‘Auditing’ the Egyptian Auditors: The Case of a ‘Performativity Spectacle’ of Audit Oversight.

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Peter Ghattas (MacEwan University)
Teerooven Soobaroyen (University of Essex)
Oliver Marnet (University of Southampton)

Abstract

This paper critically analyses the outcomes of audit oversight reforms in developing countries, by examining the establishment of the Egyptian Audit Oversight Unit (AOU) and its subsequent operations, primarily in relation to its use of compliance reviews. The research relies on 32 semi-structured interviews with actors involved with the regulator and audit firms (local firms and affiliates of international firms, including Big 4s), supplemented by documentary evidence.

The findings reveal how the AOU’s formation was a response to global reforms advocating the need for audit oversight boards, but so far there has been little evidence of consequential change in audit practice. Drawing on Debord’s theoretical lens of the ‘Spectacle’, the paper highlights the AOU’s current structure and emphasis on checklist-based compliance reviews and other ‘visible’ artefacts (e.g. quality control manuals) as a performativity spectacle. In this regard, local firms merely sought to pass the symbolic AOU’s inspection regime while
international ones effectively bypassed oversight by projecting an image of ‘best practices’ associated to their global network. Hence, it is argued that the AOU’s regime merely bred symbolic compliance, and raises concerns as to the capacity of public oversight boards in developing countries to participate effectively in transnational audit oversight arrangements.

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

Introduction

“This is how oversight and regulations, as we know it, work in Egypt. It is not an after-practice oversight. It is a limiting oversight before practice. There is no real active and regular inspection. In Egypt, our oversight is deemed complete with the creation of the oversight unit, but how it functions, they don’t care” (A managing partner at an international audit firm in Egypt).

Over the last two decades or so, a series of high-profile corporate scandals have questioned the ability of the so-called ‘Anglo-American’ self-regulation model in overseeing audit practice and in mitigating the risk of audit failures (Arnold, 2012; Hazgui and Gendron, 2015; Humphrey et al., 2011). Consequently, Public Oversight Bodies (POBs) were introduced as a new powerful class of regulators with a mandate to improve audit practice and quality (Caramanis et al., 2015; Maroun and Atkins, 2014). Specifically, their role was to develop a concrete idea of what is
meant by compliance to audit regulations, and subsequently, to ‘monitor, enforce and penalize non-compliance with professional standards and practices’ (Dowling et al., 2015, p. 3; Maroun and Atkins, 2014). Inspired by the U.S. Public Company Accounting Oversight Board (PCAOB), there has therefore been an impetus to replicate the concept of POBs globally with a similar mandate. These new regulatory measures have been introduced in developed countries, e.g. the U.K., Australia and Canada (Holm and Zaman, 2012; Malsch and Gendron, 2011; Unerman and O’Dwyer, 2004), most of the countries in the EU bloc (Loehlein, 2017), as well as in several developing countries, e.g. South Africa (Maroun and Atkins, 2014), and recently in Egypt. Overall, the number of POBs which joined the International Forum of Independent Audit Regulators (IFIAR) grew from eighteen in 2006 to fifty-two in 2015 (IFIAR, 2017).

