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## **An Independent Audit Oversight System in a Non-Developed Market: The Case of Egypt**

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**Abstract:** This study aims to provide a better understanding of oversight the audit profession in Egypt, including its motivations, objectives and its working approach. Further, it reaches a better understanding of the Egyptian Big 4 partners' perceptions of the new Audit Oversight Board (AOB). Previous studies have frequently examined the audit oversight system in developed countries (US and UK in particular), but little is known on how the system works on developing countries. We believe that facing different problems and challenges demands that audit regulators in developing countries follow different approaches in order to improve the quality of their audit markets. Lack of skilled auditors, lack of transparency and public accountability, and a high level of corruption are the main problems facing the audit profession in Egypt (Awadallah, 2006, Wahdan et. al., 2005: a). Our findings suggest that establishing an audit oversight board in Egypt has been motivated by the need to attract foreign investments and follow the global trend of auditing in developed countries. A number of legal changes are needed in order to improve the AOB's efficiency.

**Keywords:** Audit oversight – Egypt – Big 4 firms – Developing countries

### **1. Introduction**

In 2008, the Egyptian government sought – for the first time – to oversee the audit profession in Egypt. The Egyptian Financial Supervisory Authority (EFSA) was established to supervise the capital market and to monitor the quality of published information. This includes the authority to issue/modify the Egyptian auditing, accounting and ethical standards. Consequently, the EFSA established the Audit Oversight Board (AOB) to monitor the quality of audit services provided for listed companies.

It was the first time a special register was created for auditors who are allowed to audit listed companies in the Egyptian capital market. This register was created by the AOB and enrolled auditors were then mandated to comply with additional requirements set by the AOB to guarantee an acceptable level of audit quality.

However, monitoring the audit quality in a developing country (i.e. Egypt) is not that easy. It has been argued that lower levels of social accountability, as well as lower levels of public awareness of auditor's roles, exist more in developing than developed countries (Ackerman, 2005; Joshi, 2008; Tanko, 2011). Further, higher levels of corruptions are recognised; in particular, governmental and regulatory corruption (Puddephatt, 2012). The lack of transparency is concerning in the Egyptian audit market, while audit firms are not mandated (or even on a voluntarily base) to publish public reports about their annual performance.

Furthermore, the quality of audit is restricted in the Egyptian market by a number of legal barriers. In Egypt, the accounting practice law 133/1951 has governed the accounting profession since 1951 (Wahdan et al., 2005: b; FCM, 2007). The current law does not allow audit firms to be established in Egypt, as only individual auditors are eligible to audit financial reports and sign audit reports. The Big 4 firms are thus acting, legally, in Egypt as brands rather than legal entities (Eldaly, 2012). However, in practice the Big 4 firms in Egypt are member firms of global networks. For example, KPMG in Egypt is a set of individual audit partners who work on the same working place with allocated audit teams for every partner; every partner audits a set of financial reports and is fully responsible for their auditing without any existence of a legal entity called KPMG as an audit firm. The same is happened with other global audit networks.

The above facts explain why the current accounting law (133/1951) has been criticised by many local parties, while the existence of an independent Audit Oversight Board in Egypt was long called for (FCM, 2007; Samaha, 2008). A new Practicing Accounting Law has been under discussion for more than ten years, but has not yet been ratified (ROSC, 2009). It seems that the AOB in Egypt (and its equivalent in developing countries) is facing different challenges than those existing in developed countries.

Although many studies examine the independent oversight phenomenon in developed countries, the US and Europe in particular (i.e. Bather and Burnaby, 2006; Barlaup et al., 2009; Hazgui et al., 2011; Jeppesen and Loft, 2011), but little is still known about the application of this system to less developed markets. Thus, it is worth to shed the light on the AOB's establishment in a developing country; in particular, the study has a critical discussion of the main elements of the AOB in Egypt. What are the rational and motivations behind the AOB's creation? And what are its main objectives? To what extent they differ from those set by AOBs in developed countries? How does the AOB in Egypt work in such problematic environment? And what are its main challenges? Addressing such questions contributes to the academic literature that currently focuses on the AOB in well-developed markets. The outputs of this study might be useful for international companies that intend to enter the Egyptian market, in particular, or similar developing markets, in general. Cross-boarding companies need information about the quality and transparency of audit markets in proposed markets. Further, the EU Commission (2013) has stressed that available information about the audit oversight system in Egypt is not sufficient to make it equivalent to its counterparts in European countries and so a better understanding of such system is required. That means the findings of this study might be valuable for European audit regulators, and their peers in other developed markets, who need more information about the audit oversight board in Egypt as a regulator of third parties that audit companies listed on developed markets (i.e. UK and US markets) as well as the Egyptian market.

This study aims to provide a better understanding of oversight the audit profession in Egypt, including its motivations, objectives and its working approach. Audit regulators in Egypt, as well as other less developed markets, can benefit from the study's outcomes. Furthermore, our findings reach a better understanding of the Egyptian Big 4 partners' perceptions toward the new AOB. The Big 4 partners are strongly linked to their global

networks in developed countries; this gives them the opportunity to understand different practice of audit supervision in highly advanced markets.

In this regard, according to our point of view, they are the right participants to explore how they perceive the AOB's performance. Understanding the audit partners' perceptions is not an easy process; it is difficult for auditors to comment on what regulators do. However, it is important to understand the auditors' feedback on regulators' performance, as this can enhance cooperation between the two parties. Such effective cooperation, if performed, can improve the quality of the main outputs of the audit process.

This paper reports the results of a study that has used qualitative research methods, involving interviews with senior management teams of the AOB and the Big 4 audit firms, in order to explore how the AOB acts to face up to the main barriers of improving the audit quality in the Egyptian market and how the Big 4 audit partners perceive the AOB's activities. The remainder of this paper is organised as follows. Section 2 discusses the prior literature of independent audit oversight. Section 3 explains the research methodology and methods used in this study. Section 4 is a presentation of the findings. Section 5 presents a final discussion and conclusion.

## **2. Prior research**

This study aims to provide a better understanding of the implementation of audit oversight in Egypt and its internal working system. A number of previous studies have had a similar aim (Bather and Burnaby, 2006; Samsonova, 2009; Hazgui et al., 2011).

Bather and Burnaby (2006) have examined the formation of the PCAOB and explored its working mechanism. This includes the PCAOB's motivations and the independence of its working teams. Relations amongst the PCAOB, Securities and Exchange Commission (SEC), and American Institute of Certified Public Accountants (AICPA), including their mutual influence and interactions, have been discussed. The globalisation of audit clients and the existence of global audit networks that dominate the audit markets<sup>1</sup> has had the effect of creating a similar audit oversight system worldwide. National audit regulators in many countries have been affected by the creation process of the PCAOB and its working system.

Similarly, Samsonova (2009) sheds light on the development of audit oversight system in Russia, including its causes and outputs. Here, the process of developing a local legislative audit framework and re-setting audit laws and standards is discussed with a focus on how this process has been affected by international audit regulations as a result of the desire of local audit regulators to learn from the experiences of their foreign counterparts. In Europe, formatting audit oversight authorities in major states (i.e. UK, France, and Netherland) has been examined (Hazgui et al., 2011; Jeppesen and Loft, 2011).

