulations) are in the hands of the government, and with the recent changes, brought about by the 1989 Companies Act, in the accounting profession environment in the UK. The most notable issue in the Act is the changing environment of the statutory audit. Until now the accounting profession in the UK has been entirely self-regulating; however, the Eighth Directive changes this: statutory audits may only be performed by properly qualified persons who are approved by the authorities of the member states. This means that the accountancy bodies will need to seek approval under the new Companies Act and may have to modify their rules in order to

comply with the new legislation.

To obtain such a license a graduate after completion of an approved period (2 years) of practical experience in any of the specific area should be registered for a two-year diploma course with the professional body or a university and should pass a professional examination prepared and graded by the body.

Various official accounting certifications should be given for different levels of skill according to the specialisation and the level of sophistication. For example, at the upper level would be the certified financial accountants, certified management accountants, certified government accountants, and certified internal auditors, while at the middle level would be the licensed financial, cost, government, and internal accountants. At the lower level would be the bookkeepers and technicians.

It is also suggested that this body should be financed mainly by the government with contributions from public sector enterprises and government agencies and institutions, accounting firms and business community, sales from publications, fees from conferences and seminars.

Finally, for such a body to succeed, it must be recognised in more than one country. One possibility is that the African Organisation of Supreme Audit Institutions or the Arab League could provide such recognition; the establishment of a national professional accounting body for the various groups of accountants and auditors based upon a series of highly relevant examinations recognised locally

and regionally would greatly enhance their status.

(2) Education, Training, and Research

With respect to qualified staff, the obvious solution lies in the educational systems.

Egypt has to assess whether its accounting education system is in touch with its socio-economic environment. More specifically, the following recommendations should be considered:

(A) The content of graduate and undergraduate accounting education must be changed.

Since Egyptian students have been taught the accounting skills of developed countries, without assessing relevance to the country's needs, a new curriculum should be considered.

This would necessitate a change in the background of the teaching staff. The education and training that teaching staff receive in the developed countries does not adequately prepare them to teach prospective graduates the basic concepts of accounting skills, because the staff have received their training in subjects which are often only of marginal relevance to Egypt.

(B) Teaching methods should be reformed. For example, more emphasis would be placed on class discussion than on lectures, and on encouraging enthusiasm rather than passive acquisition of information. Greater emphasis should be placed on the development of the ability to analyse and solve practical and theoretical problems.

The teaching of accounting at universities could also benefit by the " case method" approach, while closer contacts with industry, government agencies, and other institutions of learning could also give students some sound practical experience. This can be achieved in two ways: first, through part-time teaching and open lectures by practitioners; second, by including work-experience placements as part of the college course.

(C) Advanced programmes of accounting education for post-graduates should be introduced to meet the urgent requirement for high-level accounting specialists.

Research methodology of both an inductive and deductive nature, and its linkage with other disciplines (such as economic, behavioural science, quantitative methods, information systems, etc.) must be further stimulated. The research should also be linked to the developmental aspects of accounting and auditing; while the research results should be disseminated for educational purposes.

(D) A "national academic association" should be established to study current problems and promote the development of accounting and auditing. Its aim could be to integrate theory and practice and to establish a framework of accounting and auditing theory and methodology adapted to the socioeconomic environment.

In addition, accounting groups for major industries such as oil and gas, textiles, etc. should be established, to do research, summarise past experiences to serve the

economy, investigate new requirements and problems, conduct training and refresher courses, hold seminars, and carry out regional and international exchanges and foster friendly relations with foreign organisations.

(E) The current focus is still on turning out a general accountant and there is a failure to identify distinct areas of accounting, such as management accounting, public sector accounting, and systems and procedures, for which Egypt needs qualified persons in the years ahead.

The greater functionalisation in accounting, by means of the above-mentioned specific areas, demands better coverage from educational, training, research, and other developmental points of view.

(F) In order to enhance accounting education further, it might be desirable to have an accounting manpower inventory and an accounting development plan prepared, which would set forth the needs for the various areas of accounting and auditing under its current and future five year plans. In essence, such an accounting planning framework may constitute the basis for educational feasibility studies to be submitted to international and regional development organisations. Internally, such a plan could serve as a framework for resource planning and capital investment, and help shape education under the five year socio-economic plans. Such an inventory should fit the existing and projected needs with regard to: (1) manpower development, including foreign scholarships; (2) expatriate manpower

needs; (3) teaching aids and materials; (4) building requirements; (5) research and translation funding, and (6) miscellaneous elements.

(3) Recommendations For The Enhancement of the Cost Accounting System

The Egyptian uniform accounting system was designed to fulfil certain objectives defined by the government, the most important of which is the provision of information on the efficiency of the financial management of public sector enterprises in terms of the optimum allocation of resources.

However, the study indicated that the performance of the system in fulfilling such an objectives is limited, due to several defects in its cost accounting framework. In addition, the study indicated that even the uniform accounting system, which has been in operation for more than twenty years, has not made any serious step towards developing and enforcing an effective cost system.

In order to establish an adequate cost accounting system, oriented mainly towards improvements in financial management performance, certain areas within the current framework should be tackled.

Perhaps the most obvious defect is that very little attention is given to standard costs and budgeting.

To improve management efficiency, it seemed appropriate that analysis of internal operations should include not only the analysis of operations costs, but also the comparison of these charges with planned or standard costs, the analysis

of variances, and the search for the causes of those variances. To that end, a section on the use of standard costs within a general budgeting framework should be added to the cost accounting system, defining standard costs and various types of variances, detailing their accounting treatment during and at the end of the accounting period, and giving examples of how to compute variances.

Another important point is marginal analysis. The analysis of costs into their variable and fixed elements enables companies to study a priori or a posteriori the relations between their costs, volume of production, and sales and profits. Furthermore, the analysis of costs at different stages of production allows the comparison of costs with various margins computed from selling prices. This type of analysis makes it possible to assess both the sales policy and the efficiency of management.

Transfer pricing also demands urgent consideration. There are in fact many possible solutions to this problem. It has been suggested that opportunity cost based on linear programming can be used as a transfer price; a linear programming model would incorporate all constraints and transfer price would be equal to the shadow price. The computer facilities in the public sector enterprises in Egypt would make linear programming feasible.

Another problem is the allocation of overhead costs. Overheads form part of total cost but cannot be directly

identified with a given cost unit in the way that direct costs can be. The conventional process includes defining a number of cost centres and the allocating or apportioning costs to the cost centres. Thus, via cost centre, costs are gathered together according to their incidence. The gathering together of the indirect costs results in the establishment of the overheads relating to each cost centre which is an essential preliminary to spreading the overheads over cost units. The process of apportionment, which is common for indirect costs, involves the splitting or sharing of a common cost over the receiving cost centres on some basis which is deemed to reflect the benefits received. In practice, the choice varies according to the nature of the firm's business. The basis would represent some measure of the resources to be used, e.g. direct labour hour, total machine hour, total direct cost, total variable cost, etc.. Thus, the first step is to identify the common base with which an element of cost or category of cost can be associated and an allocation rate should accordingly be established.

The process of cost allocation, although commonly used for cost ascertainment purposes, is a convention only and as such its accuracy cannot be tested. On the other hand, the allocation problem is a very serious factor which has a direct, effective, and decisive role in the determination of the total cost of a specific centre, product or service. Furthermore, the use of data which involves allocation for planning, control or decision-making purposes is likely to

give misleading results. Accordingly the management accountant must carefully analyse the methods by which cost data are prepared and make appropriate adjustments before using such data for management accounting purposes. Thus, if total allocation, is required, e.g. for pricing, then performance evaluation and decision making should be based more on other cost concepts, i.e. the distinction between variable and fixed cost, controllable and non-controllable cost and direct and indirect cost.

Thus, it would be unwise to leave the choice of allocation method in the hands of individual accountants, as they might adopt a method which does not accurately reflect performance.

On the other hand the imposition of a specific allocation method might be unfair to some centres, products or entities, whose costs could be more accurately allocated by a different method. A possible solution is to suggest more than one allocation method based on categorisation of activities within industries. This could then be made uniform throughout an industry, a public organisation or a group of companies which are similar in activities or products. It should be stressed that whatever solution is adopted there could not be absolute fairness of allocation.

Finally, responsibility accounting should also receive attention. To this end, cost centres and budgets should reflect areas of responsibility within the company, so that individuals are charged only with those costs and revenues

for which they can be held responsible. This would generate control reports reflecting the decentralisation of authority within the company.

The first priority is to distinguish between controllable and non-controllable costs. Only controllable costs should be directly charged to each level. Thus the segregation of all non-controllable costs would allow the comparison between budgeted and actual controllable costs, in order to assess managers' performance, since it reflects managers' ability to use efficiently the resources under their control.

Profit responsibility , on the other hand, starts at the company level; thus profit figures and other performance evaluation indicators are calculated at this level.

(4) Recommendations for the Enhancement of Performance Auditing

The method of performance evaluation should be a regular audit rather than an ad hoc audit. It is suggested, therefore, that it will be necessary to improve the uniform accounting system in order to provide data which is appropriate for efficiency.

The proposed public sector professional body should improve the UAS to provide information on a regular basis concerning inputs and outputs of public sector organisations and economic development targets. The body must pay more attention to the unification of cost accounting systems, particularly in public sector productive enterprises, in

which cost considerations play a major role in measuring and determining efficiency. This would enable performance auditing to benefit from the information thus provided for effective assessment of efficiency.

If the state auditor is to fulfil his responsibilities satisfactorily, the body must broaden the state auditor's skills by paying more attention to training and continuing education programmes, and pay salaries which are competitive with those offered in the private sector.

The development of accounting standards and auditing guidelines and techniques, effective training programmes, and the payment of competitive salaries, will contribute significantly to the improvement of the status of the state auditor, not only in providing skilled persons for the CAO, economic units and government agencies, but also in providing qualified staff who are able to provide the type of information needed for the economic development process and public accountability.

If the skills of state auditors are to be successfully broadened and the performance audit concept utilised in Egypt, it is necessary that the proposed professional body should learn from the experiences of other countries and be closely linked with the regional and international professional bodies concerned with government audit.

Finally, it is vital for the proposed body to adopt the publication of audit accounting reports, particularly those

of public sector entities, which should be made available to the public, so that people can understand the extent to which these entities are operating efficiently and in the public interest.

This would also increase the accountability of public sector entities and give the state auditor operational support through the participation of the public in the process of public control.

It is suggested that the arguments advanced in this study serve four purposes:

First: To draw the attention of the authorities and the accounting profession in Egypt to the important role of accounting in the socio-economic development of the country, and to show that it is the local accounting profession and further development of the UAS and the state auditor which offer the most hopeful prospects of resolving many of the most pressing problems of the country;

Second: To argue that an approach to regulate accounting, relevant to the needs of developing countries in general, and Egypt in particular, is available; an approach which utilises the knowledge and expertise of all Egyptian accountants (state and private) to bring about an overall improvement in accounting systems in Egypt within the general framework of the UAS.

Third: To stress that in the case of developing countries, where economic, socio-political, and cultural

differences tend to be not only highly pronounced, but also in a highly volatile state, the relevance of the Anglo-American approach and the international accounting standards is highly questionable.

Fourth: To indicate new areas of research regarding the status of the state auditor, value for money audit, current value accounting, accounting standard-setting in different parts of the world, the accounting information needs, and the nature of rule-making process in public sector as a major challenge for researchers.

All in all, a national professional accounting body in Egypt is needed, and steps towards establishing such a body should be undertaken immediately. This body should be organised to serve the socio-economic and social environment rather than the present Anglo-American experience. Admittedly, there will be some disputed areas in the new system, but they should not cause more difficulties than those already encountered in the past.

Methods of compiling Data

Several methods were used to gather information for this study. These included literature review, conferences, documentary sources, personal interviews, and questionnaires.

(1) Literature review

An extensive reading programme was undertaken covering books, studies, conferences papers, etc.

(2) Conferences

During the 1980's, several conferences concerning different aspects of Egyptian social and economic life have been held, many which are relevant to this study:

- (a) the annual universities' conference on the improvement of accounting education in the country;
- (b) the first and second Cairo national conferences on accounting and auditing (June 1980 and September 1987 respectively);
- (c) the first and second Cairo international conferences on accounting and auditing (December 1980 & 1986 respectively);
- (d) the second Arab Cost Association conference on the enhancement and improvement of the UAS;
- (e) the first Cairo international conference on capital market development (Capital Market Authority , May 1983);
- (f) The first Cairo Arab stock exchanges conference on accounting disclosure (Cairo, November 1987).

All of the papers presented at these conferences were collected and examined.

(3) Documentary sources

The type of documents sought were: contemporary records and reports, public reports, government documents and compilations, and annual reports.

(4) Personal Interviews

Interviews and questionnaires are limited as research devices, but they are the only research source available to investigate Egyptian accounting regulation, due to the lack of literature in this field.

The study was conducted in Egypt during the Autumn of 1987. Initial contact was made with the government institutions concerned, seeking their approval and that of the individuals chosen to be interviewed.

Time spent on each interview averaged between one and three hours. However, some individuals were interviewed more than once and some interviews extended to include the weekend holiday. In conducting the interviews, however, there were many problems. These included communication with people who either avoided being interviewed, despite formal approval from their organisation and previously agreed appointments. As a result, a planned period of ten weeks to carry out the whole survey in the capital and some local cities actually extended to four months.

Interviews and questionnaires were conducted with members of the Special Permanent Committee, who have played an important role in setting and reviewing the UAS, and with members of the CAO, financial managers of the Petroleum Companies, accounting firms, academics, Chartered accountants, the Egyptian Institute Technical Committees, and some government officials (see appendix 1.3).

Different accounting issues were used as a basis for the discussion in conducting personal interviews.