It has been observed that the POBs seem to be applying different enforcement styles and registration requirements for monitoring audit firms (Dowling, et al., 2015; Hazgui and Gendron, 2015; Loehlein, 2017; Malsch and Gendron, 2011). This observation also applies to the use of ‘compliance reviews’, which are regular inspections and evaluations of a registered audit firm’s practices and quality control systems; either by relying on peer-review based inspections or direct inspection by POB staff. Several studies have sought to evaluate the contribution of POBs and their compliance reviews on the level of audit quality and, on the basis of quantitative analyses, they have identified, in the main, positive outcomes (DeFond and Lennox, 2011; Francis, 2004). However, such cross-sectional studies of audit quality inherently do not provide evidence of changes in audit practices at the firm level (Humphrey, et al., 2011; Power, 2003) and the findings appear seem to vary according to how proxies of ‘audit quality’ are measured.
Across different jurisdictions therefore, critics question whether audit reforms and POBs have generated material improvements in audit quality (Carson et al., 2013; Dowling, et al., 2015; Humphrey, et al., 2011; Malsch and Gendron, 2011). Some regard such audit reforms to be lacking substance, unable to change reality, and could be considered as a ‘tick-the-box’ exercise to legitimise the presumed existence of control at an arms-length basis (Dowling, et al., 2015; Hazgui and Gendron, 2015; Humphrey et al., 2009; Malsch and Gendron, 2011; Maroun and Atkins, 2014; Power, 2009; Unerman and O’Dwyer, 2004). As a response to external pressures, some national POBs do appear to mirror the operational image of leading POBs (such as the PCAOB), but this does not necessarily lead to changes to audit practice (Caramanis, et al., 2015). In this respect and crucially, there is scant evidence on how POBs operate in developing countries. Therefore, responding to calls to examine audit regulatory sites outside developed countries, and given the scant research on POBs and their oversight approach in developing countries (Cooper and Robson, 2006; Gillis et al., 2014; Maroun and Atkins, 2014; Suddaby et al., 2007), this study analyses the establishment and oversight approach of the Egyptian Audit Oversight Unit (AOU)\(^1\), as an arm of the Egyptian Financial Supervisory Authority (EFSA) responsible for auditor oversight. Specifically, this study raises the following questions (1) How did the AOU conceive of its role, and implement its compliance reviews, in the Egyptian context? (2) How did the local audit firms (affiliates of international firms and local firms) view, and respond to, the new oversight regime? We aim to answer these questions by interviewing thirty-two senior officials in regulatory circles and senior/junior level auditors in international and local

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\(^1\) In 2008, the Audit Oversight unit (AOU) was established (operations started in 2009).
firms in the Egyptian context. Decrees, laws, and official internal documents were also used as secondary data for triangulation and validation purposes.

Our motivations and intended contributions for this study are as follows. After the 2007/8 financial crisis, the global regulatory arena witnessed the creation of POBs and new institutions to facilitate POB coordination and to ensure ‘consistent’ global oversight, i.e. International Forum of Independent Audit Regulators (IFIAR), and The Committee of European Auditing Oversight Bodies (CEAOB)\(^2\) (Humphrey, et al., 2009). POBs are increasingly engaged in knowledge sharing, and interdependency oversight arrangements (Gillis, et al., 2014; IFIAR, 2012a). Yet, in spite of emerging empirical forays, little is known in terms how audit oversight is ‘played out’ in the local context (Dowling, et al., 2015; Hopper et al., 2017; Houghton et al., 2013). Distinctively as well, the empirical context of Egypt presents a developing country case where local regulators have been attempting to replicate, localize and implement an oversight regime on a local audit profession that has never been subject to either self-regulation or public oversight prior to the reforms. At the same time, the level of public and/or political support on the subject matter can be considered to be far less active in developing countries such as Egypt than in the case of developed countries (e.g. Canning and O’Dwyer, 2016). Furthermore, transnational oversight arrangements, particularly the link between POBs in developing countries and the global audit arena, remain an under-investigated issue (Kleinman et al., 2014; Sunderland and Trompeter, 2017).

\(^2\) ‘The Audit Regulation, which became applicable on 17 June 2016, repealed the decision establishing the European Group of the Auditors' Oversight Bodies (EGAOB) (Commission Decision 2005/909/EC). The EGAOB has therefore ceased to exist’ (European Commission, 2016).
Theoretically, we draw upon the theoretical framework of ‘Society of the Spectacle’ by Debord (1967, 1988) to frame our empirical findings and to critically evaluate how the creation and operation of POBs in developing countries are shaped by, and integrated into, a global audit spectacle. Debord’s concept of the spectacle explains the gradual domination of global capitalism over modern societies, where reality is driven, manipulated and controlled by theatrical spectacles portrayed in the media (Boje et al., 2004; Uddin et al., 2011). The spectacle is a metaphoric term which refers to ‘a corporately orchestrated performance’, a social control mechanism, whereby global forces (corporations/transnational standards-setters) repeatedly portray images of implemented pseudo-reforms to gain the public’s confidence and maintain the existing order (Boje, 2001, p.432; Uddin, et al., 2011). Debord’s analogy of the spectacle could provide a useful theoretical lens to analyse audit reforms at the national and global levels (Gumb, 2007; Flyverbom and Reinecke, 2017).