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<sup>1</sup> The Big 4 audit firms dominate the auditing of the largest listed companies in many of capital markets (Simons and Zein, 2008; ICAS, 2009; US Treasury Department, 2008)

It is also argued that the regulatory regime of PCAOB constitutes a “strong driver” to shape the structure of European inspectors’ authorities; in particular, in the UK and France (Hazgui et al., 2011). Nevertheless, the mutual influence among national audit regulators of different countries cannot override the natural differences between local environments. The blind implementation of independent audit oversight system and its global features have been criticised (Jeppesen and Loft, 2011). National regulators have to consider the features of their national environment and changes have to be made gradually.

In addition, Humphrey et al. (2006) review the progress of the European legislative EU Eighth Directive and argue that without such legislative, European audit firms undertaking audits of US companies have been left substantially at the mercy of the US PCAOB. Five strands were included in both of the European new legislative (i.e. increased sanctions for violated auditors, increased inspections, increased information available for public, and more emphases on auditors’ independence). Samsonova-Taddei and Siddiqui (2015) took a different perspective by examining how the EU Eighth Directive promotes audit ethics; their findings indicate that EU regulators’ restricted view of the conceptual foundations of audit ethics that limits the capacity of their policy to effectively stimulate auditors’ ethical commitment. Bantleon et al. (2011) investigate the effects of implementation of the items addressed in the 8th EU Directive on impact on internal governance mechanisms within the EU member states; they suggest that implementation varies considerably from one jurisdiction to another and no consensus regarding the internal audit function and other internal governance mechanisms within Europe.

Reviewing the literature indicates that protecting public interests and restoring their trust in auditors – by assuring that the history will not be repeated – is the main aim of audit oversight boards (Oxera, 2006). Improving audit quality (Duff, 2009), strengthening auditors’ independence, enhancing corporate governance (Cuebas, 2010; Ojo, 2007) and increasing the transparency and availability of information in capital markets (IOSCO, 2010) were identified as the main strategies that have been followed by oversight boards to achieve their aims.

Furthermore, two different approaches of establishing audit oversight authorities were identified (Maijoor and Vanstraelen, 2012). The first approach includes a public oversight performed by full-time inspectors for all the audit firms registered in the market (i.e. USA, France, and Netherland); while the second one includes a combination of independent oversight and peer review system (i.e. UK where the peer-review system is applied for smaller firms). The former approach is more conservative by monitoring all registered firms while the latter gives attention only to those who audit listed and public interest entities in order to save costs and efforts.

Theoretically, Osma et al. (2006) believe that oversight the audit profession may be explained by the neo-institutional theory that suggests external variables to be the main cause of institutional changes (Bengtsson, 2011). This was the case in the USA after major accounting collapses in the American capital market and the failure of Arthur Anderson and its consequence absence of public trust in auditors. However, the spread transition of audit oversight boards out of the US is explained by the globalisation theory;

that is, parties of audit markets act globally including global networks of audit suppliers together with global forums of regulators and global standards of auditing (Lehman, 2009; Humphrey et al., 2009).

Furthermore, protecting public interests is justified by stakeholder theory in which public interests should be considered in companies' decisions. However, little is known about developing markets and the extent to which audit oversight system in those countries – if established – has been effectively implemented. The main aim of this study is to contribute to the above literature by exploring the working approach of audit oversight board in a major developing country (i.e. Egypt).

In Egypt, before the AOB's establishment, individual auditors had to register with the "general register for accountants and auditors" which was established by the Egyptian Ministry of Finance (ROSC, 2002). Only auditors who register for a specific time (five years as stated by law 133/1951) were permitted to audit listed companies without entering qualifying examinations or requiring Continuous Professional Development (CPD) hours (Samaha, 2008). Furthermore, auditors' performance was not independently monitored. An effective sanction mechanism was lacking for auditors who fail to comply with applicable standards (Wahdan et al., 2005: a). Neither the Stock Exchange nor the Central Bank of Egypt were capable of applying sanctions to violated auditors and organisations (Rahman et al., 2002). In addition, there has been no code of ethics for professional accountants and auditors that commonly applied in the Egyptian market (Wahdan et al., 2005: b).

For public sector, public entities have been audited by a governmental agency "Central Auditing Organisation" (CAO). Public companies in Egypt were required – by the law – to apply a unified accounting system that includes a certain classification and presentation of accounts that do not align with international accounting standards (Awadallah, 2006).

In terms of setting standards, Egypt's accounting standards was issued for the first time in 1997 by the Ministry of Economics, and updated in 2008 by the Ministry of Investment to be in compliance with the International Financial Reporting Standards (IFRS). Furthermore, there were no Egyptian Standards of Auditing; instead, the Arabic version of the International Standards of Auditing has been used (ROSC, 2009). The Egyptian Society of Accountants and Auditors (ESAA) plays an important role in setting the Egyptian standards.

Among other professional accountancy bodies,<sup>2</sup> the ESAA translates/drafts the Egyptian (accounting/auditing) standards to be submitted – for further discussion and approval – to the "Permanent Committee for Standards of Accounting and Auditing" which reports to the Ministry of Investment. A separate committee – which reports to the Central Bank of Egypt – is responsible for setting the same standards for banking sector. It thus risks leading to separate standards for banking and companies (ROSC, 2009).

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<sup>2</sup>Accounting Professional Bodies in Egypt also include the Egyptian Institution of Accountants and Auditors and Registration Committee for Accountants and Auditors.

How, then, could the AOB effectively work in such environment? What is the main AOB's framework (i.e. strategies, projects, and findings)<sup>3</sup> for facing such challenges and improving the audit quality in a developing country (i.e. Egypt)? Addressing such questions is the main aim of this study.

### **3. The Research methodology**

Due to a lack of transparency of the Egyptian audit market, interviews were the most suitable method for collecting relevant data for this research because they allow access to what is going on 'behind the scenes'. Interviews have allowed participants to describe the actuality of their experiences in a complex environment. Talking directly to these senior managers has then helped to develop a clear picture of how they respond to contradictory challenges. It is worth noting that understanding investors' perceptions toward the AOB in Egypt is out of the scope of this study and can be conducted in further research.

Data was collected by conducting semi-structured interviews with the top management of the AOB and audit partners of the Big 4 firms in Egypt. The number of interviews determined by reaching the saturation point (Strauss and Corbin, 1998) at which no more new ideas can be generated. Saturation point has been reached in this study after conducting 12 interviews with two of the top management of the AOB<sup>4</sup> and ten audit partners of the Big 4 firms in Egypt. Further, it is argued that

*“Moving up, a small number of cases, or subjects, may be extremely valuable and represent adequate numbers for a research project. This is especially true for studying hidden or hard to access populations such as deviants or elites ... a relatively few people, such as between six and a dozen,” (Alder and Alder, 2012)*

We believe that conducting 12 “Elite interviews” with the highest level of AOB's management and top leading partners of the Big 4 was enough to achieve the study aim. Elite interviews often involve a small number of interviews and are always relevant when target participants are working in senior positions as many of them do not have time available for research interviews (Kezar, 2003). Each interview took 1.5 - 2 hours. The transcripts of the interviews have been translated from Arabic to English for the analysis purposes. Table 1 summarises the interviewees' positions. Interviewees' open questions were continually modified after each interview to reflect any issues raised in earlier interviews. The interviews were complemented by online data available on the AOB's Webpage as well as published reports connected to the Egyptian audit market and its related regulations.