1. background history;
2. the accounting profession;
3. accounting education;
4. the uniform accounting system;
5. accounting and auditing standards;
6. the role of the Egyptian Institute in the accounting standard-setting process;
7. the role of state organisations in the economy;
8. the role of the private sector in the economy;
9. accounting skills employed in each of the state organisations, accounting education institutes, the private sector, and the CAO;
10. perception of accounting in Egypt;
11. foreign and other influences on Egyptian accounting;
12. laws regarding accounting, taxation, companies, banks, and the capital market ;
13. the role of the UAS;
14. the role of the Central Accounting Organisation as a

- government professional body;
15. the contribution of Egyptian academics to, and their use of, accounting literature and research;
 16. auditing in Egypt (for both the private and public sectors);
 17. users of accounting information in Egypt;
 18. the applicability of international accounting standards to Egypt;
 19. the need for a strong professional accounting body in the country and the form and authority of that body;
 20. the role of the government in setting accounting standards.

INTERVIEW TECHNIQUES

1. Types of Interview Technique

There are two broad categories of interviews: standardised and non-standardised.

Standardised interviews are structured, and are used when the same information is to be collected from each respondent. They involve advance specification of all items of information sought. Answers of all respondents deal with precisely the same subject matter in order to be comparable and classifiable.

Two forms of interview can be used to obtain standardised information: the scheduled and the non-scheduled standardised interview. The former involves asking identically-worded questions in their prescribed sequence to produce a response which is comparable. The second form of interview requires the interviewer to have a clear understanding of the classes of information sought so as to formulate each question in a wording that will ensure equivalence for all respondents. There is no fixed sequence of questions: the interviewer has to select the most effective sequence for each respondent as determined by his readiness to respond to each topic.

Non-standardised interview includes interview types not covered in the above category. No attempt is made to obtain

the same classes of information from every respondent, since each may have a very different contribution to make, depending on his position with respect to the problem under study.

This type of interview can be used for several purposes such as exploring and developing concepts, and describing phenomena. It can also be used to help explain an unexpected research finding, or to explore new issues uncovered in the course of a study.

2. Selected Interview Techniques

Since each respondent's potential contribution to the subject under study was to be different, a nonstandardised type of interview was indicated for this study. The information required from each respondent was carefully determined prior to the interview. The library survey phase helped to identify the key individuals to be interviewed, and provided the classes of information to be sought from each of them.

3. Problems Related to Interviews

An awareness of some possible bias deriving from the interviewer, as well as the respondent's potential reactions in the interview situation, helped in conducting interviews and interpreting results.

The interviewer's own opinions, when communicated to the respondent, can alter his response; they can bias questioning or recording of answers. Special beliefs and

perceptions about the respondent may arouse in the interviewer expectations about how his respondent will answer questions and what sort of answers he will provide. This, in turn, will affect questioning, probing, and recording of answers. In general, the interviewer may falsely expect internal consistency in the replies of the respondent through the interview. The interviewer's belief that certain attitudes occur in individuals who are members of a given group will influence his expectations about respondents' answers. The interviewer can be biased by prior expectations about prevailing popular sentiment on prominent issues.

The degree of respondent participation in the interview is influenced by his understanding of the purpose of the interview, his desire to help, his previous experience of interviews, his time constraint, his interest in the subject of inquiry, and the emotional and intellectual satisfaction derived from the interview. Fear or suspicion of interviewers is frequently encountered. Group membership disparities between interviewers and respondents such as class, sex or residence can also affect the respondent's answers.

NUMBER OF PERSONNEL INTERVIEWED AT
DIFFERENT PRIVATE, GOVERNMENT INSTITUTIONS
AND ORGANISATIONS IN EGYPT

ORGANISATIONS	NOs
1. Egyptian Universities	15
2. Central Accounting Organisation	15
3. Capital Market Authority	2
4. Cairo Stock Exchange	2
5. Ministry of Finance	3
6. Central Bank of Egypt	2
7. National Bank of Egypt	2
8. Ministry of the Economy	3
9. Ministry of Planning	1
10. Accounting Firms & CAs	15
11. Egyptian General Petroleum Corporation	6
12. General Petroleum Company	6
13. Gulf Petroleum Company	2
14. Tax Authority	1
Total	75

SUMMARY OF QUESTIONNAIRE RESPONSES

Groups	QM*		QR+		RR++
	No.	%	No.	%	%
1. Academics	30	17.1	10	16.7	33.3
2. Chartered Accountants & Accounting Firms	65	37.2	27	45.0	41.5
3. CAO Members	50	28.6	14	23.3	28.0
4. Government Officials	30	17.1	9	15.0	30.0
Total	175	100.0	60	100.0	34.3
Overall Response Rate = 34.3 %					

* QM Questionnaires mailed or distributed

+ QR Questionnaires Returned

++RR Response Rate

NAMES, POSITIONS, AND ADDRESSES
OF INTERVIEWEES

(1) Central Accounting Organisation

No.	Names	Positions and Addresses
1	MR. F.A.Fahmy	Undersecretary of the CAO for National Assembly & Member of the SPS
2	Mr. S.A. Hassan	Undersecretary of the CAO for Financial Control & Member of the SPC
3.	Mr. M.M. El-Gazar	Under Secretary of the CAO for Implementing and Following-up the Economic Development Plan & Member of the SPC
4.	Mr. S. Yousef	Undersecretary of the CAO for Auditing and Controlling Petroleum Sector Companies & Member of the SPC
5.	Eng. G. Saad	Member of the Technical Office of the President of the CAO
6.	Mr. B. A. Saad	Senior Auditor at the Central Department of the Petroleum Industry
7.	Mr. M. F. El-Shan	Undersecretary of the CAO for Public Sector Enterprises-Branch 1
8.	Mr. M. Bkhiet	Chief Accountant at the Second Central Department for the Petroleum Sector
9.	Mr. R. Amin	Chairman of the UAS Section
10.	Mr. M.S. Mohamed	Controller of the UAS Section
11.	Mr. A.A. El-Rfai	Chairman of the Technical Office for Controlling Public Sector units
12.	Mr.S. Refatt	Undersecretary of the CAO for the Third Central Department for Controlling Public Sector Units
13	Mr. M. A. Hema	Chairman of the Technical Training Sector

- 14 Mr. E. Hamada Undersecretary & Chairman of the Second Central Department for Controlling Public Sector Units
- 15 Mr. E. M. Ghaith Deputy-chairman of the Foreign Trade Department
-

(2) Government Officials

- 1 Mr. M. Abdel Aziz Deputy Chairman of the National Bank of Egypt
- 2 Mr. A. Abdel Hamied General Manager & Member of Board of Directors, National Bank Of Egypt
- 3 Mr. M. Bader General Manager of Economic Research Department at Central Bank Of Egypt
- 4 Mrs. F. Fahmy Manager of Domestic Economic Department, Central Bank of Egypt
- 5 Dr. A. Salem First Undersecretary of the Ministry of Finance
- 6 Mrs. S. Hamdy Government Auditor at the Ministry of Finance, Petroleum Sector
7. Mr. F. Khandiel Chairman Of Chartered Accountants Registration Unit, Ministry of Finance
8. Dr. A. Sorour First Undersecretary, Ministry of Economy
- 9 Mr. F. Bekhiet Undersecretary for Economic Information & Statistics, Ministry of Economy
- 10 Mr. B. Tawfiek General Manager Of Information, Statistics and Economic Research Department, Ministry of Economy
- 11 Dr. M. Fag El-Nour Chairman of the Capital Market Authority
- 12 Mr. A. Ibrahiem Chairman of the Financial Operations Sector, the CMA
- 13 Dr. M. Hamid Chairman of the Cairo Stock Exchange

14	Mr. A. A. Mahrous	Secretary _ general & economic consultant of the Cairo Stock Exchange
15	Mr. S. El-Hosainy	Customs Officer; General Tax Authority
16	Mr. F. Saleh	Tax officer; General Tax Authority

(3) Chartered Accountants and Accounting Firms

No.	Names	Position
1	Mr. H. M. Hassan	Partner of Hassan & Co.
2	Mr. H. Raghieb	Partner of Raghieb & El-Gamal & Co.
3	Mr. M. Shawki	Partner of Arthur Andersen; Shawki & Co.
4	Dr. A. Shawki	Partner of Shawki & Co.
5	Mrs. H. Shawki	Chartered Accountant.
6	Mr. H. Samy	Partner of Z. & H. Hassan & Co. (Partners of Peat Marwick, Mitchell & Co.)
7	Mr. M. Yahia	Partner of Z. & H. Hassan & Co.
8	Mr. Al. Shahawi	Partner of Shahawi & Co. (partner of Price Waterhouse).
9	Mr. F. S. Mansour	Partner of Mansour & Co. (Partner of Coopers & Lybrand).
10	Mr. M. Wissa	Partner of Wissa & Zarrouk & Co. (Partners of Arthur Young).
11	Mr. M. Zarrouk	Partner of Wissa & Zarrouk & Co.
12	Mr. S. Barsoum	Partner of Barsoum & Abdel Aziz Co. (Partners of Binder Dijker Otte & Co.).
13	Mr. A. Abdel Aziz	Partner of Barsoum & Abdel Aziz & Co.
14	Dr. M. El-Gezairy	Partner of El-Gezairy & Co.
15	Mr. S. A. Saad	CA, Magdy Hashish & Co.

(4) Petroleum Sector

No.	Names	Position
1	Mr. A. Abdel Aziz	Deputy Chairman for Financial & Economic Affairs; General Petroleum Authority (E.G.P.C).
2	Dr. M. Shawkat	Deputy Chairman of the EGPC for Economic and Statistical Information.
3	Mr. A. Mansour	Legal Consultant of the President of the EGPC.
4	Mr. M. Ashour	General Manager of Finance & Bank Transactions, EGPC.
5	Mr. H. Kopitan	Chairman of Financial Sector of Foreign Oil & Gas Producing Companies, EGPC.
6	Mrs. S. Hafiz	General Manager of Financial Sector of Foreign Oil and Gas Producing Companies, EGPC.
7	Mr. A. Radwan	Financial Manager & Member of Board of Directors, Gulf Petroleum Co. (GUPCO).
8	Mr. M. Abu El-Futuh	Chairman of General Accounts & Cost Accounts Department, GUPCO.
9	Mr. K. Yousef	Cost Accountant, GUPCO.
10	Mr. A. Abbas	Financial Manager & Member of Board of Directors, General Petroleum Company (GPC).
11	Mr. A. El-Dousoky	General Manager of Cost Accounts Department, GPC.
12	Mrs. S. Hasobah	Manager of Budgeting Department, GPC.
13	Mrs. S. Ibrahim	Cost Accountant, GPC
14	Mr. S. El-Sabongy	General Manager of Financial Accounts Department, GPC

(5) Academics

No.	Names	position
1	Pro. Dr. M. B. Abdel Motal	Ex-president of Monufia University & Prof. of Accounting; Helwan Uni.
2	Prof. Dr. M. A. Hegazzy	Head of Accounting Depart., Ain Shams Uni. & Member of the Auditing Committee
3	Prof. Dr. A. M. Shady	Prof. of Accounting, Ain-Shams Uni. & Member of the SPC
4	Dr. Y. Abu Talb	Associate Prof. of Accounting, Ain Shams Uni.
5	Dr. M. Gohar	Lecturer in Accounting, Ain Shams Uni.
6	Prof. Dr. A. Mahmoud	Prof. of Auditing, Cairo Uni. & Executive Manager of the Egyptian Institute
7	Prof. Dr. H. Sharaf	Prof. of Auditing, Cairo Uni. & Chairman of Auditing Committee
8	Dr. A. M. Awadallah	Associate Prof. of Accounting, Cairo Uni. & Member of the Accounting standard Committee
9	Prof. Dr. M. R. Mustafa	Ex-prof. of Accounting, Cairo Uni.
10	Prof. Dr. A. S. Osman	Head of Accounting Department, Mansura Uni.
11	Prof. E. El-Shiekh	Prof. of Accounting, El-Azhar Uni. & Member of the SPC
12	Prof. Dr. A. Fadalah	Ex-prof. of Accounting, El-Azhar Uni.
13	Prof. Dr. B. Hosny	Head of Accounting Department, Zagazeg Uni.
14	Prof. M. M. El Gazar	Prof. of Accounting, Ain Shams Uni.
15	Dr. T. Arafah	Lecturer of International Marketing, Monufia Uni.

QUESTIONNAIRE**First: Authority of Accounting Standards**

1. Is there a Companies Act or other statute which specifies:

- Accounting principles
 Disclosure requirements
 Audit report requirements
 Audit guidelines and procedures

Yes No

2. If your answer to question 1 is yes, to any of these:

What is the statute(s)?

Are the requirements of the statute(s) enforced? If yes, how?

3. Does any professional body in the country issue authoritative pronouncements on:

- Accounting principles.
 Disclosure requirement.
 Audit report requirements.
 Audit guidelines and procedures.

Yes No

4. If not, do you think more regulation of accounting practice in Egypt is needed?

Yes No

5. If your answer to question 4 is yes, please specify (from the following and others) what you consider to be the most appropriate procedure to regulate the accounting profession in Egypt?

- law and statute;
 the formation of an independent professional body with authority to develop accounting standards in Egypt;
 the creation of a professional body of government accountants and auditors based upon a series of highly relevant examinations would greatly enhance the development of accounting regulation in Egypt;
 others (please specify) _____

6. Do you think that government should be involved in the effort to regulate the accounting profession in the country?

Yes No

7. If your answer to question 6 is yes, how can the government be involved? (You may indicate more than one reason).

- by providing financial support only;
- by providing effective accounting legislation only;
- by providing financial support and effective accounting legislation;
- by establishing a semi-independent agency responsible for advancing accounting practice;
- others (please specify) _____

Second: Social and Professional Status of Accounting in Egypt

8. The following are some of the most widely stated characteristics which sociologists give to what they term as "true" professions. Please indicate what, in your opinion, is the value of each attribute in the process of accounting professionalisation in Egypt.