The next section discusses the introduction of POBs globally and in different countries, and the extent to which such reforms have influenced audit quality; followed by a section on the transnational interdependency between POBs. We then present our theoretical lens of the ‘spectacle’, as conceptualized by Debord (1967; 1988) and supplemented by the work of Flyverbom and Reinecke (2017), to analyse the Egyptian oversight function and its interaction with the global regulatory structure. This is then followed by the research methods section. We then set out the Egyptian case and finally conclude with the discussion and resulting implications.
Prior work on Public Oversight Boards (POBs) and compliance reviews

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

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

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

More generally, Caramanis, et al. (2015) warned that enacting Anglo-American inspired POBs without careful consideration of the national context does not necessarily result in enhanced audit quality. In this regard, the emphasis is arguably on the need to investigate the POBs’ operations and dynamics in different national contexts. In particular, how would POBs operate in a different institutional environment if they borrowed the same oversight mechanisms from global ‘best practice’? The attempt to replicate of PCAOB model in Europe demonstrated how variations in the POB’s organizational and functional structures ultimately led to distinctive forms of POBs (Loehlein, 2017). For example, the PCAOB addresses issues of independence by
requiring that two of its five board members be certified auditors whilst the British Financial Reporting Council (FRC) followed suit by requiring a majority of its 16 board members to have a five-year cooling-off period before switching from practice to regulatory work. Yet the independence of the FRC remains questionable due to the fact that the audit profession provides half of its funding (Loehlein, 2017). Moreover, Latvia, Italy and Hungary opted to set up their POBs within the government, with civil servants as board members independent from the profession to signal a high level of independence but not necessarily of sufficient competence. In contrast, the Swedish Supervisory board is also set up as an independent governmental body, but its decision making body responsible for disciplinary action (the Oversight Board) does include members from the profession (Loehlein, 2017). Therefore, it seems that the worldly attempts to establish a POB often lead to some form of ‘structural replication’ of the PCAOB’s arrangements albeit that the evidence in developing countries remains quite limited.

With regards to the specific case of compliance reviews, Carson, et al. (2013) first observed that countries which established POBs and conducted compliance reviews reported higher levels of audit quality. Given the POBs’ concern about audit firms having to ‘pass’ compliance reviews (Daugherty and Tervo, 2010; Dowling, et al., 2015; Hazgui and Gendron, 2015), audit firms seem to have begun focusing on auditing processes, employing additional audit procedures and extensive checklists to increase the ‘process visibility’ of audit quality (Dowling, et al., 2015; Martinow, et al., 2016; Power, 2009); yet with little evidence of this having an effect on a broader set of audit outcomes (Houghton, et al., 2013; Johnson et al., 2014; Power, 2009). From the audit firms’ perspective, compliance reviews have centred around demonstrating a more

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3 Carson, et al. (2013) used the level of abnormal accruals of audit firms’ client companies as a measure of audit quality.
structured audit process in order to manage inspection risk; sometimes on the account of audit risk (Johnson, et al., 2014; Martinow, et al., 2016). Contrastingly, Daugherty and Tervo (2010) concluded that smaller firms did not perceive that the compliance reviews enhanced audit quality. Furthermore, while Knechel et al. also (2012) concluded that compliance reviews in the US PCAOB’s case might have improved audit quality, the studies inherently do not assess whether compliance reviews impact on the audit firms’ quality control practices; particularly since the outcome of these reviews are often not disclosed (DeFond, 2010; Gunny and Zhang, 2013; Knechel et al., 2013).

In summary, POBs were introduced under the assumption of enhancing audit quality through the monitoring and enforcing the implementation of audit standards. However, one could argue that the introduction of POBs, with their different national arrangements for compliance reviews, could instead lead to the implementation of a bureaucratic set of locally tailored procedural checklists that limits the regulator’s ability to engage in a substantial analysis of audit firm practices (Dowling, et al., 2015; Malsch and Gendron, 2011), but yet portray an image of enhanced audit quality. The fact that there is a significant influence on POBs from various transnational institutions is an additional aspect to consider.