The AOB's interviews schedule was structured to gather details about the work approach that has been followed by the AOB to face the challenges of audit quality in the Egyptian

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<sup>3</sup> Due to the lacked transparency in the Egyptian market, the AOB's related information is not available for public. Visiting the AOB's website indicates that only objectives and powers of the AOB are available for public with no information about its main strategies, projects or even inspection findings. ([http://www.efsa.gov.eg/content/efsa\\_en/audit\\_pages\\_en/main\\_audit\\_page\\_en.htm](http://www.efsa.gov.eg/content/efsa_en/audit_pages_en/main_audit_page_en.htm))

<sup>4</sup> Due to the confidentiality, authors have not been permitted to interview members of the inspection team.

market. Conversely, audit partners of the Big 4 firms have been asked for their perceptions of the AOB's performance and the extent to which it affects – in their view – the quality of audit market. The interviews were recorded and fully transcribed, while additional notes were taken during the interviews.

The interpretive approach adopted was consistent with Strauss and Corbin's (1998) methodology of gathering and analysing qualitative data. Data analysis was based on three coding procedures: open coding, axial coding, and selective coding. The three stage approach specific to this study is as follows.

The open coding process: concepts are identified and grouped into open categories (tables 2 and 3 in the appendix explain how the codes/open categories are identified and grouped into sub-categories and linked together to build up the core category). 'Line-by-line' analysis of the interviews' transcripts was undertaken to identify certain codes/open categories which were then grouped into sub-categories. Cross-checking was undertaken by the authors, who come from different backgrounds, critiquing each other's interpretations. For example, when the study's participants were asked about the main motivations of establishing an audit oversight system in Egypt, the answers were quoted as follows:

*“We are committed to the IOSCO principles and the main requirements of IFIAR.”*

*“Many of the Egyptian auditors do not have enough experience, skills and facilities to audit listed companies; so we need the government to limit the numbers of unskilled auditors.”*

*“We need a “Dad” to control the performance of the Egyptian auditors.”*

*“We are following the new global trend of governmental oversight of the audit profession in the developed countries.”*

The line-by-line analysis identifies “Membership in international forums of capital markets and audit regulators” and “Improve the quality of registered auditors” as two codes/open categories that explain why the new system has been applied in Egypt as one of developing countries. These two categories were, for example, categorised into one sub-category “Motivations beyond the AOB's establishment”. Further analysis was conducted to address how the Audit Oversight Board in Egypt could achieve the aforementioned motivations. Reverting back to the transcriptions, the following answers were provided:

*“We have to assure the quality of the audit reports to improve the quality of the financial reports of listed companies”*

*“One of our objectives is to encourage the mid-sized firms to become one of the big firms.”*

*“We aim to ensure that Egyptian Auditors have a minimum level of quality and fulfil their auditing and ethical standards' obligations”*

The above quotations were coded under the following open categories: “improve quality of audit reports”, “support small auditors” and “assure the compliance with applicable standards”. These categories were regrouped, for example, into one sub-category: “AOB’s objectives”. Consequently, we explore the AOB’s working approach to address its objectives. The “AOB’s working approach” has been developed as a sub category that include a number of open categories. For example, the following were coded and grouped under “Inspection Teams” as an open category that lies under the heading “AOB’s Working Approach”.

*“The best inspectors are the retired partners, as they are independent and expertise at the same time” but*

*“There is no professional retirement in Egypt... As a result, we appoint governmental experts from the Central Auditing Organisation”*

*“The governmental experts get international training courses in the process of the regulators’ inspections”*

The process of axial coding was followed by finding relationships between developed categories. At this stage, more interviews were conducted to reach the saturation level in which no further ideas were developed.

For example, during the axial analysis, perceptions of the Big 4 partners in Egypt toward the AOB’s inspectors were analysed and compared with the AOB’s management quotations. One of the criticisms of the inspection team was

*“The CAO’s members are not professionals; they are employees in a governmental authority. How can they evaluate our opinions?” (Audit Partner, Company A)*

We went back to the AOB’s management and identified the following quotation

*“The governmental experts get international training courses in the process of the regulators’ inspections” (Regulator B, AOB)*

In addition, when the Big 4 partners have been asked about who, from their viewpoint, may be relevant for this position, one of the answers was

*“The best inspectors are the retired partners, as they are independent and expertise at the same time” (Audit partner, Company B)*

They stressed that some of senior partners would be happy to retire and would only accept leading the inspection process in Egypt if they are offered relevant packages.

*“If the expert partners get reasonable package, they will be happy to play as inspectors.” (Audit Partner, Company A)*

The third and final coding stage is the selective coding, which is the process of integrating and refining the emerged theory (Strauss and Corbin, 1998). According to Strauss and Corbin's approach (1998), theory is defined as:

*“Sets of relational statements that can be used to explain, in a general sense, what is going on.” (Strauss & Corbin, p.145)*

The above example explains how some of the identified codes – that have been quoted from the transcriptions – have been analysed and developed to provide, together, a better understanding of “*What is going on*” in one of the developing countries (i.e. Egypt) and its establishment of Audit Oversight Board for the first time, and also how partners of the Big 4 perceive this new system.

The AOB's framework is the core category of this study that is grouped into the following sub-categories: AOB's motivations, objectives, and working approach. The theory developed was validated by the literature according to Strauss and Corbin approach (Elharidy et al., 2008). Further, we validate our findings by comparing what different participants – who are working at different positions and in different firms – said in different and separate interviews in order to increase the reliability of the collected data. Further, available documents on the EFSA's website and the Big 4 firms' webpages are used to validate the study's findings.

#### **4. Findings: The AOB's framework**

The following findings section discusses the main sub-categories of the core category of this study (AOB's framework). This section is classified into three sub-sections: motivations beyond the establishment of AOB, the AOB's objectives and the AOB's working approach. In every sub-section, the relations between other sub-sections are discussed together with the perceptions of the Big 4 partners.

##### **Motivations beyond establishing the AOB**

As discussed in the prior research section, the independent audit oversight system has been established as a governmental reaction to the major accounting collapses and as a result of lower public trust in audit firms. However, this is not the case in Egypt. In Egypt, auditors are not under attack as there are no issues with the public trust into the audit profession. This is not because investors trust auditors; but because many Egyptian investors still do not have enough awareness of the role of external auditors in the financial reporting; usually when a financial problem has occurred the investors litigate the board of directors rather than the external auditors.