- * **A necessary service**
True professions offer essential services to society.
- * **A body of knowledge**
True professions are based on a body of knowledge which is formulated in a systematic theory or theories; a developed intellectual techniques.
- * **A well-established educational process**
True professions need a well-established educational process which can impart the required body of knowledge.
- * **A formal testing system**
Admission to true professions is always granted through a formal, standardised testing system.
- * **A public and formal recognition**
True professions always receive public recognition and the formal recognition of the Government.
- * **A code of professional ethics**
True professions have codes of professional ethics, sometimes written and sometimes unwritten, which govern the relationship of the professional with his colleagues, clients and other external parties.
- * **A professional association**
True professions establish professional associations which facilitate colleague relations

and communications and most important, develop and maintain the status of the profession by establishing standards of admission and professional conduct.

* **A native ability**

Professionals need to have certain personal qualities and mental skills such as analytical ability.

* **Research**

True professions need for their continuous progress and development, diligent study and exhaustive research.

* **Growth of services**

True professions always expand their scope by offering new or more developed services, either by using new techniques and improved methods or by inventions and discoveries.

9. From your point of view, is the accounting profession in Egypt today recognised as a true profession?

- very highly recognised
- highly recognised
- moderately recognised
- slightly recognised
- not recognised at all
- do not know

10. If you think that the accounting profession in the country is not recognised as a true profession, which of the following reasons, do you believe, explain why the accounting profession in Egypt has such low public prestige and image. (You may indicate more than one reason).

- People in Egypt are not yet aware of the necessity and value of public accounting in society
- Public accountants in the country are not keen to establish a higher public understanding and prestige by strengthening their professional status.
- Government laws and regulations.
- the rapid development of the state-owned and state-controlled sectors.
- educational programmes for local accountants, especially at universities.
- the weakness of the capital market in Egypt.
- other (please specify) _____

11. Please put x beside each of the following professional services which you believe that public accountants provide to their clients at the present time in Egypt.

- book-keeping
 - preparing financial reports
 - auditing
 - tax services
 - solvency and liquidations
 - management services
 - legal and professional services
 - systems design and installation
 - other services (please specify) _____
12. Do you think that the introduction of the recent measures will enhance the professional and social status of the accounting profession in Egypt?

Yes No Do not know

13. If yes, why do you think this? (You may indicate more than one reason).

- because they are the first such measures to organise the accounting profession in Egypt as a true profession.
- because they show the Government's formal recognition of public accounting as a profession.
- other (please specify) _____

Third: Licensing Requirements

14. Do you practice public accounting in Egypt?

Yes No

15. If yes, were you required to sit for an examination before you received your present licence to practise public accounting in Egypt?

Yes No

16. If your answer to question fifteen is yes, do you think the examination was adequate?

Yes No

17. If your answer to question sixteen is no, why do you think the examination was inadequate? (You may indicate more than one reason).

- because it did not cover all the necessary subjects
- because it was not up-to-date
- because it was too long
- because it was so easy that it could not be used as an indicator of the candidate's competence in accounting and related subjects.

other reasons (please specify) _____

18. In general, do you think that the current licensing requirements introduced in the 1953 law of chartered accountants are;

- very appropriate.
- appropriate
- reasonable.
- inappropriate
- totally inappropriate

19. If you think that the current licensing requirements are inappropriate, please indicate why do you think so. (You may indicate more than one reason).

- because they are less in quality than they should be
- because they are very restricted and complicated and do not take into consideration the social needs of the country.
- because they are vague and subjective in many areas.
- other reasons (please specify).

20. In your opinion, which of the following would be the best arrangement for establishing licensing requirements in Egypt?

- requirements set out and handled by a professional body which should be formed as an independent and private body.
- requirements set out and handled by a professional body which should be formed as an independent private body operating under the supervision of the Ministry of Finance.
- requirements set out and handled by a professional body which should be formed as a separate Government Agency.
- other arrangements (please specify) _____

21. Do you think that the practical training period required under the current requirements is adequate?

- Yes No

22. If your answer is no, please indicate why (You may indicate more than one reason).

- because it is too long and it should be shorter
- because it is too short and it should be longer to permit the candidate to acquire the necessary experience
- because it differs according to the degree each

candidate holds, and I believe that it should be
 the same for all candidates regardless of their
 degrees
 other reasons (please specify) _____

23. Do you think that regarding experience in fields other than public accounting in lieu of practical training in a public accounting firm is an acceptable arrangement?

Yes No

24. If your answer to question 23 is yes, why do you think so? (You may indicate more than one reason).

because I believe that experience in fields other than public accounting is an adequate substitute.
 because Egypt needs more professionals and by restricting training to public accounting offices we are limiting the number of professionals who could become public accountants.
 other reasons (please specify).

25. If your answer to question 23 is no, why do you think that such an arrangement is unacceptable? (You may indicate more than one reason).

because I believe that experience in fields other than public accounting is not equivalent to training in a public accounting firm and it does not provide the candidate with the experience and skills needed for practising public accountancy
 because such arrangements would result in a large number of individuals who become public and chartered accountants without having the proper training, which would accordingly damage the standing of the accounting profession in Egypt.
 other reasons (please specify) _____

Fourth: Professional Ethics

26. Do you think that the current legislation concerning the accounting profession in Egypt deals sufficiently with the subject of professional ethics?

Yes No

27. If no, why do you think so? (You may indicate more than one reason).

because current legislation deals only with a few aspects of accountants' professional ethics while

some important issues are not dealt with at all.
 because the articles which covered these few
 aspects of professional ethics are too vague and
 unspecific.
 other reasons (please specify) _____

28. Would you suggest the adoption and enforcement of a written code of professional ethics in Egypt?

Yes No

29. If your answer is no, please indicate why? (You may indicate more than one reason).

because written codes of professional ethics are not always necessary for true professions.
 because I strongly believe in professional self-discipline.
 because such a written code of professional ethics will not be the cure to the ethical problems public accountants face in the country.
 other reasons (please specify) _____

30. If your answer to question 28 is yes, which of the following alternatives do you think should be taken in adopting and enforcing a written code of professional ethics in Egypt?

a written code that is prepared and enforced by the Ministry of Finance.
 a written code that is prepared by the accounting profession and enforced by the Ministry of Finance.
 a written code that is prepared and enforced by the accounting profession.
 other arrangements (please specify) _____

Fifth: Accounting and Auditing Standards

31. In your opinion, do existing accounting practices in Egypt need to be improved?

Yes No

32. If your answer to question 31 is yes, please indicate which of the following areas should be given more consideration in establishing or improving the accounting system:

assessment of the information needs by decision-makers (the enterprises, government and national accounting sectors).
 concentration on management audit rather than

- traditional audit.
- concentration on management accounting rather than financial accounting.
- concentration on the definition and measurement of efficiency.
- concentration on public sector accounting rather than private sector accounting.

33. Please specify to what extent we need uniformity in accounting in Egypt?

- Absolute uniformity
- Uniformity within each sector
- Uniformity within each industry
- Other possibilities (please specify) _____

34. Do you think that the accounting profession in Egypt should establish its own accounting standards?

- Yes No

35. If your answer to question 31 is yes, why do you think so?

- because the establishment and use of uniform accounting standards is very useful for reasons of comparability between the reports of various companies.
- because the establishment of uniform accounting standards provides accountants with handy rules that greatly help them in carrying out their daily work more efficiently.
- because the current practice of applying a variety of accounting standards in the private sector might lead to the occurrence of financial panics.
- other reasons (please specify) _____

36. Do you think that Egypt should adopt the international accounting and auditing standards produced by the IASC?

- Yes No

37. If your answer to question 36 is no, why do you think that Egypt should not adopt the IAS? (You may indicate more than one reason).

- because I believe that these standards are not suitable for the economic, social and political conditions of Egypt.
- because Egypt still does not have a sufficient

- number of qualified accountants who can interpret and properly apply these standards.
- because most members of the IASC have not yet enforced these standards in their own countries.
- because Egypt has a uniform accounting system relevant to its environment and can apply this system to private sector enterprises.
- other reasons (please specify) _____

38. Do you think that the absence of uniform auditing standards in Egypt has resulted in lack of credibility for accounting reports ?

Yes No

39. Do you think that Egypt should participate in the work of the international Federation of Accountants (IFAC) in developing and encouraging the use of International Auditing Guidelines?

Yes No Do not know

Suggestion

40. Please indicate the extent to which you agree or disagree with the following suggestions which are proposed to advance accounting practices in Egypt:

(A) The creation of a *NATIONAL PROFESSIONAL ACCOUNTING BODY* for accountants and auditors (state and private) responsible for the development of accounting and auditing standards. The Body should be organised in such a manner as to be able to:

1. Promulgate general accounting and auditing standards;
2. issue accounting standards for the public sector and also issue official pronouncements for the government auditor;
3. Encourage universities to provide training and to provide recognition at different levels of training;
4. Conduct effective research programmes in accounting;
5. Set a standard certificate of examination;
6. Issue recommendations for specific controversial issues in accounting and auditing;
7. Develop a code of professional ethics.

(B) The MEMBERSHIP of the BODY should be chosen from:

1. Some leading figures in academic accounting;
2. The Central Accounting Organisation;
3. The Egyptian Society of Accountants and Auditors;
3. The Ministry of Finance
4. The Ministry of Planning;
5. The Central Bank of Egypt;
6. The Capital Market Authority;
7. The Stock Exchange;
8. Public Accounting Firms;
9. The Business Community;
10. Representatives of Public Sector Enterprises

(C) The Authority of the Body should stem from the Law or the Statute.

(D) The Body should be attached to the Egyptian Parliament and financed mainly by the government.

INFORMATION PROVIDED BY EGYPTIAN
PUBLIC ENTERPRISES TO THE MINISTRY
OF PLANNING-SPECIMEN

TABLE 7.1.1
The Current operating & Profit and Loss Accounts

Revenues from Normal operations:			Wages :		
			"		
Production at selling prices:			Monetary wages		xxx
			Wages in kind		
Net Sales of finished production	xxx		Social securities		
Changes in inventories-at cost					
Changes in inventories-changes in value of differences between beginning & ending finished goods	xxx		General expenditure:		
Revenue of works sold to others	xxx		Raw material used		
Revenue from services sold to others	xxx		Services acquired		
Purchases of finished goods			Purchases for sales purposes		
Purchased for sale:			Current transferred expenditure:		
			Custom duties		
Net sales			Production excise		
Changes in inventories- at cost			Other taxes		
Changes in value of the differences between beginning and ending inventories.			Depreciation:		
Subsidies:			Building & construction		
			Machinery & equipment		
production			Transportation facilities		
export			Tools		
			Furniture		
			Animals		
			Deferred revenue expenditure		
			Actual rent		
			Variance of imputed rent		
			Local interest		
			Foreign interest		
			Variance of imputed interest		
			Valuation difference of finished		
			Production inventory		
			Variation difference of goods		
			Purchased for sale		
Deficit of Current Operations			Surplus of Current Operations		
	xxx				xxx

(continued)

Surplus of Current Operations		Deficit of Current Operations	
(B/F)		(B/F)	
Transferred Revenues:		Current Transfers:	
Interest earned		Gifts	
Rents earned		Contribution to others	
Prior years' revenues		Fines	
Fines earned		Capital losses	
Capital gains		Prior years' expenses	
Other revenues		Bad debts	
Variance of imputed rent		Allowances (not for depreciation)	
Variance of imputed interest		Rates	
		Income taxes	
Deficit (carried forward)		Surplus (carried forward)	
Surplus (brought forward)		Deficit (brought forward)	
		Retained surplus	
		Legal reserve	
		Reserve for government' bonds	
		Reserve for renewal & expansion	
		General reserve	
		Reserve for repayment of government	
		Contribution	
		Reserve for increase in assets	
		Prices	
		Other reserves	
		Distributed surplus:	
		Employees	
		State	
		Shareholders	
		Others	
Current deficit			

TABLE 7.1.2

Statement of the Sources and Uses of Funds

Sources	LE.	Uses	LE.
Self Finance :		Investment Uses:	
Legal reserve		Gross capital formation :	
Reserve for government' bonds		Land improvement	
Reserve for renewal & expansion		Building construction	
General reserve		Equipment	
Reserve for repayment of		Transport facilities	
government contribution		Tools	
Reserve for increase of asset		Furniture	
prices.		Animals & marine resources	
Other reserves		Deferred revenues expenditure	
Surplus			
			xxx
Provisions:			
Provision for disputed taxes		Stocks:	
Doubtful debt provision		Commodities requirements	
Other provisions		Unfinished goods and w.i.p.	
	xxx	Finished goods	
		Goods held by others	
		Goods for sale	
Cost of assets sold			
Decrease in stocks:			xxx
Commodities requirements			
Unfinished goods and w.i.p.		Taxes and customs on capital	
Finished goods		formation	
Goods held by others		Taxes and customs on stock	
Goods for sale			
			xxx
		Projects in progress:	
		Commodities formation	
		Investment expenditure	
	xxx		
		Total of investment uses	xxx
Decrease in long-term lending		Capital transfers:	
Decrease in profits		Purchase of second hand assets	
Decrease in account		Land(price paid for the	
Receivables and cash :		purchase of land)	
Notes recievable			
Various debtors			xxx

(Continued)

Other debtors		Long-term lending:	
Current & appropriated revenue		_____	
receivable		Financial investment;	
Decrease in cash and at bank		Investment in government	
		securities	
		Investment in local portfolios	
		Foreign investment	
	xxx	Total	xxx
<u>Loans & government contributions</u>		<u>Account receivable:</u>	
Long - term loans:		Accounts receivable	
Local		Notes receivable	
Foreign		Miscellaneous debtors	
Government contributions		Various debtors	
		Other debtors balances	
		Current & appropriated revenue	
		receivable	
	xxx		xxx
<u>Accounts payable and banks:</u>		<u>Payment of long-term loans:</u>	
Banks - creditors		Local	
Suppliers		Foreign	
Notes payable			
Various creditors			xxx
Different creditors			
Other creditor balances			
Current & appropriated expense			
payable			
	xxx		xxx
		Cash and at Banks:	

		Decrease in accounts payable:	
		Credit bank	
		Creditors	
		Different creditors	
		Other balances	
		Current & appropriated expenses	
		payable	
			xxx
		Decrease in provisions &	
		reserves	
		Current deficit	
Total	xxx	Total	xxx