*Transnational Oversight and Regulatory Arrangements*

National POBs are involved in transnational regulatory arrangements, bilaterally and under umbrella organizations i.e. IFIAR and CEAOB⁴ (Cooper and Robson, 2006; Kleinman, et al., 2014; Malsch and Gendron, 2011). This has been part of a coordinated effort between these

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⁴ The Audit Regulation, which became applicable on 17 June 2016, repealed the decision establishing the EGAOB (Commission Decision 2005/909/EC). The EGAOB has therefore ceased to exist. (European Commission, 2016)
institutions to insure the stability of financial markets after a series of financial reporting
scandals (Caramanis, Dedoulis, and Leventis 2015). Several factors require an international
perspective to appreciate how, and why, POBs operate in certain ways. Firstly, the global
financial crisis in part highlighted the role of the auditors of banking institutions, as well as the
(limited) regulatory capacity and capability of their national POBs (Humphrey, et al., 2009;
Sikka, 2009). This resulted in what Humphrey, et al. (2009, p. 812) call a ‘standards–
surveillance–compliance’ system between international POBs and the international profession in
pursuit of transnational governance of audit practices. Secondly, there has been increasing
interest in the audits of large multinational groups (Carson, et al., 2013). Following the concerns
raised by the PCAOB and IAASB on this issue (IAASB, 2015; PCAOB, 2016), Sunderland and
Trompeter (2017) discussed several problems facing POBs and auditors of multinational groups
in applying relevant auditing standards, e.g. ISA 600\(^5\) on the conduct of group audits. For
example, they highlighted that differences in cultural and national contexts are among the main
reasons leading to inconsistencies in applying ISA 600, a principles-based standard (Sunderland
and Trompeter, 2017). Hence, one essential purpose for the global spread of POB replicas is to
‘ease agency problems’ (Caramanis, Dedoulis, and Leventis 2015, p. 13) by relying on each
other’s compliance reviews.

Within the EU bloc, the CEAOB was established to facilitate the coordination between European
CEAOB recommends equivalence and mutual oversight recognition for POBs that are deemed to

\(^5\) International Standard on Auditing (ISA) 600, ‘Special Considerations—Audits of Group Financial Statements
(Including the Work of Component Auditors)’, see: http://www.ifac.org/system/files/downloads/a033-2010-iaasb-
handbook-isa-600.pdf
be adequate or, in some cases, it may advise extending a transitional period for others\(^6\), e.g., Egypt (EC, 2011, 2016). Interestingly, despite the European criticism of the Egyptian audit function and its ineffectiveness and lack of progress in 2013, the COEAB found it ‘appropriate to extend the transitional period granted by Decision 2011/30/EU’ (EC, 2011; 2013; 2016).

Although the application of this mutual oversight arrangement could not be verified, on paper the Egyptian oversight levied on auditors grants them an exemption from being registered and from being inspected by an EU state regulatory body. Therefore, the work of national POBs should not only be examined as a local issue, but also as an interaction between the global and local regulatory contexts.

Overall, the success of POB related reforms aimed at elevating audit quality levels is conditioned by macro- and micro-level factors. At the macro level, their application depends on political constraints, socioeconomic structure, and a ‘balanced combination of capacity and institutionalized incentives’ (Caramanis, et al., 2015; Hegarty et al., 2004, p. i; Humphrey, et al., 2009). At the micro level, the POBs’ operational effectiveness hinges on the availability of institutional resources, the effective implementation of the regulations in practice and the power dynamics with the audit firms (Canning and O’Dwyer, 2013; Hazgui and Gendron, 2015; Malsch and Gendron, 2011). However, whilst seeking to achieve integration into the global audit structure, there is a risk that POBs model their structure and compliance mechanisms to mimic the image of other leading POBs, but not their substance. Our contention is also that the focus on

\(^6\) EU audit directives require member states to register and subject third countries auditors of companies whose securities is traded in the EU to their system of oversight and quality assurance unless they are deemed equivalent. Egypt was granted an extension in 2016 and its oversight system currently classified as ‘transitional’ (EC, 2014, 2016)
process visibility may have increased the POB’s reliance on checklists and reinforced the box-ticking oversight approach since the use of checklists in conducting compliance reviews provided consistency, verifiable evidence, and transparency (Power, 2009). However, such box-ticking approach may well undermine audit quality, since it appears to switch attention away from audit risk (Asare and Wright, 2004; Johnson, et al., 2014). This issue may be particularly relevant in developing countries where local POBs’ actions are constrained due to limited institutional capacity. This possible emphasis on ensuring an image of compliance, nationally and transnationally, that is in line with ‘best practices’ led us to consider the tenets of Debord’s ‘Spectacle’ for evaluating the audit oversight reforms in Egypt.