*“The investors of the Egyptian capital market are not aware enough of the responsibilities of the external auditor, that explains why we do not hear in Egypt about litigations against the auditors as the investors are not aware of their responsibilities therefore they do not litigate against them.” (Regulator B, AOB)*

*“There is no crisis of confidence in the Egyptian auditors. The Egyptian investors are not aware enough of the role of the auditors and the importance of their audit report.” (Regulator A, AOB)*

Partners of the Big 4 in Egypt provide additional evidence for the absence of awareness of the role of auditors among the Egyptian investors.

*“The Egyptian investors are not aware of the role of auditors and the financial reporting system.” (Audit Partner, company A)*

*“Many of the Egyptian investors are not aware of the role of auditors and do not care to read the whole audit report.” (Audit Partner, company C)*

*“Only few clients are aware of the auditors’ responsibilities.” (Audit Partner, company A)*

Therefore, what is the real reason that motivates the Egyptian government to oversee the audit profession by independent regulators? Understanding the whole image of the Egyptian capital market can address the previous question. Foreign direct investments (FDI) in Egypt increased from \$237 million in 2003 to more than \$11.5 ‘billion’ in 2007 (UNCTD, 2008). Many FDIs acquired high numbers of small local companies and the number of listed companies reduced from 978 to 435, but their total capital increased from L.E176 billion to L.E1,766 billion in the same period.

These changes are indications of how successful the Egyptian government’s attempts has been in creating a more market-oriented economy and to encourage Foreign Direct Investment (FDI) (Yusuf, 2012). To attract this massive number of FDIs, the capital market’s regulators in Egypt keen to be well linked to the global/developed markets by being a member of international forums of capital market regulators (i.e. International Organisation of Securities Commission (IOSCO) and the International Forum of Independent Audit Regulators (IFIAR)).

*“We are committed to the IOSCO principles and the main requirements of IFIAR in which Egypt has been a member since 2009.” (Regulator B, AOB)*

The membership of such forums enables the EFSA to be involved in having discussions and exchanging information with developed markets’ regulators and sharing the best practice of with them; thus, positive messages can be sent, to foreign investments, about the creditability of the Egyptian capital market and the quality of available and published reports. But IFIAR involves only members who engaging in audit regulatory functions in the public interest and recurring inspection of audit firms undertaking audits of public interest entities<sup>5</sup>. Consequently, an independent audit oversight board in Egypt was established to enable the EFSA to participate in the international forum of independent audit regulators (IFIAR) with its peers in developed countries.

*“We are following the new global trend of governmental oversight of the audit profession in the developed countries, especially the United States.” (Regulator A, AOB)*

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<sup>5</sup> For more details about the IFIAR’s membership, see IFIAR charter at: [www.ifiar.org](http://www.ifiar.org).

Thus, how do the Big 4 audit partners in Egypt perceive the establishment of the AOB and to what extent do they believe that the Egyptian audit market needs to involve independent oversight? The analysis indicates that the Big 4 partners are not satisfied with the quality of information provided by listed companies in Egypt.

*“I am not happy with the current information that is provided in the financial statements of listed companies, we need someone to control our behaviour.” (Audit Partner, company A)*

*“We need a “Dad” to control the performance of the Egyptian auditors.” (Audit Partner, company B)*

They believe that the new independent inspectors can mitigate insufficient practices of some of the Egyptian auditors.

*“Many of the Egyptian auditors do not have enough experience, skills and facilities to audit listed companies; however they are qualified (by the law) to audit them. So we need the government to limit the numbers of unskilled auditors.” (Audit Partner, company C)*

We noticed that the audit partners interviewees mentioned improved audit quality in the Egyptian market more frequently than participated regulators did. AOB’s regulators have paid greater attention to attracting FDIs and being members in global regulatory committees. This may reflect the way in which authorities of developing countries usually think when they deal with public interests; attracting global investors to enter the Egyptian economy is preferable than serving local communities.

We are not saying that audit regulators in Egypt do not pay attention to local interests, but saying that they are highly motivated to attract global investments. However, regardless the causes, the analysis here suggests that monitoring auditors’ performance improves the quality of audit in Egypt together with the level of compliance with applicable standards; auditors have now become more conservative as they have to be investigated by independent inspectors.

*“Recently, the QA review for the audit files has been increased and covered most of our clients and all our high risk clients.” (Audit Partner, company C)*

In sum, the analysis suggests that restoring public confidence in auditors is one of the main motivations of establishing independent audit oversight system in developed capital markets. However, attracting FDIs and being members in the international forums of audit regulators is the main motivation for establishing the independent system in developing countries (i.e. Egypt).

### **The AOB’s Objectives**

Registering and monitoring the performance of those who audit companies listed in the Egyptian capital market is the main aim of the AOB. Analysing the interviews’ transcripts has identified the following objectives that have been addressed to achieve its aim.

Furthermore, reviewing the quality of audit reports and the extent to which auditors are in compliance with applicable auditing standards.

*“We have to assure the quality of the audit reports to improve the quality of the financial reports of listed companies...”*

*We would like to protect the investors in the Egyptian Market from any potential risks through reviewing the audit reports and the auditors’ works of the listed companies.” (Regulator B, AOB)*

To do so, audit files of listed companies have been randomly inspected to assure the quality of audit opinions. The AOB’s management has clearly stressed their focus on the importance of their collaborative role beside their control role. When examining audit files, their role is not only to detect violated auditors and impose sanctions, but also to extend this to help auditors to improve their skills and quality (mid-size and small size auditors in particular).

*“We are not against auditors, we aim to ensure that Egyptian Auditors have a minimum level of quality and fulfil their auditing and ethical standards’ obligations.” (Regulator A, AOB)*

To do so, a number of periodical meetings and events with registered auditors have been conducted to provide guidance on applicable standards and to share the best audit practice among the Egyptian auditors.

Furthermore, training policies of registered auditors have been reviewed and the AOB has encouraged them to apply an annual number of CPD hours in order to assure that their audit teams are regularly trained and updated with changes of applicable accounting and auditing standards. In addition, a cap on the number of audit clients for each registered auditors was required by the AOB. This cap is based on the number of associated audit teams and the size of audit clients.

*“We determine the maximum number of clients for every auditor according to the number of staff in his office.”*

It is worth noting that the cap of audit clients’ number is not required by the current accountancy law in Egypt (Law 133/1951); and is only mandated by the AOB.

*There are no legal restrictions of the maximum number of clients for every auditor; but we are doing that aiming to improve the quality of audit reports of listed companies.” (Regulator B, AOB)*

Such cap avoids auditors (Big 4 partners in particular) being overloaded with a high number of audit clients, giving opportunities to mid-size and smaller auditors to expand by accepting more audit clients.

*“One of our objectives is to encourage the midsize firms to become one of the big firms; actually we have about 10 big audit firms in the Egyptian capital market.” (Regulator B, AOB)*

All of the above explains what the AOB is striving to do to achieve its main aim to monitor the audit quality in the Egyptian capital market and to eliminate the insufficient practices of some of unskilled auditors in the marketplace.