TABLE 7.1.3

Employment and Actual Wages

Categories of Employees	No.	Monetary Wages	Wages In-kind	Social Security	Total
Managerial & Technical					
Workers					
Total					

Information Provided by Egyptian Public
Enterprises to the Ministry of Finance_
Specimen

Sector :
 Organisation :
 Company :

Table 7.2.1
 Balance Sheet - /- /-

ASSETS	1989	1988	% of each Asset to Total
11 Fixed Assets:			
111 Land			
112 Buildings, roads, & other facilities			
113 Machinery & equipment			
114 Transportation facilities			
115 Tools			
116 Furniture & fixture			
117 Animal & marine resources			
118 Deferred expenses			
12 Projects under construction:			
121 Payments for partial completion			
122 Advance payments			
13 Inventory:			
1311 Raw materials			
1312 Fuel			
1313 Spare parts & supplies			
1314 Packing & wrapping materials			
132 Work in process			
133 Finished product			
134 Merchandise on consignment			
135 Merchandise for sale			
136 Credit letters for imports			
14 Long term lending:			
141 National			
142 Foreign			

15	Investment in securities:			
151	Government bonds			
152	National			
153	Foreign			
16	Debtors :			
161	Accounts receivable			
162	Notes receivable			
163	Miscellaneous debtors			
17	Various debtors:			
171	Various debtors			
172	Other debtor balances			
173	Current & appropriated revenue receivable			
18	Cash:			
181	Cash on hand			
182	Bank-demand deposits			
183	Bank-time deposits			
228	Deficit forwarded (if any)			
Total of Assets				
21 Capital:				
211	Own capital			
212	Government share (repayable)			
22	Provisions and surplus forward			
221	Legal provision			
222	Provision for investment in government bonds			
223	Provision for renewal & expansion			
224	General provision			

225	Provision for government share (repayable)			
226	Provision for rising prices of assets			
227	Other provisions			
228	surplus forward			
23	Allowances:			
231	Allowance for depreciation			
232	Allowance for contingent taxes			
233	Allowance for bad debts			
234	Other allowances			
24	Long term loans:			
241	National			
242	Foreign			
25	Creditor banks:			
251	Overdrawing acct.			
252	Secured short term loans			
253	Loans against credit letters			
26	Creditors:			
261	Suppliers			
262	Notes payable			
263	Miscellaneous creditors			
264	Distribution payable			
27	Various creditor accounts:			
271	Various creditors			
272	Different creditors			
273	Other creditors balances			
274	Current & appropriated expenses payable			

Sector :
 Organisation :
 Company :

Table 7.2.2
 Balancing of the Current Operations
 for the Financial Year / /

The Current Uses				
Actual	Estimated	Acc.		Statistical code
% Despatched		[code]	Detail	Accounting to the
L.E.				State Budget
				[part group section]
		31	Wages:	1
		311	Monetary wages	1
		312	Wages in kind	2
		313	Social security	3
			Total of part (1)	
			Current Expenses :	2
			Group 1:	
		32	Commodity Requirements	1
		321	Raw materials	1
		322	Fuel and oil	2
		323	Accessories	3
		324	Packing materials	4
		326	Stationery	5
		327	Water and light	6
			Total of group 1	
		34	Group 2:	
			Purchases for Sale:	2
		341	Local	1
		342	Foreign	2
			Total of Group 2	

(continued)

		33	Group 3:				
			Services Acquired:		3		
		331	Maintenance expenses			1	
		332	Production expenses				
			carried by other suppliers			2	
		333	R & D			3	
		334	Advertising & publicity			4	
		335	Cost of transport			5	
			Cost of hired equipment			6	
			Cost of departmental services			7	
			Various services expenses			8	
			Total of Group 3				
		35	Group 4:				
			Current transfers expenses:		4		
		351	Taxes & commodities customs			1	
		352	Depreciation			2	
		353	Rent			3	
		354	Difference in changes of				
			value of inventories			4	
		355	Local interest			5	
		356	Foreign interest			6	
		357	Variance of imputed interest			7	
		358	Finished products			8	
		359	Other current transferred				
			expenses			9	
			Total of Group 4				
			Group 5:				
			Current allocated transfers				
			expenses:				
		36	Specified		6		
		361	Donations			1	
		362	Subsidies			2	
		363	Compensation & fines			3	
		364	Capital losses			4	
		365	Prior year's expenses			5	
		366	Bad debts			6	
		367	Provisions other than				
			depreciation			7	
		368	Rates			8	
		327	Surplus C/F			9	
			Total of Group(5)				

(continued)

		Group 6:			
		Surplus from Current			
		Operations:		6	
		220 Income taxes :			1
		221 Legal reserve			2
		222 Reserve for government bonds			3
		223 Reserve for renewal &			
		expansion			4
		224 General reserve			5
		225 Reserve for repayment of			
		government contribution			6
		226 Reserve for increase in			
		asset prices			7
		227 Other reserves			8
		228 Surplus C/F			9
		Distributed Surplus:			

		264 Employees			10
		264 Organisation			11
		264 Shareholders			12
		264 Remuneration			13
		264 The Social Bank of Nasser			14
		Total of Group (6)			
		Total of Part (2)			
		Total of Part (1)			
		Total of Current Uses			

TABLE 7.2.4
The Current Revenues

Actual	Estimated	Acc.		Statistical code
%	Received	Code	Detail	According to the
				State Budget
				Part Group Section
			Current Revenue & Transfers: (A)	2
		41	Group (5):	
			Revenue from Normal Operations:	5
		411	Production	1
		418	Goods for sale	2
		412	Various revenues	3
			Total of Group (5)	
		42	Group (6):	
			Subsidies:	6
		421	Production subsidy	1
		422	Export subsidy	2
		423	Other	3
			Total of Group (6)	
		43	Group (7):	
			Revenue from portfolios:	7
		431	Profit of financial paper	1
		432	Bonds and loans interests	2
		433	Other	3
			Total of Group (7)	
		44	Group (8):	
			Current Transferred:	8
		441	Interest receivable	1
		442	Rent	2
		443	Capital profit	3
		444	Prior years' revenue	4
		445	Compensation and fines	5
		446	Other revenues	6
		447	Imputed rent	7
		448	Variance of imputed rent	8
			Total of Group (8)	
			Group (9):	
			Deficit of Current	
			Operations:	9
		228	Deficit C/F	1

(continued)

			Total of Group(9)				
			Total of Part(2)				
			Total of Current Revenue				
			Capital Revenues:(B)				
			Self Finance :	5			
		221	Legal reserve			1	
		222	Reserve for government bonds			2	
		223	Reserve for renewal &				
			expansion			3	
		224	General reserve			4	
		225	Reserve for repayment of				
			government contributions			5	
		226	Reserve for increase in asset				
			prices			6	
		227	Other reserves			7	
		228	Surplus C/F			8	
		231	Depreciation provision			9	
		234	Other provisions			10	
		(117)	Cost of assets sold			11	
		(118)	Other reserves			12	
			Total of Part(5)				
			Contribution:	6			
			Loans:				
			External loans			1	
			Local loans			2	
			Total of part 6				
			Surplus self- finance of				
			Companies:	9			
		16/17	Decrease in Accounts				
			receivable for others			1	
		26/27	Increase in accounts payable				
			to others			2	
		25	Banks - Credit other capital			3	
			Total of Part (9)				
			Total of Capital Revenue (A)				
			Total of Current Revenue (B)				
			Total Revenue (A + B)				

Table 7.2.5
Capital Budget

Actual	Estimated	Acc.	Detail	Statistical Code		
* Received		Code		Accounting to the	State Budget	
				Part	Group	Section
			Investment Uses	3		
			Capital Transfers:	4		
		14	Long-term lending			1
		214	Long-term loans repaid local			2
		242	Long-term loans - foreign			3
		122	Payment in advance for			
			investment			4
		15	Financial investment			5
		(131)	Increase in investments			6
		(136)				
		(16/17/	Increase in accounts			7
		18)	receivable & others			
		(26/27)	Decrease in accounts payable			
			and others			8
			Other current transfers &			9
			capital expenses			
		281	Deficit of current			
			activity C/F			10
			Total of Capital Uses (A)			
			Total of Current Uses (B)			
		(131)	Capital transfers revenue	10		
		(136)	Decrease in inventories			

**Present Grouping of Public Organisation and their
Affiliated Units Under Ministries in Egypt.**

	Number of Companies	Employees	Wages & Salareis
1- Ministry of Industry:			
Public Egyptian Organisation for:			
a) Food Industries.	21	94	1.3
b) Spinning and Weaving Industries	30	342	35.1
c) Chemicals and Pharmaceuticals	26	66	11.5
d) Basic Metal Industries.	30	126	22.1
e) Mines & Heat Insulating Material	9	24	43.9
	116	652	113.9
2-Ministry of Electricity and Energy:			
Public Egyptian Organisation for:			
a) Electrical Industries.	11	45	43.3
Total	11	45	43.3
3- Ministry of Agriculture			
Public Egyptian Organisation for:			
a) Agriculture Companies.	41	29	21.2
	41	29	21.2
4- Ministry of Tourism & Civil Aviation:			
Public Egyptian Organisation for:			
a) Tourism and Hotels.	5	10	11.8
b) Egypt Airlines.	1	11	52.1
Total	6	21	63.9
5- Ministry of Health:			
Public Egyptian Organisation for:			
a) Drug and Medical appliances.	11	25	40.3
Total	11	25	40.3
6- Ministry of Economy & Foreign Trade:			
Public Egyptian Organisation:			
a) Foreign Trade Companies.	13	24	26.1
b) Insurance Companies.	4	10	28.4
c) Cotton Companies.	2	19	26.4
Total	19	53	80.9

(continued)

7- Ministry of Defence & Military production Public Egyptian Organisation for:			
a) Military Factories.	15	51	79.1
Total	15	51	79.1
8- Ministry of Transportation and Communication: Public Egyptian Organisation for:			
a) Domestic Transportation.	16	48	52.1
b) Communication.	1	1	1.4
c) Maritime Transport.	8	13	23.5
Total	25	62	77.0
9- Ministry of Irrigation Public Egyptian Organisation for:			
a) Irrigation Companies.	6	9	15.3
Total	6	9	15.3
10- Ministry of Petroleum: Public Egyptian Organisation for:			
a) Petroleum.	22	32	84.7
Total	22	32	84.7
11- Ministry of Supply & Domestic Trade: Public Egyptian Organisation for :			
a) Supply and Domestic Distribution	43	143	130.2
Total	43	143	130.2
12- Ministry of Housing, Construction and Land Reclamation:			
a) Development and New Societies	8	78	42.4
b) Housing and Building Material.	22	34	56.4
c) Building.	24	42	63.5
d) Development for reclaimed Land	6	10	15.2
Total	60	164	177.5
Grand Total	375	1286	927.3

Source: Central Agency for Public Mobilisation and Statistics, " Directory of public and private Organisation", Cairo, January 1985.

**Information Provided By Egyptian Public
Enterprises to the Public Organisations-
Specimen**

Table 7.4.1

The Egyptian Public Organisation for:

Company:

Current Operations Accounts Year

Detail	Current		(2) as	(2) as	Previous	(2) as
	Financial Year		%	% of	year	%
			of (1)	the total		of (5)
	Planned	Actual				
	1	2	3	4	5	6
Current Revenue:						
Sales-Goods for sale						
Changes in inventory						
Revenue from work for others						
Services sold						
Portfolio revenue						
Economic subsidies						
Current transferable revenue						
Current operations deficit						
Current Revenue - Total						
Current Uses						
Expenditure:						
Wages						
Commodity requirements						
Services acquired						
Purchases - for sale						
Current transferable expenses						
Surplus for distribution						
Current Expenses - Total						

Table 7.4.2

The Egyptian Public Organisation for:
Company :

Marketing Information
(Gross Sales of the Company- Local and Export Sales)

Detail	Current		(2) as	(2) as	Previous	(2) as
	Financial year		%	% of	year	%
	planned	actual	of (1)	the total		of (5)
	1	2	3	4	5	6
Local Sales:						
Imported Goods						
Local Goods						
Total of Local Sales						
Exports Sales:						
To Free Currency Countries						
To Agreement's countries						
Total Export Sales						
Total Sales						

N.B.

This form is designed for those companies whose activities include importing and exporting goods.

Table 7.4.3

The Egyptian Public Organisation for :

Company :

Marketing Information
 Total Sales
 (Divided between Sales for Company and Sales for Others)

Details	Current		(2) as	(2) as	Previous	(2) as
	Financial year		%	% of	Year	%
	planned	actual	of (1)	the Total		of (5)
	1	2	3	4	5	6
Companies sales						
Sales for others						
Total						

The Egyptian Public Organisation for :

Company :

Marketing Information
 Total Purchases
 (Divided between Purchases for Company
 and Purchases for Others)

Details	Current		(2) as	(2) as	Previous	(2) as
	Financial Year		%	% of	Year	%
	planned	actual	of (1)	the Total		of (5)
	1	2	3	4	5	6
Purchases for Company						
Purchases for Others						
Total						

Table 7.4.4

The Egyptian Public Organisation for:

Company :

Financial and Cost Control Information: Details of Commodity Requirements Despatched in the Financial Year.