The Concept of the ‘Spectacle’ as a Theoretical Lens

In a bid to critically evaluate the creation and operation of a national POB, and in recognition of the local as well as global ramifications of audit oversight arrangements, we mobilise the concept of the ‘Spectacle’, as introduced by Guy Debord. In this section, we outline the original three types of spectacle followed by an organisational articulation of this theoretical perspective in management studies. Originally, Debord (1967) presented the notion of spectacle to analyse modern societies in a reinterpretation of Marx’s theory of accumulation of production, by stating (1967: para. 1):

‘In societies dominated by modern conditions of production, life is presented as an immense accumulation of spectacles. Everything that was once lived has receded into a representation.’
According to Debord, the concept of the spectacle provides an explanation of a wide range of social phenomena. The spectacle, in a metaphoric sense, represents a social control narrative which is founded on mere appearances, a collection of images projected to, and between, people (Uddin, et al., 2011). For Debord, the spectacle is a worldview, where images and theatrics are used to construct a pseudo-reality that, in appearance, presents a good story but which is, in fact, a tool for manipulating social totality (Boje, 2001; Welsh et al., 2009). In contrast to other theoretical perspectives concerned with ‘appearances’ (e.g. impression management, symbolic management), the spectacle serves no one in particular but, rather, it is the evolution of the economic realm for its own benefit and reproduction or, as Debord (1967: para. 16) described it, ‘it is nothing other than the economy developing for itself’. Debord attributed the initial economic domination of the spectacle over human beings to the degradation of being into having, and this has now been followed by current social developments, which have shifted the emphasis from having to appearing (Welsh, et al., 2009).

In today’s societies, the significance of appearance and image surpasses the reality of having/being, resulting in an alienated society with distorted forms of communication that mediate social relationships (Best, 1994; Welsh, et al., 2009). Control mechanisms of the spectacle are closely connected with the inherent ability of modern states to control images through mass media and other forms of broadcasting information, such as marketing, advertisement and propaganda (Debord, 1967). In his initial work, Debord (1967) introduced two types of spectacles, concentrated and diffused, but later added a third, the integrated spectacle. According to Debord (1967: para 64), the concentrated spectacle is linked to bureaucratic capitalism regimes and centrally-planned countries, and can be employed as a tool to strengthen
state power, thus facilitating image projection and propaganda. In contrast, the *diffused spectacle* is associated with freedom of choice, coupled with *‘the abundance of commodities in modern capitalism’* (Debord, 1967: para 65). It is based on temptations of the image projected by the American way of life, or what Debord calls *‘the Americanisation of the world’* (Debord, 1988, p.8; Uddin, et al., 2011). It has manifested in the spread of American *images*, such as Hollywood, Disney, Coca-Cola, (Gumb, et al., 2015), around the world. This type of spectacle is deemed to be more effective in seducing other countries to let go of their traditional forms of bourgeois democracy (Debord, 1988).

Around the end of the Cold War era, Debord (1988, p.8) added a new type of spectacle, the *integrated spectacle*, which *‘has since tended to impose itself globally’*. The *integrated/global spectacle* is an enhanced mixture of the concentrated and diffused spectacles, together creating a stronger form of spectacle, a metaphoric representation of globalization. Debord (1988) saw it as an inevitable extension of the stronger, diffused, spectacle, where capitalism extended beyond its borders through economic domination. The integrated spectacle has been reinforced in contemporary societies by the emergence of a variety of modern tools/techniques and modes of communication (the world becoming a ‘global village’). Debord (1988, p.11) highlighted that contemporary societies within the integrated spectacle are *‘affected by the increasing incessant technological renewal’*. The integrated spectacle’s power stems from its ability to utilize the best of the concentrated and the diffused spectacles (Boje, et al., 2004). Inspired by the diffused variant, a *‘hubris of corporate culture’* and the economic implications of the integrated spectacle have helped its diffusion into modern societies, shaping socially and economic produced behaviour and objects (Boje, et al., 2004, p. 755). Thus, using its global corporate hegemony, the
global/integrated spectacle has maintained its status quo by suppressing any futile and weak pockets of resistance (Gumb, et al., 2015; Uddin, et al., 2011). According to Debord, the ultimate aim of this spectacle is to deeply incorporate itself, so that the image becomes reality itself.