But if the above is the case, a question may be raised about the extent to which auditors of the Big 4 have been affected by the above requirements. Such requirements have been mandated in the Big 4 by their global networks even before the AOB's establishment. So, it is expected that mid-size auditors are more influenced by AOB's requirements than audit partners of the Big 4.

*“We also aim to eliminate non-skilled auditors who have a license to audit listed companies according to the Egyptian regulation, but without having any quality system. They just sign the financial statements and get their fees.” (Regulator A, AOB)*

However, participated interviewees agree that in some cases this is not true. For instance, the cap of audit clients' number was not sufficiently applied by many partners in the Big 4; but now, the AOB's inspection makes a difference.

### **The AOB's working approach**

As stated earlier, there is no available information about the AOB's approach to inspect registered auditors on the AOB's website or any published reports. Thus, this section provides a better understanding of the working system inside the AOB. The AOB's board of directors consists of seven members and four observers. Four subcommittees have been formed by the board: registration committee<sup>6</sup>, inspection committee<sup>7</sup>, standards committee<sup>8</sup>, and sanctions committee<sup>9</sup>. Each committee was appointed to consist of no less than three members and the board may appoint experts that do not practice the profession. This section focuses on the inspection committee to explore how the new inspection unit reviews the performance of registered auditors.

#### *Inspection Teams: lack of relevant people*

Many of the independent inspection units of audit firms in developed countries depend on retired audit partners to participate in the inspection process<sup>10</sup>; retired partners are independent and experts in the market at the same time. However, this is not the case in the Egyptian market. The audit profession in Egypt is unusual in that Egyptian audit

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<sup>6</sup> The registration committee aims to register auditors who have the right to audit listed companies in the Egyptian capital market.

<sup>7</sup> The inspection committee aims to review the listed auditors' performance, inspect their works and audit files and report the results of its inspection to the board of directors.

<sup>8</sup> The standards committee aims to revise and update regularly the accounting and auditing standards, and cooperate with professional bodies, such as accounting associations to issue implementation guides for such standards.

<sup>9</sup> The sanctions committee aims to determine the main sanctions that will be taken against the non-compliant listed auditors.

<sup>10</sup> See, for example, the recruitment policies of the Audit Inspection Unit (AIU) in the UK at: [www.frc.org.uk](http://www.frc.org.uk), and PCAOB in the USA at: [www.pcaob.org](http://www.pcaob.org)

partners usually prefer not to retire; they prefer to continue their audit work till the end of their life.

*“There is no professional retirement in Egypt, the Egyptian professionals prefer to practice their work and sign their financial statements till the last time of their life.”*

Therefore, to practice its inspection activities, the AOB depends on experts from a governmental authority called the Central Auditing Organisation (CAO) instead of retired partners.

*As a result, we appoint governmental experts from the Central Auditing Organisation.” (Regulator B, AOB)*

*“We depend on governmental experts coming from the Central Auditing Organisation to carry out our review process.” (Regulator A, AOB)*

The CAO is a governmental organisation responsible for reviewing the financial performance of the governmental bodies and authorities. The governmental experts may not be considered as participants as they practice their audit activities on behalf of the CAO, rather than by themselves to avoid any conflict of interests.

*“The experts of the CAO are not participants as they do not do their work individually but they do it as representatives of the CAO, therefore there is no conflict of interests in their work.” (Regulator B, AOB)*

Another reason for depending on the CAO’s experts is that conducting new long term agreements with employees in the governmental authorities is currently prohibited, only short term agreements are available (for one year only and could be renewed up to three times maximum).

*“The current Egyptian government does not hire any new employees; you can only hire people by making temporary agreements year by year. Therefore you cannot hire someone from wider profession and tell him to stop work and come to become a governmental inspector because after one year he may not have a job.” (Regulator B, AOB)*

Therefore, the AOB found that it is easier to depend on governmental experts who are current employees in the CAO as they will not face legal problems with their agreements.

The views of the Big 4 firms toward the CAO’s members are widely differing. Members of one of the Big 4 believe that CAO’s members are employees rather than professionals and they cannot effectively evaluate auditors’ judgments. They add that members of CAO do not understand the concepts of ‘materiality’ and ‘analytical procedures’ that are part of auditing standards.

*“The CAO’s members are not professionals; they are employees in a governmental authority. How can they evaluate our opinions?” (Audit Partner, Company A)*

Other partners believe that although CAO’s members need some training, all of them (CAO’s members and auditors) ultimately speak the same language.

However, the AOB’s management stressed that the CAO’s members have attended intensive training courses in developed countries in order to understand natures and aims of independent audit inspection which might be different from reviewing governmental and public bodies.

*“The governmental experts get international training courses in the process of the regulators’ inspections.” (Regulator B, AOB)*

Differently, Big 4 partners argue that auditors who are about to retire are the best people to supervise the inspection process. Once they have offered reasonable packages, they will agree to leave the profession and lead the inspection process in Egypt.

*“The best inspectors are the retired partners, as they are independent and expertise at the same time.” (Audit partner, Company B)*

*“If the expert partners get reasonable package, they will be happy to play as inspectors.” (Audit partner, Company A)*

### **Collecting data of registered auditors: lack of information**

Egyptian auditors are not required – neither by the law nor the standards – to publish annual reports or information about themselves to the public or even the capital market. This lack of information limits the capital market’s regulators to monitor auditors’ performance. The AOB has started to regularly collect data of registered auditors and require them to update the board with any changes.<sup>11</sup>

*“We start our work by collecting data from all the listed auditors about their offices, staff volume and qualifications, how many financial statements they audit every year and the core business for each client.” (Regulator A, AOB)*

This data enables the AOB to create automated database of registered auditors and make different types of analysis such as the market share ratios of the Big 4 partners. It further enables the AOB to make a relevant classifications of auditors (i.e. based on their qualifications; training hours they have; number of employees). Additionally, by collecting this data the AOB can determine the maximum number of clients depending on

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<sup>11</sup> Such data includes, for example, the office address and its legal form, the number of office’s branches and their addresses, the number of staff and their qualifications, the main partners and organisational structure, the main related parties, the main policies and quality assurance system, policies for CPD and policies for clients’ acceptance and continuity.

the number of staff and their qualifications. Auditors can accept new clients only if they hire a reasonable number of new staff to increase their professional capacity.

*“This data will be very helpful for us to have database for each listed auditor then we can do a lot of analysis such as the market share for the big four and the professional capacity for each auditor according to the number of his staff.” (Regulator A, AOB)*

### **Individual auditors not audit firms: legal challenges**

As discussed early, Egyptian Law no. 133/1951, which organises the audit profession in Egypt states that auditors have to practice their profession individually rather than through audit firms or any type of corporation or company. Consequently, the AOB reviews and inspects the quality of auditors’ performances individually rather than through their firms, all the data is collected on an individual basis and not by firm. AOB’s sanctions are provided individually not for the whole firm.