Details	Current		(2) as	(2) as	Previous	(2) as
	Financial Year		%	% of	Year	%
			of (1)	the Total		of (5)
	planned	actual	0			
	1	2	3	4	5	6
Raw Materials						
Fuel, Oil etc.						
Accessories						
Packing Materials						
Stationery						
Water and Light						
Total						

The Egyptian Public Organisation for:
Company :

Financial and Cost Control Information Detail of Services Requirements Despatched in the Financial Year

Details	Current		(2) as	(2) as	Previous	(2) as
	Financial Year		%	% of	Year	%
			of (1)	the Total		of (5)
	planned	actual				
	1	2	3	4	5	6
Maintenance Expenses						
R & D Expenses						
Advertising Expenses						
Transport Expenses						
Rent of Equipment						
Other Expenses						
Total						

The Egyptian Public Organisation for :
 Company :

Financial and Cost Control Information: Details
 of Current Transferable Expenses

Details	Current		(2) as	(2) as	Previous	(2) as
	Financial Year		%	% of	Year	%
			of (1)	the Total		of (5)
			0			
	planned	actual				
	1	2	3	4	5	6
Taxes						
Depreciation						
Interest-Local						
Interest-Foreign						
Variance in imputed interest						
Total						

The Egyptian Public Organisation for:
 Company :

Financial and Cost Control Information: Detail
 of Current Transferable Expenses - Specified.

Details	Current		(2) as	(2) as	Previous	(2) as
	Financial Year		%	% of	Year	%
			of (1)	the Total		of (5)
	planned	actual				
	1	2	3	4	5	6
Donations						
Subsidies to Others						
Compensation / Fines						
Capital Losses						
Previous years' expenses						
Bad debts						
Provisions (other than depreciation)						
Real estate taxes						
Other						
Total						

The Egyptian Public Organisation for :
Company :

Financial and Cost Control Information: Appropriation
Account of the Current Financial Year

Details	Current		(2) as	(2) as	Previous	(2) as
	Financial Year		%	% of	Year	%
	planned	actual	of (1)	the Total		of (5)
	1	2	3	4	5	6
1) Losses B/F						
2) Taxes						
3) Bank Nasser Share						
4) Retained Surplus:						
Legal Reserve						
Reserve for Govern-						
ment' Bonds						
Reserve for Increase						
in Asset Prices						
Total						
5) Distributed Surplus:						
Organisation						
Employees						
Shareholders						
Remuneration						
Total						
Grand Total						

The Egyptian Public Organisation for:
 Company :

Investment Information
 Actual Investment Expenditure
 During the Final Year

The Project	Total Investment			Investment Components				
	Planned	Actual	(2) as % of (1)	Land	Bldgs	Machine	Equip.	Others
	1	2						

Investment expenditure according to kind of currency:

(*) Local		xxx	
(+) Foreign:			
Free Agreement	xxx	xxx	
<u>Total of foreign</u>		xxx	
<u>Total of Investment Expenditure</u>			xxx

Example of the Types of Information
Required by the Central Accounting Organisation
from Public Enterprises in Egypt

Company :

Total Purchases for Sales Purposes

	Financial Year		(2)	Previous	(2)
	Estimated	Actual	as %	Year	as %
	1	2	of (1) 3	4	of (5) 6
Purchases- local					
Purchases- foreign					
Purchasing expenses on foreign goods					
Other Purchases					
Total of Purchase					

Company :

Purchases for Sales Purposes
According to Type

	Financial Year		(2)	Previous	(2)
	Estimated	Actual	as %	Year	as %
	1	2	of (1) 3	4	of (4) 5
Local- Purchases:					

Local- Total					
Foreign Purchases:					

Foreign- Total					
Total of Purchase					

Company:

Total Sales

	Financial Year		(2)	Previous	(2)
			as %	Year	as %
	Estimated	Actual	of		of
	1	2	(1) 3	4	(4) 5
Sales of Goods:					
a) Sales- Local					
b) Sales- Foreign					
Sales for others					
Total of Sales					

Company :

STOCKS

	Financial Year		(2)	Previous	(2)
			as %	Year	as %
	Estimated	Actual	of		of
	1	2	(1) 3	4	(4) 5
Goods for Sale					
Unfinished Products & W.I.P.					
Goods Held By others					
Total					

Company :

Stocks of Goods for Sales Purpose
According to Commodity and Period.

	Commodities in the Stock				Balance at 31/12/___
	Less than one year	1-2 years	2-Less than 3 years	3 Years or more	
Commodity A					
Commodity B					
Commodity C					

Total					

Company :

Employment

	Financial Year		(2)	Previous	(2)
	Estimated	Actual	as % of (1)	Year	as % of (4)
	1	2	3	4	5
Employment-Permanent					
Employment-Casual					
Total					

Company :

Wages During the Year.

	Current Financial Year				Previous Year			
	Permenant employem	Casual employment	Total	Aver.	Permenant employem	Casual employment	Total	Aver.
Cash Wages								
Non-Cash Wages								
Social Security								
Total								

Company :

Commodity Requirements

	Financial Year	
	Estimated	Actual
Raw Materials		
Fuel and Oil		
Accessories		
Packing Materials		
Scrap		
Stationery		
Water and Light		
Total		

Company :

Services Requirement

	Financial Year	
	Estimated	Actual
Expenses for Work Done by Others		
Cost of Transportation		
Maintenance Costs		
Other		
Total		

Company :

Result of Other Activities

	Total Revenue	Total Costs	Surplus
A. Revenue from Work for Others:			
Contracts			
Commission			
Plant Work			
Total			
B. Services Sold:			
Commission - Local			
Commission - Foreign			
Other Commission			
Total			
Grand Total (A+B)			

GUAS Responsibility Centre Code

One digit

 The Main Budget Divisions*

Three digits

 Economic Sectors

Five digits

x	x	x	x	x

 Main Organisational Divisions

Seven digits

 Main Organisational Subdivisions

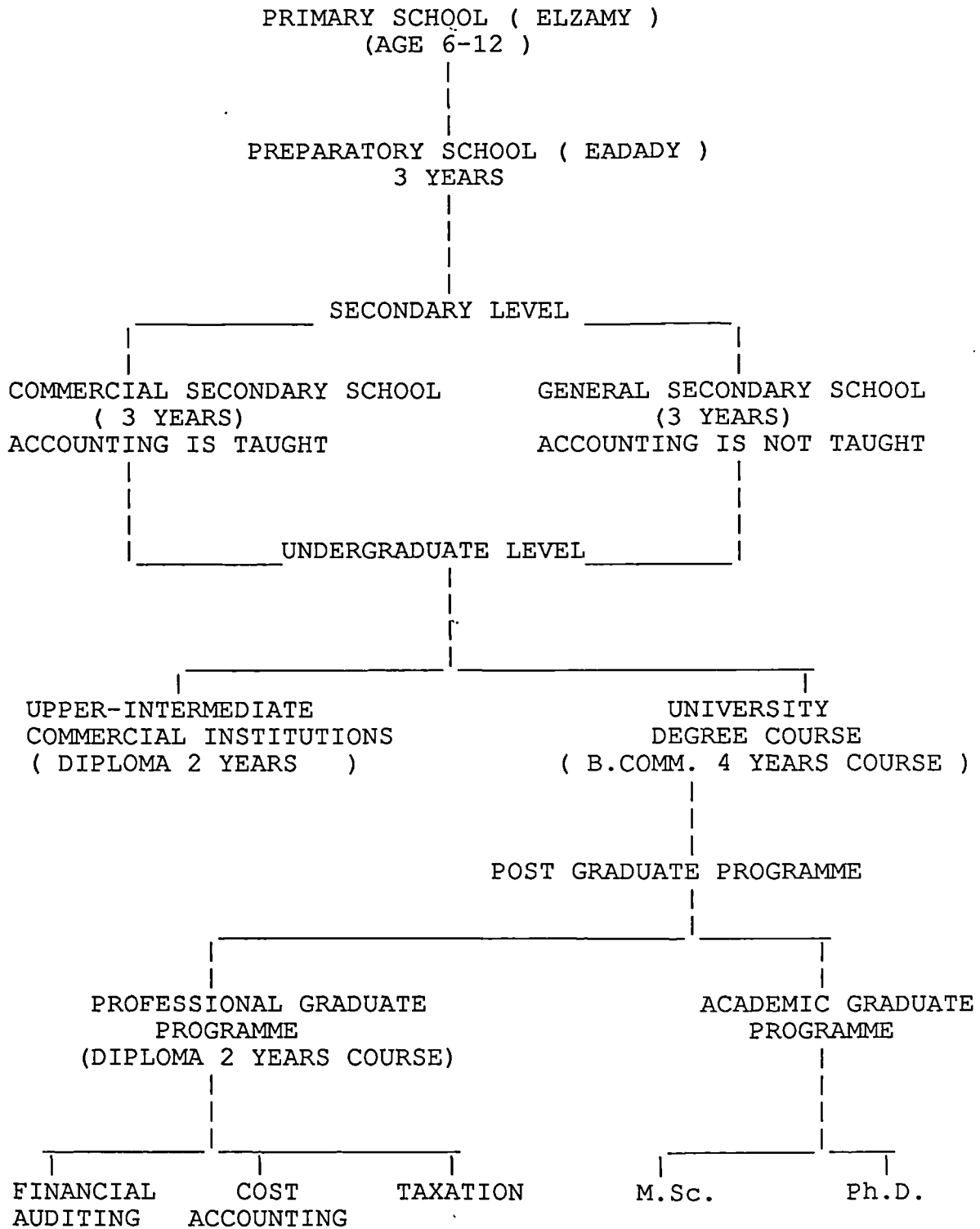
Nine digits

x	x	x	x	x	x	x	x	x

 Departmental Units or Economic Entities.

-
- * The Main Budget Divisions include:
- 11 Administrative Authorities
 - 12 Local Authorities
 - 13 Service Authorities
 - 14 Economic organisations
 - 15 Public Sector Units
 - 16 Others

ACCOUNTING EDUCATION
STRUCTURE IN EGYPT



COURSE STRUCTURE IN
AIN SHAMS UNIVERSITY
(1987/1988)

Year	Course Title	Lecture Hours per Week	Laboratory Hours per Week
First:	1. Principles of Accounting	3	2
	2. Principles of Organisation and Management	3	1
	3. Principles of Economics	3	1
	4. Economic Resources and Economic Development	3	
	5. Law	3	
	6. Introduction to Behavioural Sciences	2	
	7. European Language		4
	8. Mathematics	2	1
		19 +	9 = 28
Second:	1. Partnership and Corporation Accounting	3	2
	2. Marketing	2	1
	3. Production Management	2	1
	4. Financial Institutions Management	2	1
	5. Commercial Law	2	
	6. Money, Banking and International Trade	3	
	7. Financial Mathematics	2	1
	8. European Language (Business Studies)		4
		16 +	10 = 26
		35 +	19 = 54

APPENDIX 8.2 (continued)

		35	19=	54
Third:	1. Budgets and Governmental Accounting	3	1	
	2. Costing	3	1	
	3. Principal of Auditing	2	1	
	4. Personnel Management	2		
	5. Management of Procurement and Warehouses	2	1	
	6. Economic Development & Planning	3		
	7. Public Finance & Principles of taxation	3		
	8. Statistics	3	1	
		21	+	5= 26
Fourth:	1. Cost Accounting	3	1	
	2. Auditing	2	1	
	3. Tax Accounting	3	1	
	4. Financial and Commercial Institutions Accounting	3	1	
	5. Accounting Systems	3	1	
	6. Macro Analysis & Contemporary Economic Problems	3		
	7. Applied Statistics	3	1	
	8. Financial Management	2	1	
		22	+	7= 29
		78	+	31= 109

COURSE STRUCTURE IN
ASSUIET UNIVERSITY

Year	Course Title	Lecture	Laboratory
		Hours per Week	Hours per Week
1982/83	1. Principles of Accounting	3	2
	2. Principles of Organisation	3	1
	3. Principles of Economics	3	1
	4. Economic Resources and Economic Development	3	-
	5. Law (Civil)	2	-
	6. Foreign Language	-	4
	7. Mathematics	2	1
	8. Principles of Political Sciences	2	-
1983/84	1. Partnership and Corporation Accounting	3	2
	2. Marketing & Management	2	1
	3. Economics (Money, Banking & Foreign Trade)	3	-
	4. Production, Organisation & Management	3	1
	5. Business Mathematics	2	1
	6. Commercial Law	2	-
	7. Foreign Language	-	4
	8. Public Adminstration	2	-
	9. Insurance	2	-

APPENDIX 8.3 (continued)

1984/85	1. Financial Accounting (Applied)	3	2
	2. Cost Accounting	3	1
	3. Statistics	3	1
	4. Personnel Management and Human Relations	2	-
	5. Public Finance	2	-
	6. Commercial & Marine Law	2	1
	7. Governmental & National Accounting	2	1
	8. Purchasing and Management	2	1
1985/86	1. Financial Institutions Accounting	2	1
	2. Cost Accounting	3	1
	3. Auditing	4	-
	4. Tax Accounting	2	1
	5. Accounting Systems	2	1
	6. Financial Management & Managerial Accounting	3	1
	7. Planning, Economic Development & National Accounts	3	-
	8. Operations Research	2	1

RESEARCH TRAINING CENTRES IN EGYPT**(1) Public Bodies**

- National Institute for Planning
- National Institute for Higher Administration
- Training Administration of the CAO
- Organisation for Productive Efficiency in the Ministry of Industry

(2) Private Training Centres

- Arab Research Administration Centre (ARAC)
- Arab Association for Cost Accounting
- Arab Association for Business Administration

(3) Other Training Centres

- Organisation of Administration Sciences of the Arab League.
- Management Training Centre of the American University in Cairo.
- Many other small consulting offices.