Within the management literature in general, the reliance on Debord’s notion of spectacle has been rare (Flyverbom and Reinecke, 2017), and even less so within the accounting discipline (Uddin, et al., 2011). Yet, the notion of ‘spectacle’ provides a valuable approach to studying the development of management, whereby the proliferation of images, reports and other artefacts, supposedly intended to increase transparency, has resulted in artificial representations which conform with societal expectations (Boiral, 2013; Gumb, 2007). Gumb et al. (2015) argued that the integrated spectacle provides an interesting lens to understand the fusion of bureaucratic control (e.g. senior management/auditors) with the spread of participative democracy/oversight. The authors highlighted several control mechanisms and tools of the integrated spectacle, facilitated by advances in information systems, such as Enterprise resource planning systems (ERPs), ‘integrated management control, integrated management software packages, integrated spreadsheets, integrated auditing, etc.’ (Gumb, 2007, P: 810-811; Gumb, et al., 2015).

From an organizational perspective, Flyverbom and Reinecke (2017) recently revisited Debord’s theory in light of the contemporary reproduction of spectacles in organizational life. The authors articulated three possible articulations (namely fetish, simulacrum and performativity) of the spectacle’s blurred boundaries between reality and representation in organizations and how they can hide, replace or re-perform reality. In particular, we draw upon the concept of the performativity spectacle for our analysis of POB oversight in developing countries. Flyverbom and Reinecke (2017) argued that as some organizations attempt to construct their own spectacle
by mirroring another, they might create a new reality, stating ‘What if spectacles do not just hide reality, or eradicate the distinction between appearance and reality altogether, but bring into being what is otherwise absent, aiding in the creation of new understandings, relations and realities?’ (Flyverbom and Reinecke, 2017, pp., p. 1636; MacKenzie, 2006). In this respect, the very act of saying or representing a phenomenon (e.g. audit oversight) reshapes or performs the phenomenon that is being referred to.

In other words, the construction of a performativity spectacle requires a continued representation of a task/act which then leads to a creation of a new reality. For example, the continued re-performance of a theatre play by two different set of actors in different countries would often lead to the development of two distinct versions of this play. The assumption is that the reproduction of a spectacle in different social, economic and cultural contexts can result in the production of a new (local) reality. Flyverbom and Reinecke (2017, pp., p.1637) mentioned Uddin, et al. (2011) work on how the attempt to mirror the accounting transparency and participation spectacle of Danish aid agencies in a Ugandan context led to the generation of a new local ‘practices, regimes and contestations, such as those arising from the global spread of western accounting principles’. Interestingly, Flyverbom and Reinecke (2017) outline that the emphasis on a performativity spectacle may be a catalyst for change as actors eventually decide to ‘live up’ to the reality that has been projected and engage in a more substantive engagement with the phenomenon.

Contemporary accounting symbols, such as accounting/auditing reforms, preparation of financial reports and participatory budgeting, International Financial Reporting Standards (IFRS) and International Standards of Auditing (ISA), can be seen in the light of Debord’s spectacle (Uddin,
et al., 2011). In an explicit reference to audit reforms and POBs, Boje, et al. (2004) used Best and Kellner (2001)s’ newly developed another notion of ‘Megaspectacle’ to interpret the collapse of Enron; incidentally one of the key triggers of the creation of national audit oversight boards (Boje, et al., 2004). Megaspectacles are

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

Using the spectacle dialectic, Gumb (2007) questioned whether audit reforms leading to a plethora of control systems/mechanisms, such as Sarbanes-Oxley Act (SOX), would have any consequences. The State, in an advanced capitalist regime, is the primary agent of social control and it enforces control mechanisms which might include disciplinary actions against those who threaten social and economic order (Welsh, et al., 2009). SOX was the legislation that sparked the creation of POBs and compliance reviews represented a theatrical attempt to restore confidence, and later loosened, once the financial markets stabilized (Hazgui and Gendron, 2015), or were re-performed into new local spectacles.