*“The audit profession in Egypt is significantly different from other countries as the Egyptian law no. 133/1951, which organises the audit and accounting profession in Egypt, prohibits practising the audit profession through audit firms or any other type of organisation. The auditor has to sign the financial statements on an individual basis.” (Regulator B, AOB)*

*“According to the Egyptian regulations, we deal with individual auditors not with audit firms as it is prohibited in the Egyptian law no. 133/1951 to practise audit through audit firms.” (Regulator A, AOB)*

Although the AOB management knows that most of registered auditors actually practise their audit activities through audit firms, the board has to be in compliance with applicable laws even if the management is convinced that it is illogical and has to be changed. The Egyptian Financial Supervisory Authority (EFSA) has proposed a new law for the accounting and auditing profession but it has not approved by the Egyptian parliament, and this may take a long time.<sup>12</sup>

*“According to the current law, the unit monitors and inspects the performance of an auditor on an individual basis, which sometimes is not logical because we know that actually they are firms but we are a governmental organisation and have to be committed to the current laws.” (Regulator B, AOB)*

*“Sometimes it is difficult to change current laws and any proposed laws require a long time to be authorised. Moreover, you have to be conservative when issuing any rules; they must be compatible with current law.” (Regulator B, AOB)*

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<sup>12</sup> The new accounting and auditing law was proposed before the Egyptian revolution in 2011 after which many of the proposed laws in Egypt have not been issues yet.

Furthermore, the individual basis of audit practice in Egypt may prevent AOB from applying global trends of audit regulations that need to be imposed on audit firms rather than individual auditors. For example, the debate about changing the ownership rules of audit firms that is discussed in European countries (Oxera, 2007) cannot be applied to the Egyptian market because audit firms are prohibited by Egyptian law. Moreover, Egyptian auditors cannot be required to publish annual transparency reports as required in some developed countries (i.e. US and UK).

*“We cannot apply the transparency reports as Egyptian law does not support audit firms (only individual auditors) but in the future it may be a good idea.”  
(Regulator B, AOB)*

The above suggests that while the audit oversight system improves quality in Egypt, legal challenges still limit their effectiveness, issuing a new accountancy law is highly recommended.

#### *Inspection methodology*

The AOB periodically reviews the performance of registered auditors who audit listed companies. It is important to understand that the frequency of the inspection process depends on potential risks that are related to the auditors themselves. Registered auditors have been classified annually based on the number of their listed audit clients. Individual engagement partners who audit five listed companies or more are considered as high risk auditors and have to be reviewed annually. On the other hand, engagement partners who audit less than five listed companies are considered as low risk auditors and have to be reviewed every three years.

*“We classify the auditors into two categories:*

- a. High risk auditors who audit at least five listed companies, we review them annually.*
- b. Low risk auditors who audit less than five listed companies, we review them every three years.” (Regulator A, AOB)*

To conduct the inspection process, a check list is prepared that consists of two parts: the first part aims to assure the validity and efficiency of the office structure.<sup>13</sup> For example, the existence of a quality assurance system, continuous professional development, a learning resources centre, client’s acceptance policies and independence policies. The second part aims to assure the efficiency of the technical procedures of the audit process and to what extent the audit files are fulfilling auditing standards. For example, the planning process, analytical procedures, sampling, test of details and reporting process.

The contents of the previous check list are compatible with the main requirements of registration in the EFSA’s listed auditors. Such compliance enables the listed auditors to be aware of their duties and avoid being surprised by the results of the AOB’s inspection.

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<sup>13</sup> Due to the confidentiality of data, the inspection check list is not available for public. Authors were not permitted to have a copy of the check list.

*“The check list consists of two parts:*

- a. The aim of the first part is to ensure that the office work (includes the main policies, training courses for the staff, library or good resources for the professional standards, no. of staff, staff qualifications, organisational structure ...etc.) is committed to the main requirements of registration in EFSA’s listed auditors that have been announcement on our web page.*
- b. The aim of the second is to ensure that the audit files are committed with the auditing and ethical standards” (Regulator B, AOB)*

Following the inspection process, the final inspection reports of the AOB have to be provided annually to the board of directors for its approval. Subsequently, individual reports to be sent to inspected auditors containing the main findings and areas to be improved. However, there are no inspection reports available on the AOB’s website.<sup>14</sup>

*“We send an individual report to each auditor which consists of our specific and detailed notes on his performance and if there any mandatory modifications he has to fulfil.” (Regulator A, AOB)*

The Big 4 partners have different view for the optimal inspection methodology. They propose both the inspection team and the inspection methodology to be key success factors for the AOB’s work.

For the inspection teams, partners of the Big 4 state that there are some conditions and a number of qualifications that have to be achieved by inspection teams to assure the success of the inspection process. For example, to evaluate auditors’ judgments, inspection teams have to be specialists in the business of the companies they inspect.

*“The best inspector is the one who knows the nature of the business being audited, as he can effectively evaluate my opinion” (Audit Partner, Company A)*

In addition, inspectors must achieve objectivity and fairness in their evaluation to gain the auditors’ confidence. They also have to achieve a high level of security and secure the confidentiality of audit information. They must not be competitors or related parties to the competitors of reviewed auditors.

*“They have to give high attention to the security of information; our files include very confidential data for our clients.” (Audit Partner, company B)*

In terms of the inspection methodology, participating partners stressed that an effective inspection methodology is guaranteed through the existence of three areas. First, inspect the commitments to ethical standards and independent policies i.e. the internal quality control system - applying relevant safeguards when providing non-audit services. Secondly, inspect the engagement management process at different stages from audit planning stage to the clients’ acceptance. Thirdly, inspect the quality of audit work by reviewing the audit files of the companies to decide to what extent the auditors fulfil their obligations toward the auditing standards.

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<sup>14</sup> The authors’ last access to the AOB’s website is on October 2015.

*“The main success factor of the AOB’s work is the inspection’s methodology, how they will do their work.” (Audit Partner, Company A)*

Furthermore, it is agreed by our participants that registered auditors have to know the criteria of the inspection process.

*“If the AOB would like to encourage us to cooperate with them, they have to not surprise us” (Audit partner, Company B)*

### **Cooperation with professional bodies**

The AOB cooperates with professional bodies in Egypt by conducting a number of training courses and continuous professional developing system for registered auditors.

*“We would like to encourage the Continuous Professional Development (CPD), we have signed memos of understanding with Cairo University, Syndicate of Commercial Profession, Egyptian Society of Accountants and Auditors, and Ministry of finance to prepare training courses for all the listed auditors to improve the quality of the audit profession.” (Regulator A, AOB)*

The AOB usually send its proposed projects to the Egyptian accounting associations to get their feedback.

*“We have already called for feedback from the professional bodies and public on our projects and we receive their responses through our website. Usually, we sharing it with six associations: Egyptian Capital Market Association, Egyptian Insurance Federation, Egyptian Society of Accountants and Auditors, General Authority for Investment, and Ministry of Investment.” (Regulator B, AOB)*

Furthermore, to be able to register on the AOB’s public register and audit listed companies, the AOB requires that auditors have to be members of an accounting professional body (ESAA in particular) or PhD holders. The current accounting law in Egypt (133/1951) does not require adequate practical knowledge from novices to perform the audit. To be legally as a qualified auditor, an applicant only needs a certificate from a qualified auditor to approve a minimum period of work experience (three years in continues) without further exams or training courses.