**Number of Students Enrolled in
Faculties of Commerce (1980-1988)**
(unit : 1000)

Year	Science	Humanities	Total	Faculties of Commerce	4 to 1	4 to 2	4 to 3
1980	169 510	331 546	501 056	124 169	73.30	37.50	24.80
1981	171 493	372 977	544 470	130 006	75.80	34.90	23.90
1982	163 429	432 814	596 243	132 872	81.30	30.70	22.30
1983	164 083	481 602	645 685	146 309	89.20	30.40	22.70
1984	161 579	508 118	669 697	152 893	94.60	30.10	22.80
1985	155 376	513 905	669 281	154 182	99.20	30.00	23.00
1986	163 906	496 039	659 945	147 129	89.7	29.7	22.3
1987	161 267	468 456	629 723	141 601	87.8	30.2	30.2
1988	153 173	452 475	605 648	130 556	85.2	28.9	21.6

Source: compiled from :

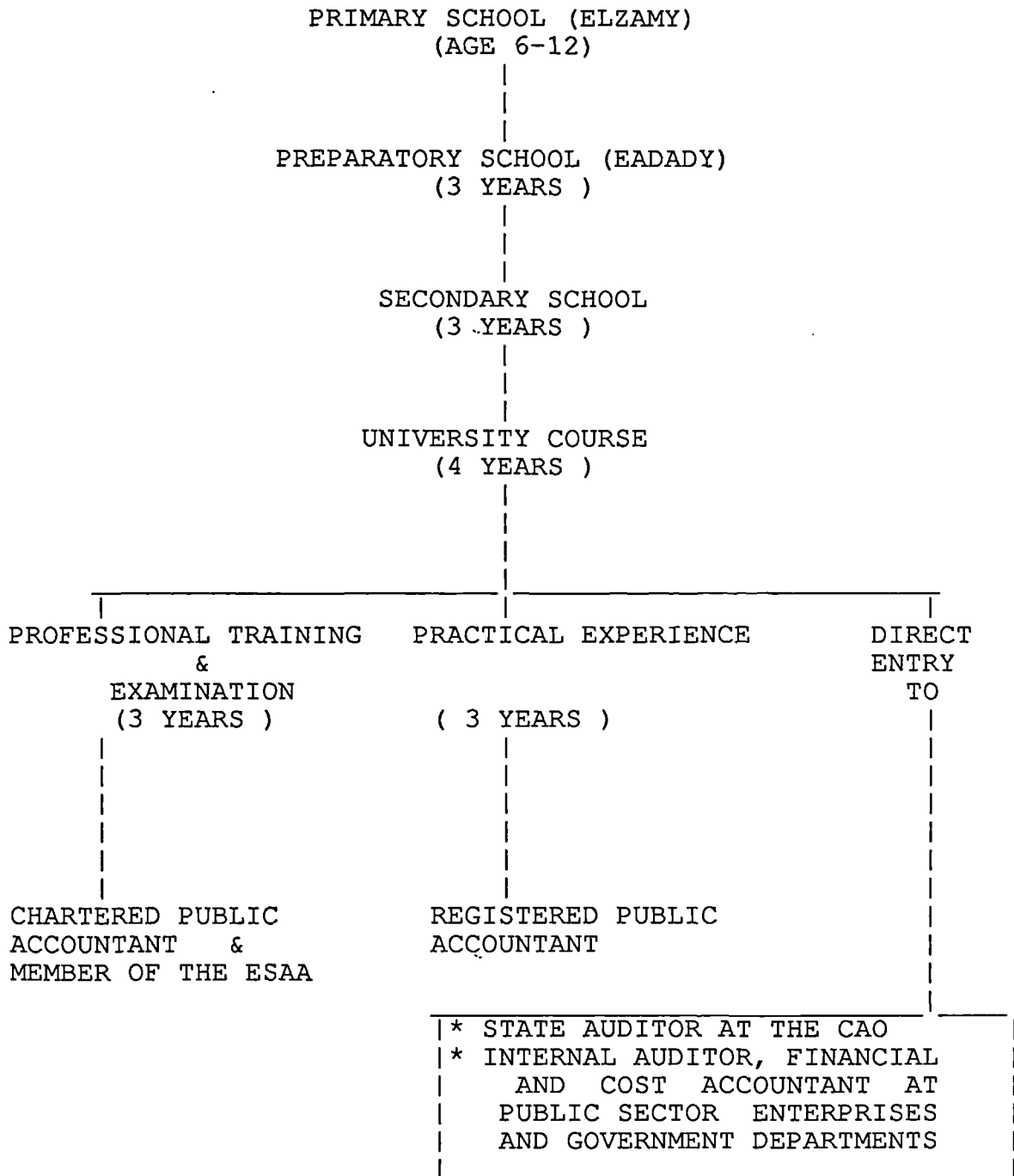
The Central Agency for Public Mobilisation and
Statistics, Statistical Year Book, Arab
Republic of Egypt (1952 - 1985), Cairo, Egypt,
June 1988.

**Number of University Graduates in
Faculty of Commerce compared with
Other Graduates in Humanities and
All Graduates from 1980-1988.**

	Faculty of Commerce 1	All Humanities 2	All Graduates 3	1 to 2 %	1 to 3 %
79/80	18,460	46,497	77,075	39.7	24.0
80/81	19 308	50 873	81 863	38.0	23.6
81/82	20 502	56 728	86 481	36.1	23.6
82/83	23 207	62 822	93 660	36.9	24.8
83/84	25 174	76 651	106 189	32.8	23.7
84/85	28 711	84 741	102 387	33.9	28.0
85/86	28 546	88 787	119 216	32.2	23.9
86/87	28 918	85 913	115 106	33.7	25.1
87/88	25 335	82 223	110 136	30.8	23.0
Total	218 161	635 235	892 473	34.3	24.4

Compiled from CAPMS, June 1988.

THE WAY TO BECOME AN
EGYPTIAN QUALIFIED ACCOUNTANT



HAZEM HASSAN & CO.
CHARTERED PUBLIC ACCOUNTANTS

MEMBER FIRM OF
PEAT MARWICK INTERNATIONAL

AUDITORS' REPORT

We have examined the Balance Sheet of " XX Petroluem Co.-Foreign Joint Stock Company" Egypt branch as at December 31, 1986 and the profit and loss account for the financial year then ended.

Our examination was made in accordance with generally accepted auditing standards and requirements of relevant laws and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and in conformity with the nature of activity. We have obtained the information and explanation which we considered necessary for our audit.

The Branch keeps proper books of account and the accompanying Balance Sheet and Profit and Loss Account are in agreement therewith.

Stocks of materials and crude oil are held in the custody of the petroleum operating companies. Certificates and reports were received from these companies showing the value of said stocks at balance date.

In our opinion, the Balance Sheet together with the notes attached thereto give a true and fair view of the financial position of the company's Branch in Egypt as at December 31, 1986 and the profit and loss account properly reflects the results of its operations for the financial year then ended.

Cairo, June 28, 1987.

ABDALLAH EL KADIEM
PUBLIC ACCOUNTANTS
(A.R.R NO. 100)

AUDITOR'S REPORT
AS AT 31/12/1986

After our examination of the books and records of the MOBIL OIL (Ltd) in Egypt as at the end of 1986, in accordance with generally accepted auditing standards, the requirements of the internal control system deemed suitable, and after obtaining the information and explanation which we considered necessary for our audit, we attest that:

- (1) The company keeps proper books of account in agreement with the nature of activity, and also keeps proper books of cost accounting.
- (2) The balance sheet gives a true and fair view of the financial position of the company as at 31/12/1986 and the profit and loss account properly reflects the results of its operations for the financial year then ended.

The inventory was physically checked and evaluated by the company in accordance with the generally accepted accounting principles followed by the company in the previous year.

- (3) The information mentioned in the Board of Directors' Report and the "detailed statement" required by Article 66 of Law No. 159 of 1981 were in agreement with the records and books of the company.
- (4) The Balance Sheet and the Profit and Loss account were made in accordance with the requirements of the relevant laws.

The Legal Reserve has reached 50% of the capital of 1984, and we see that there is no need to increase this reserve due to the fact that the company has a very strong financial position.

A. El-kadiem
R.A.A 100

THE SECOND INTERNATIONAL CONFERENCE
ON
ACCOUNTING AND AUDITING

UNDER THE AUSPICES OF
PRESIDENT HOSNY MUBARAK

13-15 DECEMBER 1986

RECOMMENDATIONS

GEZIRAH SHERATON HOTEL
CAIRO

- (1) The conference recommends the speedy formation of an independent board to formulate , publish and monitor accounting standards and auditing guidelines.

The board should set the priorities for the issue of statements on accounting and auditing standards, and should expose the drafts to open interested parties before final approval. The board should set programmes for the study of uniform accounting systems for the specialised activities such as banks, insurance companies, gas and oil, manufacturing.....,etc, and should develop criteria for financial , economic and efficient performance as guidelines.

Such a board should be established through a ministerial decree by the Ministry of Finance composed of :

- 3 members from the Egyptian Society of Accountants and Auditors.
- 2 members from the Division of Accounting and Auditing of the Syndicate of Commerce.
- 1 member from the Central Organization for Accounting.
- 2 members from the Faculty of Commerce- Accounting Departments in the Egyptian Universities.

The Under-Secretary of state for Finance (chairman of the Registration Committee of Accountants).

- 1 member from the Taxation Department.
- 1 member from the Commercial Registry.
- 1 member from the Capital Market Authority.
- 1 member from the Arab Costing Association.
- 1 member from the Society of Financial Management.

Each organisation should nominate its representatives. The board should be chaired by a qualified professional accountant in practice.

The board should have a permanent secretariat to help in drafting the suggestions and publishing these standards , which should be mandatory , to form some technical and specialised committees for Accounting Standards, Auditing Standards, and Professional Ethics.

- (2) The formation of Accounting Standards issued by this board should be based primarily on the Accounting Standards published by the International Accounting

Standards Committee after taking into consideration the existing economic, social needs and specific accounting environment in Egypt.

Efforts should also be made by this board to suggest development accounting standards for the government and public sector within the framework of simplicity and compatability with the private sector.

- (3) The conference recognises the importance of establishing a training centre for those engaged in the accounting and auditing profession as well as the need for a continuous education process to improve and maintain the quality of the profession in Egypt.

The conference acknowledges and supports the efforts exerted by both the USAID and the Egyptian Government to set up a national training centre for accountants and auditors in practices. Such training courses and continuous education programme should emphasise the practical rather than the academic aspect. The board of governors of the training centre should be composed mostly of such profession also to ensure the link between the practical needs and the training courses set up for answering these needs.

It is recommended that before an accountant is licensed to practice his profession in Egypt , he should qualify through this training centre after passing the set practical courses and tests.

- (4) The conference appreciates the development of computer usage in accounting systems. Although the concepts and standards of auditing remain the same, the techniques employed by auditors to evaluate internal accounting controls in a computerised environment are changing and developing. It is therefore incumbent upon the accounting profession in Egypt to perceive and recognise such changes in order to perform its responsibilities and duties in the future.

Universities, education institutions and training centres may play a great role in such development by including and incorporating in their syllabus the relevant courses in the field of auditing computerised accounting systems.

FINANCIAL STATEMENTS AS A PART OF
THE EGYPTIAN UNIFORM ACCOUNTING SYSTEM

THE BALANCE SHEET
AS OF JUNE 30, 198-

ASSETS

LIABILITIES

Compar- ative	Acct. No.	L.E	L.E.	Compar- ative	Acct. No.	
	11				21	Fixed Assets: Capital:
xxx	111	xxx		xxx	211	Own Capital xxx
xxx	112	xxx		xxx	212	Government share xxx
						(repayable)
xxx	113	xxx				xxx
xxx	114	xxx			22	Provisions and Surplus forward
xxx	115	xxx		xxx	221	Legal provision xxx
xxx	116	xxx		xxx	222	Provision for investment in gov-
xxx	117	xxx		xxx		ernment bonds xxx
xxx	118	xxx		xxx	223	Provision for re-
				xxx		newal & expansion xxx
			xxx	xxx	224	General provision xxx
	12				225	Provision for government share
xxx	121	xxx		xxx		(repayable) xxx
xxx	122	xxx		xxx	226	Provision for rising prices of
			xxx	xxx		assets xxx
				xxx	227	Other provisions xxx
				xxx	228	Surplus forward xxx
						xxx
	13				23	Allowances:
xxx	1311	xxx		xxx	231	Allowance for depreciation xxx
xxx	1312	xxx		xxx	232	Allowance for contingent taxes xxx
xxx	1313	xxx		xxx	233	Allowance for bad debts xxx
xxx	1314	xxx		xxx	234	Other allowances xxx
xxx	132	xxx				xxx
xxx	133	xxx				xxx
xxx	134	xxx			24	Long Term Loans:
xxx	135	xxx		xxx	241	National xxx
xxx	136	xxx		xxx	242	Foreign xxx
			xxx			xxx

THE BALANCE SHEET (continued)

					25 Creditor Banks:	
				xxx	251 Overdraft	xxx
				xxx	252 Secured short term	
					loans	xxx
	14 Long Term Lending:			xxx	253 Loans against	
xxx	141 National	xxx			letters of credit	xxx
xxx	142 Foreign	xxx				xxx
		xxx				
					26 Creditors:	
	15 Investment in			xxx	261 Suppliers	xxx
	Securities:			xxx	262 Notes payable	xxx
xxx	151 Government bonds	xxx		xxx	263 Miscellaneous	
xxx	152 National	xxx			creditors	xxx
xxx	153 Foreign	xxx		xxx	264 Distributions	
		xxx			payable	xxx
						xxx
	16 Debtors :				27 Various Creditor	
xxx	161 Accounts				Accounts:	
	receivable	xxx			271 Various creditors	xxx
xxx	162 Notes receivable	xxx		xxx	272 Different creditors	xxx
xxx	163 Miscellaneous			xxx	273 Other creditor	
	debtors	xxx		xxx	balances	xxx
		xxx				
	17 Various Debtors:			xxx	274 Current & appro-	
xxx	171 Various debtors	xxx			propriated expenses	
xxx	172 Other debtor				payable	xxx
	balances	xxx				xxx
xxx	173 Current & appro-					
	propriated revenue					
	receivable	xxx				
		xxx				
	18 Cash:					
xxx	181 Cash on hand	xxx				
xxx	182 Bank-demand					
	deposits	xxx				
xxx	183 Bank-time deposits	xxx				
		xxx				
xxx	228 Deficit forward	xxx				
	(if any)					
				xxx		xxx