Thus, the AOB trusts in the ESAA’s system that requires auditors to pass two professional exams (in Eight modules) to receive ESAA membership beside their CPD system that they apply to their members. This requirement – to be a registered auditor in the AOB’s public register – aims to eliminate unskilled auditors in auditing – at least – listed companies and to consequently improve audit quality in the Egyptian capital market.

*“We make it mandatory for any auditor to register in the AOB and audit listed companies, to hold a PhD or be a member of ESAA as its membership requires passing two exams through three years. This is to assure the quality level of the*

*participants and their knowledge of accounting and auditing standards.” (Regulator B, AOB)*

*“There are 3000 auditors registered in the Egyptian ministry of finance that have the right to audit Egyptian companies according to the current law.” (Regulator A, AOB)*

An additional way of achieving cooperation between the AOB and professional bodies has been to ensure that four of the Egyptian professional bodies are observers in the AOB board of directors (Egyptian Society of Accountants and Auditors, Egyptian Institute of Accountants and Auditors, Egyptian Capital Market Association, and the Syndicate of Commercial Professions).

*“We discuss technical issues with the professional bodies such as ESAA and they can send us their feedback on our rules, we can depend on them to make training courses for the current participants (CPD) or they can prepare studies on the audit profession in Egypt.”*

However, the AOB believe that the representatives of professional bodies may have negative effects on the board’s members when they take sanctions decisions. Hence, observers have been prevented from attending these meetings.

*“They must not attend the meetings of our board of directors so as to avoid any conflict of interests and bias when issuing our decisions as these bodies consist of the main participants of the profession in Egypt and they can affect the members of board of directors even if they are only observers. Therefore, when we have any important decisions related to one of the listed auditors we do not invite these bodies or their members to attend our meetings.” (Regulator B, AOB)*

Furthermore, partners of the Big 4 also suggest more cooperation between the AOB and accounting professional bodies in Egypt (i.e. the Egyptian Society of Accountants and Auditors) and Big 4 auditors in order to improve the quality of the audit market.

*“The EFSA have to cooperate with the Big 4 firms to know the actual problems of the audit profession and provide effective solutions.” (Audit Partner, Company B)*

## **5. Discussion and conclusion**

This study has aimed to provide a better understanding to how audit regulators work in an emerging market. Previous studies have frequently examined the audit oversight system in developed countries (US and Europe in particular) (i.e. Bather and Burnaby, 2006; Samsonova, 2009; Hazgui et al., 2011; Jeppesen and Loft, 2011; Maijoor and Vanstraelen, 2012) but demonstrated a lack of knowledge of how it works on developing countries. We have contributed to the auditing literature by exploring the audit oversight system and its working approach in a developing country (i.e. Egypt). We believe that facing different problems and challenges impose audit regulators in developing countries to follow different approaches to improve the quality of their audit markets. Lack of

skilled auditors, lack of transparency and public accountability, and a high level of corruption are the main problems of the audit profession in Egypt (Awadallah, 2006, Wahdan et. al., 2005: a).

It is worth noting that the AOB's framework is not published on its website or even in any of the capital market's reports. Furthermore, this study does not only aim to explore the AOB's framework, but also the analysis explores the perceptions of the Big 4 audit partners in Egypt toward the AOB's activities.

We suggest that the main motivation of oversight the audit profession in developing countries (including Egypt) is differing from developed countries. While audit regulators in developed countries give the highest priority to restore public trust in auditors (Oxera, 2006; US treasury, 2008; FRC, 2010) after major accounting collapses, the Egyptian audit regulators are paying more attention to maintain the massive number of FDIs that entered the Egyptian market in the first decade of the 21<sup>st</sup> century. To do so, they have to have an independent audit oversight system and be members of international forums of audit regulators. Thus, the Audit Oversight Board in Egypt has been established in order to monitor auditors' performance and add more credibility to the local market.

It is argued that the current accountancy law (133/1951) in Egypt is outdated and irrelevant to improving the audit quality (ROSC, 2004; Awadallah, 2006). Our findings indicate that legal changes in Egypt take too long and the process is too complicated to adopt. At least this is the case in the new accounting law that has been proposed by the EFSA since 2010 and has not changed until now. Such a delay may be justified by the political changes that have happened in Egypt over the last five years, including the Egyptian revolution in 2011 and its consequences.

To overcome the legal barriers of the current – out of date – accountancy law, audit regulators in Egypt have created a new public register for auditors who are allowed to audit listed companies in the Egyptian market. Registered auditors have to follow additional requirements – set by the AOB – that aim to guarantee a minimum level of quality in the audit process.

To achieve its overall aim, the following AOB's objectives have been addressed and identified during the analysis process: setting a cap on the number of audit clients of each registered auditor, encouraging registered auditors to apply a CPD system to their audit teams, mitigating threats of auditors' independence, and cooperating with accountancy bodies in Egypt. Those objectives might be similar to those that have been set by regulators in developed countries, but the main theme here – which differs from developed countries – is that the legal framework does not support the previous objectives. The AOB in Egypt is used to setting its own regulations that are applied only by registered auditors in the AOB's public register rather than the rest of Egyptian auditors.

Further, in the past audit regulators in developed countries used retired auditors to lead inspection teams. However, the AOB cannot use the same approach as only few auditors are retired in Egypt. To face this challenge, the AOB depends on employees from the Central Auditing Organisation (CAO) to perform the inspection process. CAO's

employees have been offered training programs in the inspection techniques and some of these programs have been provided by independent regulators in developed countries.

The Big 4 audit partners support the establishment of the AOB in Egypt. They believe that monitoring the audit market will improve its quality and mitigate the corrupted practice in the Egyptian market. Some of the Egyptian partners have concerns about the performance of the CAO's employees and believe that some of the senior partners would agree to retire and lead the inspection teams if they are provided with reasonable packages.

We will conclude that monitoring the audit profession in a developing country cannot be conducted with the same approaches and strategies that have been applied in developed countries. Although different audit regulators share their best practice in global forums, local environment always impose its own challenges. That is what we found in our study on the Egyptian capital market which has common features that can be applied in other developing countries as well. Our study sheds light on the audit oversight system in a country that differs from what we usually know from the literature. Therefore, we can say confidently that our findings are also different.

Auditors in Egypt and audit regulators in different countries may be interested in the study's outputs. Audit researchers will be interested in understanding a new experience of monitoring the audit market in a different audit environment than they have previously known. Further research can then be conducted using different methodologies to examine the effects of the AOB in Egypt on the quality of audit reports of inspected auditors.