CURRENT OPERATING ACCOUNT
FOR THE FISCAL YEAR ENDED JUNE 30, 198-

Compar- Acct.			Compar- Acct.		
ative	No.	L.E L.E	ative	No.	L.E L.E
					Revenues from current
					Operations:
					Production at
					Selling Price:

					net sales of
xxx	311	monetary wages xxx			finished production xxx
xxx	312	wages in kind xxx	xxx	411	cost of difference
xxx	313	social insurance xxx	xxx	412	in product inventory xxx
		_____ xxx			valuation difference
		General Expense:	xxx	413	in finished product
		_____			inventory xxx
xxx	32	commodity requirements xxx	xxx	414	change in work-in-
xxx	33	services acquired xxx	xxx	415	process inventory xxx
xxx	34	purchases of finished goods for sale xxx	xxx	416	self-constructed assets (cost) xxx
		_____ xxx	xxx	417	revenues from work for others xxx
		Current Transferred Expenses:			services sold xxx
		_____			Finished Goods
		351 taxes & customs duties:			Purchased for Sale
		_____			_____
xxx	3511	custom duties xxx	xxx	4181	net sales xxx
xxx	3512	production excise xxx	xxx	4182	change in merchandise
xxx	3513	treasury excise xxx			inventory (at cost) xxx
xxx	3514	other taxes xxx	xxx	4183	valuation difference xxx
		_____ xxx			_____ xxx
		352 Depreciation:			

xxx	3522	buildings & construction xxx			Subsidies:
xxx	3523	machinery & equipment xxx			_____
xxx	3524	transportation facilities xxx	xxx	421	production xxx
xxx	3525	tools xxx	xxx	422	export xxx
xxx	3526	furniture & fixtures xxx			_____ xxx

CURRENT OPERATING ACCOUNT (continued)

xxx	3527	animal & marine resources	xxx				
xxx	3528	deferred revenue expenditure	xxx				
			xxx				
		Rent Expenses:					
xxx	353	actual rent	xxx				
xxx	354	variance of imputed rent	xxx				
			xxx				
		Interest:					
xxx	355	local	xxx				
xxx	356	foreign	xxx				
xxx	357	variance of imputed interest	xxx				
xxx	358	valuation vari- ances of finished production inventory	xxx				
xxx	359	variation diff- erence of goods purchased for sale inventory	xxx				
			xxx				
xxx		Surplus from current operations (brought forward)	xxx		xxx	Losses from current operations (carried forward)	xxx
			xxx				xxx
		Losses from current operations (brought forward)	xxx			Surplus from current operations (brought forward)	xxx
					43	Revenues from invest- ment in securities	xxx
		Current Transfers:				Transferred revenues:	
xxx	361	gifts	xxx		xxx	441 interest earned	xxx
xxx	362	subsidies	xxx		xxx	442 rent earned	xxx
xxx	363	finances	xxx		xxx	443 capital gains	xxx
xxx	364	capital losses	xxx		xxx	444 prior years' revenue	xxx
xxx	365	prior years' expenses	xxx		xxx	445 fines earned	xxx
					xxx	446 other revenues	xxx

PRODUCTION AND TRADING ACCOUNT
FOR THE FISCAL YEAR ENDED JUNE 30, 198..

Compar- Acct. ative No.	L.E	L.E	Compar- Acct. ative No.	L.E	L.E
			xxx	416	Changes in work-
					in-process
					inventory
					xxx
xxx	531	wages	xxx		(at cost)
xxx	532	commodity require-			
		ments	xxx		
xxx	533	services acquired	xxx		
xxx	535	current transferred			
		expenses	xxx		
			xxx		
		Cost of production			
		Services Centres:			
xxx	631	wages	xxx		
xxx	632	commodity requireme-			
		ments	xxx		
xxx	633	services acquired	xxx	xxx	Cost of Production
xxx	635	current transferred			(carried forward)
		expenses	xxx		xxx
			xxx		
			xxx		xxx
xxx		Cost of Production			
		(brought forward)	xxx		Revenues from
					Current Activities:
xxx	534	finished goods			
		purchased for sale	xxx	411	net sales of
		(at cost)	xxx		finished product
			xxx	412	cost of the diff-
					erence in finished
					product inventory
					xxx
		Valuation Difference		413	valuation difference
		of inventory:	xxx		of finished product
					inventory
					xxx
			xxx	416	revenue from work to
358		finished product	xxx		others
359		finished goods		417	services sold
		purchased for sale	xxx		xxx
			xxx		xxx

PROFIT AND LOSS ACCOUNT
FOR THE FISCAL YEAR ENDED JUNE 30, 198

Compar- Acct. ative No.	L.E L.E	Compar- Acct. ative No.
	xxx	
Gross Production & Trading Deficit (balance from production & trading account)	xxx	Gross Production & Trading Surplus (balance from production & trading account)
	xxx	
Cost of Administration & Financing Centres:	xxx	43 revenues from securities
	xxx	
xxx 831 wages	xxx	Transferred revenues:
xxx 832 commodity requirements	xxx	
xxx 833 services acquired	xxx	441 interest earned
xxx 835 current transferred expenses	xxx	442 rent earned
	xxx	443 capital gains
	xxx	444 prior years' revenues
	xxx	445 fines earned
	xxx	xxx
Current Transfers		
xxx 361 gifts	xxx	Other revenues:
xxx 362 subsidies	xxx	
xxx 363 fines	xxx	4461 salvage sales
xxx 364 capital losses	xxx	4462 discount earned
xxx 365 prior years' expenses	xxx	4463 bad debt collections
xxx 366 bad debts	xxx	4464 profits from raw material sold
xxx 367 allowances (other than depreciation)	xxx	4465 commissions earned
	xxx	447 imputed rent difference
xxx 368 rates	xxx	448 imputed interest difference
	xxx	xxx
Surplus (carried forward)	xxx	Deficit (carried forward)
	xxx	xxx
	xxx	xxx
	xxx	xxx

PROFIT AND LOSS ACCOUNT (continued)

		Deficit (balance)	xxx	Surplus (balance)	xxx
xxx	369	income taxes	xxx		
		Surplus available for distribution (balance)	xxx		
			xxx		
		Reserves:			
xxx	221	legal reserve	xxx		
xxx	222	reserve for government bonds	xxx		
xxx	223	reserve for renewal and expansion	xxx		
xxx	224	general reserve	xxx		
xxx	225	reserve for government share (repayable)	xxx		
xxx	226	reserve for increase of asset prices	xxx		
xxx	227	other reserves	xxx		
xxx	228	surplus forward	xxx		
			xxx		
		Distribution Surplus:			
xxx	2643	employees	xxx		
xxx	2641	government	xxx		
xxx	2642	shareholders	xxx		
xxx	2643	other shares	xxx		
			xxx		
			xxx		xxx

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE PERIOD FROM JULY 1, 198... TO JUNE 30, 198..

APPLICATION			SOURCE		
Acct. No.	L.E.	L.E.	Acct. No.	L.E.	L.E.
<u>CAPITAL INVESTMENT:</u>			<u>INTERNAL FINANCING:</u>		
111	land improvement	xxx	221	legal provision	xxx
112	Buildings, roads, & other facilities	xxx	222	provision for investment in gov- ernment bonds	xxx
113	machinery & equipment	xxx	223	provision for re- newal & expansion	xxx
114	transportation facilities	xxx	224	general provision	xxx
115	tools	xxx		surplus forward	
116	furniture & fixtures	xxx	225	provision for government share (repayable)	xxx
117	animal & marine resources	xxx	226	provision for partial completion	xxx
		xxx	227	other provisions	xxx
			228	surplus forward	xxx
			231	allowance for depreciation	xxx
			232	allowance for contingent taxes	xxx
			233	allowance for bad debts	xxx
			234	other allowances	xxx
					xxx
				<u>Liquidity</u>	
			11-15	cost of assets sold	xxx
		xxx			

STATEMENT OF SOURCE AND APPLICATION OF FUNDS (CONTINUED)

	Taxes and Tariffs				Decrease in Inventory:	
	on Investment:					
				131	commodity require-	
					ments	xxx
	on fixed capital	xxx		132	work-in-process	xxx
	on inventory	xxx		133	finished product	xxx
		xxx		134	merchandise on	
					consignment	xxx
12	projects under			135	merchandise for	
	construction				sale	xxx
	(purchase price of			136	Letters of credit	
	land excluded)	xxx			for imports	xxx
						xxx
	Capital transfer:				Decrease in Deb-	
					tors & Cash:	
2722	purchase of used					
	assets	xxx		161	accounts receivable	xxx
11111-	land (purchase			162	notes receivable	xxx
	price)	xxx		163	miscellaneous	
11131		xxx			debtors	xxx
				171	various debtors	xxx
1185	increase accrued			172	other debtor	
	before operation	xxx			balances	xxx
16	long term lending	xxx		173	current & appro-	
		xxx			propriated revenue	
					receivable	xxx
				18	cash on hand &	
					in bank	xxx
						xxx
	Investment in				Creditors & banks:	
	Securities:					
151	government bonds	xxx		25	creditor banks	xxx
152	national	xxx		261	suppliers	xxx
153	foreign	xxx		262	notes payable	xxx
		xxx		263	miscellaneous	
					creditors	xxx
	Debtors:			264	distribution	
					payable	xxx
161	accounts			272	various creditors	xxx
	receivable	xxx		273	various creditor	
162	notes receivable	xxx			balances	xxx

STATEMENT OF SOURCE AND APPLICATION OF FUNDS (continued)

163	miscellaneous			274	accrued expenses	
	debtors	xxx			payable	xxx
171	various debtor	xxx				
172	other debtor					xxx
	balances	xxx				
173	current & appro-					
	priated revenue					
	receivable	xxx				
		xxx				
	Payment of Long					
	Term Loans:					
241	local	xxx				
242	foreign	xxx				
		xxx				
	Decrease in					
	Creditors					
25	creditor banks	xxx				
26	creditors	xxx				
272	various creditors	xxx				
273	other creditor					
	balances	xxx				
274	accrued expenses					
	payable	xxx				
		xxx				
22 &	decrease in					
23	provision and					
	allowance	xxx				
	Current deficit	xxx				
		xxx				xxx

EXPLORATION & PRODUCTION COSTING SYSTEM
ANALYSIS OF COST ELEMENTS BETWEEN DIRECT AND INDIRECT

ALLOCATED COST ELEMENTS

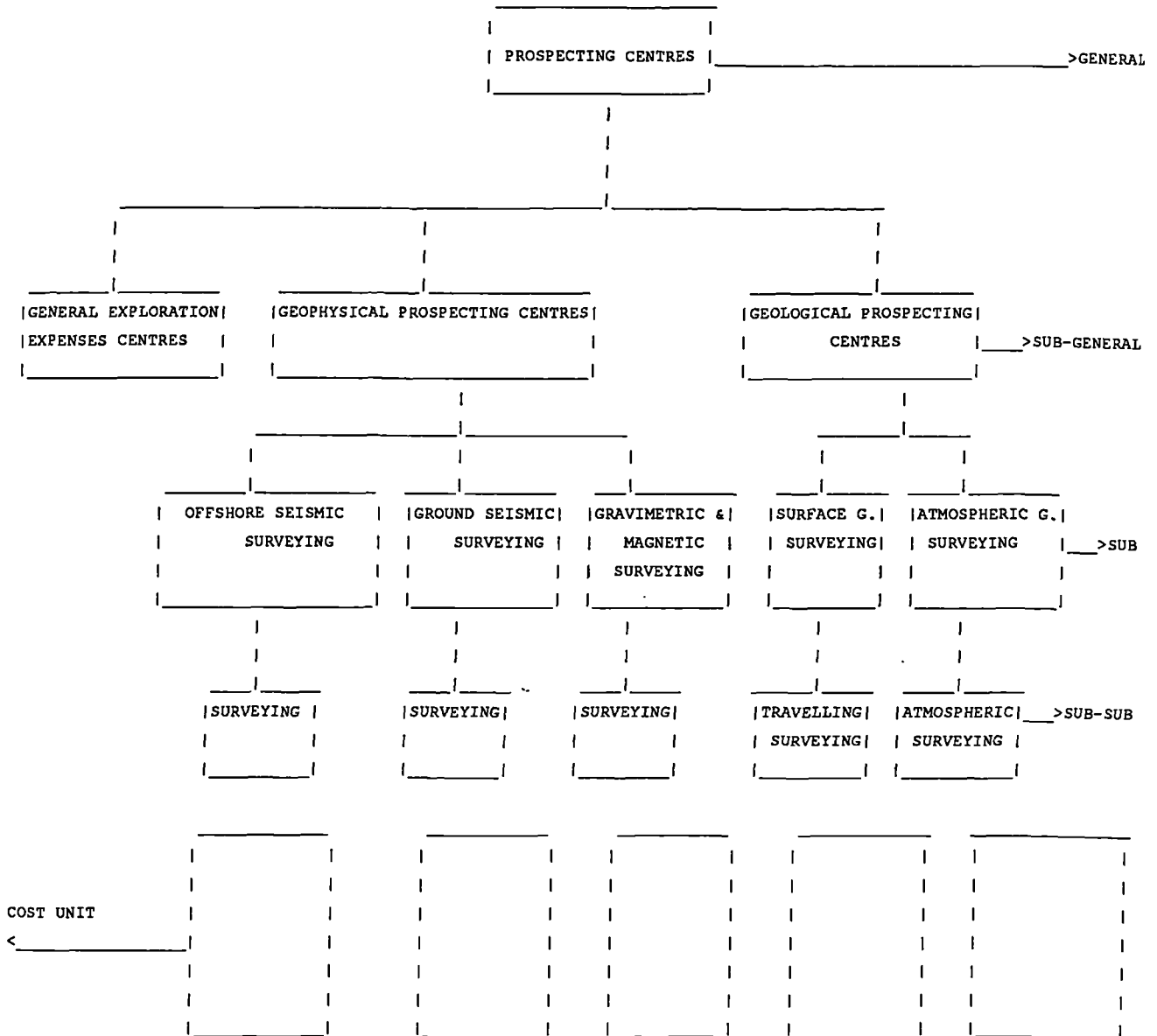
COST CENTRES	SALARIES	MATERIALS	SERVICES	TRANSFERABLE EXPENSES	CURRENT
					ALLOCATED
	Wages/benefits/	Spares & Utilities	Contracts/Taxes/		TRANSFERES
	soc. insurance	Chemical Fuel Supplies (purch/owned)	Royalties Purchases	Fees Rentals Deprn. Other	
<u>DIRECT PRODUCTION CENTRES</u>					
1. PROSPECTING CENTRES					
a) GEOLOGICAL PROSPECTING CENTRES					
i) Atmospheric geological surveying					
ii) Surface geological surveying					
b) Geophysical prospecting centres					
i) Gravimetric & magnetic surveying					
ii) Ground seismic surveying					
iii) offshore seismic surveying					
c) General exploration expenses centres					
2. DRILLING CENTRES					
a) Land Drilling					
i) Exploration drilling					
ii) Production drilling					
b) Offshore Drilling					
i) Exploration					
ii) production drilling					
c) General Drilling Cost Centre					
3. CRUDE OIL & GAS PRODUCTION CENTRES					
a) Raising Crude Oil/Gas					
i) Underground operations					
ii) Surface operations					
b) Transport, Treatment, Storage & Shipping					
i) Accumulation into Main Field storage tanks					
ii) Treating crude					
iii) Preparing gas					
iv) Main storage tanks & shipping					