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## Appendix

**Table 1: Summary of conducted interviews**

<b>Interview number</b>	<b>Interviewees' positions</b>	<b>Interviews' duration</b>
<b>1</b>	Senior audit regulator (A) at AOB	1.5 hours
<b>2</b>	Audit partner, Firm A	2 hours
<b>3</b>	Audit partner and Head of technical committee, Firm C	3 hours
<b>4</b>	Audit leader partner, Firm B	2 hours
<b>5</b>	Risk management partner, Firm A	2 hours
<b>6</b>	Senior audit regulator (B) at AOB	2.5 hours
<b>7</b>	Audit partner and Head of Audit, Firm A	2.5 hours
<b>8</b>	Audit partner, Firm A	2.5 hours
<b>9</b>	Audit partner, Firm D	3 hours
<b>10</b>	Audit partner, Firm C	2 hours
<b>11</b>	Audit partner, Firm B	2 hours
<b>12</b>	Audit partner, Firm D	2 hours
<b>Total hours</b>		<b>27 hours</b>

**Table 2: The developed open categories and examples of their identified codes**

Quotations	Open codes/Categories
<p><i>“We are committed to the IOSCO principles and the main requirements of IFIAR”</i>  <i>“We are following the new global trend of governmental oversight of the audit profession in the developed countries, especially the United States.”</i></p>	<p>Attracting foreign investments                      Being members in international forums of capital markets and audit regulators</p>
<p><i>“We have to assure the quality of the audit reports to improve the quality of the financial reports of listed companies”</i>  <i>“We aim to ensure that Egyptian Auditors have a minimum level of quality and fulfil their auditing and ethical standards’ obligations”</i></p>	<p>Improve the quality of registered auditors</p>
<p><i>“We need a “Dad” to control the performance of the Egyptian auditors.”</i>  <i>“I am not happy with the current information that is provided in the financial statements of listed companies, we need someone to control our behavior.”</i>  <i>“We need the government to limit the numbers of unskilled auditors.”</i></p>	<p>Auditors’ perceptions toward the AOB’s establishment</p>
<p><i>“We would like to protect investors in the Egyptian Market from any potential risks through reviewing the audit reports and the auditors’ works of the listed companies.”</i></p>	<p>Inspect the performance of listed auditors</p>
<p><i>“We would like to encourage the Continuous Professional Development (CPD), we have signed memos of understanding to prepare training courses for all the listed auditors to improve the quality of the audit profession.”</i></p>	<p>Encourage the CPD system</p>
<p><i>“One of our objectives is to encourage the midsize offices to become one of the big offices; actually we have about 10 big audit offices in the Egyptian capital market.”</i></p>	<p>Encourage Mid-size auditors</p>
<p><i>“We also aim to eliminate non-skilled auditors who have a license to audit listed companies according to the Egyptian regulation, but without having any quality system.</i></p>	<p>Eliminate unskilled auditors to audit listed companies</p>
<p><i>“Recently, the QA review for the audit files has been increased and covered most of our clients and all our high risk clients.”</i></p>	<p>Auditors’ perceptions toward the AOB’s strategies</p>

<p><i>“There is no professional retirement in Egypt, the Egyptian professionals prefer to practice their work and sign their financial statements till the last time of their life.”</i></p> <p><i>“We depend on governmental experts coming from the Central Auditing Organization to carry out our review process.” (Regulator A, AOB)</i></p> <p><i>“The experts of the CAO are not participants as they do not do their work individually but they do it as representatives of the CAO, therefore there is no conflict of interests in their work.”</i></p> <p><i>“The governmental experts get international training courses in the process of the regulators’ inspections.”</i></p>	Independent teams of inspection
<p><i>“We start our work by collecting data from all the listed auditors about their offices, staff volume and qualifications, how many financial statements they audit every year and the core business for each client.”</i></p> <p><i>“This data is helpful for us to have database for each listed auditor then we can do a lot of analysis such as the market share for the big four and the professional capacity for each auditor according to the number of his staff.”</i></p>	Databases of registered auditors
<p><i>“We classify the auditors into two categories...”</i></p> <p><i>“The check list consists of two parts...”</i></p> <p><i>“We send an individual report to each auditor which consists of our specific and detailed notes on his performance and if there any mandatory modifications he has to fulfil.”</i></p>	Inspection methodology
<p><i>The Egyptian law no. 133/1951 prohibits practicing the audit profession through audit firms or any other type of organization. The auditor has to sign the financial statements on an individual basis.”</i></p> <p><i>“According to the Egyptian regulations, we deal with individual auditors not with audit firms as it is prohibited in the Egyptian law no. 133/1951 to practice audit through audit firms.”</i></p> <p><i>“According to the current law, the unit monitors and inspects the performance of an auditor on an individual basis, which sometimes is not logical because we know that actually they are firms but we are a governmental organization and have to be committed to the current laws.”</i></p> <p><i>“Sometimes it is difficult to change current laws and any proposed laws require a long time to be authorized. Moreover, you have to be conservative when issuing any rules; they must be compatible with current law.”</i></p>	Legal challenges
<p><i>“We have already called for feedback from the professional bodies and public on our projects and we receive their responses”</i></p> <p><i>“We make it mandatory for any auditor to register in the AOB and audit listed companies, to hold a PhD or</i></p>	Cooperation with professional bodies

<p><i>be a member of ESAA as its membership requires passing two exams through three years”</i></p> <p><i>“We discuss technical issues with the professional bodies such as ESAA and they can send us their feedback on our rules, we can depend on them to make training courses for the current participants (CPD) or they can prepare studies on the audit profession in Egypt.”</i></p>	
<p><i>“The CAO’s members are not professionals; they are employees in a governmental authority. How can they evaluate our opinions?”</i></p> <p><i>“The best inspectors are the retired partners, as they are independent and expertise at the same time.”</i></p> <p><i>“If the expert partners get reasonable package, they will be happy to play as inspectors.”</i></p> <p><i>“The best inspector is the one who knows the nature of the business being audited, as he can effectively evaluate my opinion”</i></p> <p><i>“They have to give high attention to the security of information; our files include very confidential data for our clients.”</i></p> <p><i>“If the AOB would like to encourage us to cooperate with them, they have to not surprise us”</i></p> <p><i>“The EFSA have to cooperate with the Big 4 firms to know the actual problems of the audit profession and provide effective solutions.”</i></p>	<p>Auditors’ perceptions of the AOB’s working approach</p>

**Table 3: The developed categories of the analysis process**

Open codes/Categories	Axial codes/Sub-categories	The core category
Attracting foreign investments by being a member in international forums of capital markets and audit regulators	Motivations beyond the AOB's establishment	Main elements of the AOB's framework
Improve the quality of registered auditors		
Auditors' perceptions toward the AOB's establishment		
Inspect the performance of listed auditors	AOB's Objectives & Strategies	
Encourage the CPD system		
Encourage Mid-size auditors		
Eliminate unskilled auditors to audit listed companies		
Auditors' perceptions toward the AOB's strategies		
Independent teams of inspection	AOB's Working approach	
Databases of registered auditors		
Inspection methodology		
Legal challenges		
Cooperation with professional bodies		
Auditors' perceptions of the AOB's working approach		