(continued)

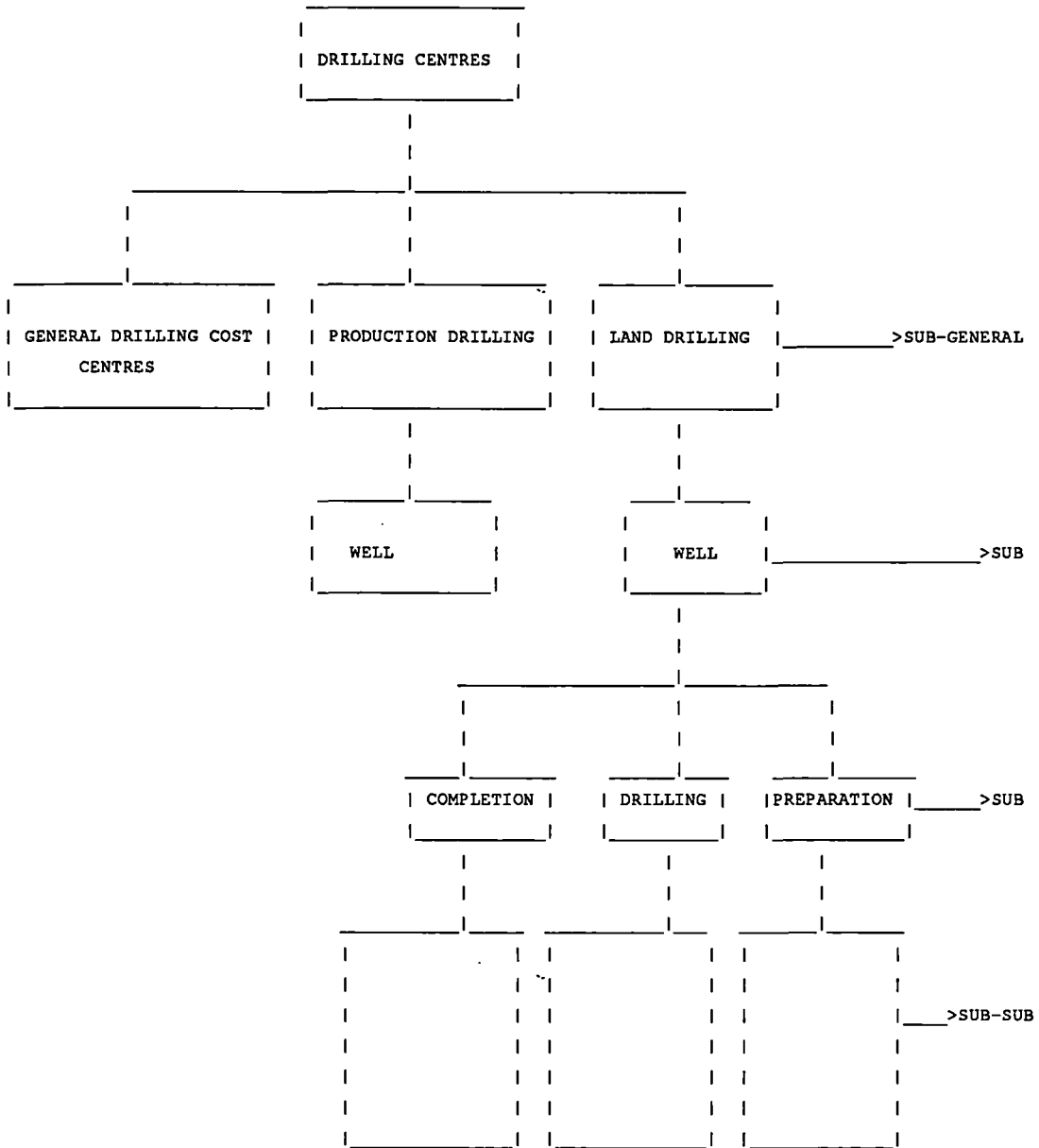
c) Other Direct Production									
Operations									
i) Workovers									
ii) Major well maintenance									
iii) Production administration									
d) Direct Variable Costs									
i) Royalties & rentals									
ii) Depreciation, depletion & amortisation									
<u>B. INDIRECT SERVICE CENTRES</u>									
1. PRODUCTION SERVICE CENTRES									
a) Utilities and Engineering Services									
b) Gas purification & compression									
c) Electricity generating station									
d) Water purification stations									
e) Workshops									
f) Ice/bricks/clay factories									
g) Paving roads									
h) Connection networks									
i) Specialised engineering admin.									
j) Transport units and services									
k) Warehousing and storage									
l) Chemical laboratory									
m) Technical services									
n) Benefits in kind-									
i) Medical care									
ii) Food									
iii) Flats									
iv) Other									
o) Services to others									
2. MARKETING SERVICE CENTRES									
3. ADMINISTRATIVE SERVICE CENTRES									
a) Top management									
b) Legal affairs									
c) Financial affairs									
d) General charges									
e) Administration affairs									
f) Internal services									
g) Training									
h) Public relations									
i) Other administration									
i) Planning & follow-up									
ii) Complaints									

COST CENTRES IN GPC

(1) PRODUCTION CENTRES



(2) DRILLING CENTRES



RESPONSIBILITY ACCOUNTING IN GPC

EXPLORATION AND PRODUCTION

EXAMPLE OF DEFFINITION OF LEVELS OF
RESPONSIBILITY FOR WHOLE COMPANY

	Requirement for responsibility reports at levels*			
	4	3	2	1
PRODUCTION CENTRES				
Prospecting centres	Yes	Yes	Yes	Yes
Drilling centres	Yes	Yes	Yes	Yes
Crude oil & gas production centres	Yes	Yes	Yes	Yes
SERVICING CENTRES-PRODUCTION	Yes/No+	Yes	Yes	Yes
MARKETING SERVICE CENTRES	No	No	Yes	Yes
ADMINISTRATIVE SERVICE CENTRE	No	No	Yes	Yes

+ Depends on nature of service centre, i.e. required if it is a production centre such as utilities and engineering services, but not required for, say, benefits in kind.

* levels

- 1 Individual unit of apparatus level
- 2 Group of production units level
- 3 Sector Manager level
- 4 Chairman level

EXPLORATION AND PRODUCTION

EXAMPLE OF ALLOCATION OF CONTROLLABLE COSTS TO VARIOUS RESPONSIBILITY LEVELS

	PRODUCTION CENTRES			DRILLING CENTRES				MARKETING	ADMIN.	CURRENT
	PROSPECTING	DRILLING	GAS PRODUCTION	UTILITIES,	GENERAL &	SERVICE TO		CENTRES	CENTRES	ALLOCATED
				WORKSHOPS ETC.	TECHNICAL	BENEFITS	OTHERS			
WAGES										
Wages, benefits, social insurance	4/3	4/3	4/3	4/3	4/3	3/2	4/3	4/3	4/3	
MATERIALS										
Chemicals	4/3	4/3	4/3							
Fuel	4/3	4/3	4/3							
Spares and supplies	4/3	4/3	4/3	4/3	4/3			4/3		
Utilities	4/3	4/3	4/3	4/3	4/3					
SERVICES										
Royalties	2									
Contracts/ purchases	3/2			3/2		3/2		3/2	3/2	
TRANSFERABLE EXPENSES										
Taxes/fees	2									
Rentals	2									
Depreciation	2/1	2/1	2/1	2/1						
Other	2	2	2	2						
CURRENT ALLOCATED TRANSFERS										
Donation, subsidies, etc.										2/1

levels

- 1 Individual unit of apparatus level
- 2 Group of production units level
- 3 Sector Manager level
- 4 Chairman level

EXPLORATION & PRODUCTION

COST CENTRE

COST REPORT FOR THE PERIOD.....TO.....

	PRIOR YEAR	ACTUAL	BUDGET	ACTUAL	ANALYSIS OF VARIANCE		
	COMPARATIVES			OVER (UNDER)			
				BUDGET	EFFICIENCY	PRICE	NOTES
VARIABLE COSTS							
Wages and Materials							
Services							
Other							
Total Variable Costs							
Level of Activity (units)							
Variable Cost/unit							
FIXED COSTS							
Wages and Materials							
Services							
Other							
Total Fixed costs							
Fixed Cost /unit							
Total cost/ unit							

EXPLORATION & PRODUCTION

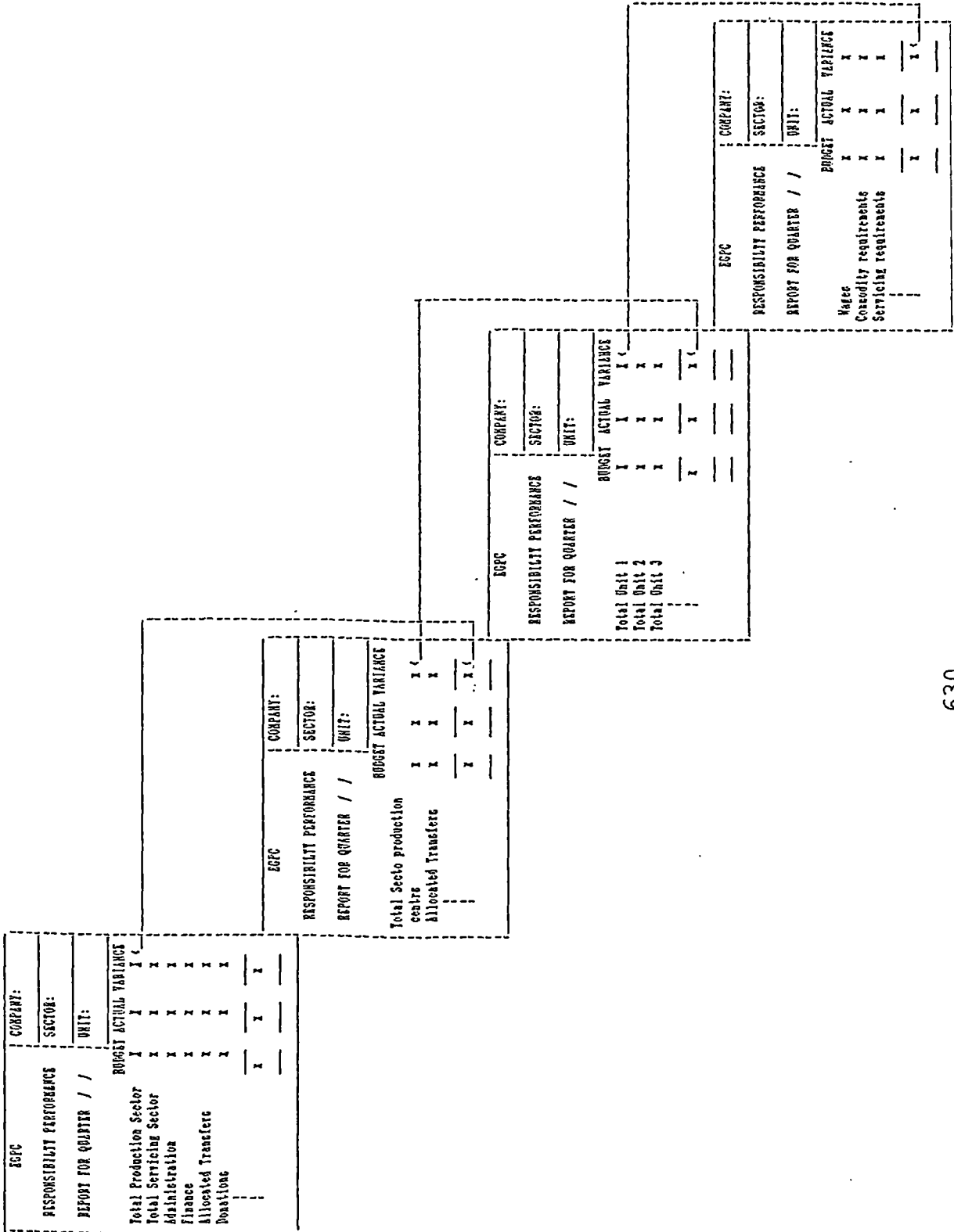
TOTAL COMPANY COSTS

COST REPORT FOR THE PERIOD.....TO.....

	PRIOR YEAR	ACTUAL	BUDGET	ACTUAL	ANALYSIS OF VARIANCE		
	COMPARATIVES			OVER (UNDER)			
				BUDGET	EFFICIENCY	PRICE	NOTES
VARIABLE COSTS							
Wages and Materials							
Services							
Other							
Total Variable Costs							
Level of Activity (units)							
Variable Cost/unit							
FIXED COSTS							
Wages and Materials							
Services							
Other							
Total Fixed costs							
Fixed Cost /unit							
Total cost/ unit							

ARIZIAN GENERAL PETROLEUM CORPORATION

ILLUSTRATION OF RESPONSIBILITY PERFORMANCE REPORTING SYSTEM



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