Uddin, et al. (2011) utilized Debord’s original typologies of the spectacle to offer interpretations of changes in accounting practices at a national level. They drew upon the spectacle’s metaphorical and transformational dimensions (i.e. the transition from a local concentrated to an integrated global spectacle) to examine how the Ugandan government secured funding from international organizations through a pseudo-participatory spectacle of ‘best governance
practices’. A part of the metaphorical dimension of the spectacle was the ‘participatory’ conferences which were used by the Ugandan government to give the appearance of participation while, in fact, they were mainly ‘wine and dine’ events offering no real opportunities for substantive participation (Uddin, et al., 2011, p. 304). These theatrics are necessary as a part of subtle accounting reforms and spectacular events designed to signal the readiness of the Ugandan concentrated spectacle to be transformed into the global integrated spectacle. Consequently, the attempt to reproduce best western governance practices led to the creation of a unique Ugandan performative spectacle (Uddin, et al., 2011)

In summary, POBs and their control mechanisms can be examined through Debord’s spectacle framework, through its metaphoric, transformational and the performative dimensions. The transformational dimension of the spectacle can help us to understand how the global spectacle influences the modelling of the local concentrated spectacle in its form (Uddin, et al., 2011). The metaphoric dimension can provide insights into the impact of importing ‘international best practices’ (i.e. compliance reviews) into a local context, similar to Uddin, et al. (2011) examination of the use of the participatory budgeting process in the Ugandan case. Finally, through the performativity lens of spectacle, we can see how the attempts to reproduce a global model of Anglo-American regulation can lead to the creation of a national POB spectacle, whose performativity is mediated by local cultural, social and legal factors. Our contention is that these three dimensions of the spectacle (metaphoric, transformational and the performative) can shed light on the establishment of POBs and how they function in developing countries.

As a signal of their readiness to merge with the global economy, developing countries establish national POBs, thereby transforming the image of a local concentrated spectacle to mimic and
integrate into the global spectacle. Regarding the metaphoric dimension, compliance reviews conducted by POBs can be viewed as surveillance and control tools, used to project an illusion of control over audit practices and to gain public trust by artificially projecting the credibility of pseudo reforms. Finally, the performative dimension shows how can the national context can reshape the local spectacle.

**Research Methods**

Data for this qualitative study was gathered through 32 semi-structured interviews, between 2014 and 2016, from the main two stakeholder groups related to the oversight process: the regulator (i.e. EFSA and the AOU) and audit firms in Egypt. A wide range of audit staff was interviewed, including mid-level and junior staff, who provided more detailed insights on the reality of handling compliance reviews. In addition to primary data, secondary data was obtained through publicly available documents, and some internal administrative memos, which were provided under the cover of confidentiality. Secondary sources of data from organizations, such as the World Bank, IFIAR, EFSA, and the European Commission, were relied upon to help the researchers to understand the links between the Egyptian POB and the global audit arena. These data sources contribute not only by providing initial valuable insights, but also serve as a basis to triangulate with what had been discussed during the interviews.

Audit firm participants were selected from the three main categories of audit firms practicing in Egypt. The first category included the Big 4 firms and other ‘top tier’ international firms, where
one would expect the local office to function rather uniformly\(^7\) on a cross-national basis. The second category was local firms with a nominal international affiliation\(^8\). The final category was local firms with no international affiliation. Initially, participants were chosen using purposive sampling but, later, through snowball sampling. The interview questions broadly addressed the application of the Egyptian Standards for Auditing (ESA) and their links to the International Standards for Auditing (ISA), and EFSA’s oversight and the role of the Audit Oversight Unit (AOU). The line of questioning became more specific on the nature of the AOU’s work and compliance reviews; how the audit firms responded to this reform and requirements thereof. The interviews took place in Cairo and the recorded time ranged between 30 minutes and 3 hours, depending upon the auditor’s level of experience, seniority and openness. For example, four interviewees responded to most of the questions about audit practices within their firm by referring to the firm’s audit manual, which resulted in shorter interviews (see Appendix 1: List of interviewees). Additionally, in many cases the interviewees preferred to elaborate on controversial issues before the voice recording was initiated. Permission was only granted to record 27 interviews. The remaining five interviewees preferred that the researcher took handwritten notes, citing confidentiality agreements with their employees, or due to the sensitivity of their comments. Interviewees also preferred the interview to be conducted in Arabic in order to allow smooth and free discussion. Subsequently, to reduce any distortion of the meaning that could arise from professional terminology in Egyptian dialect, one of the authors (a native Egyptian) transcribed and translated the interviews.

\(^7\) The local firm (i.e. Big four offices in Egypt) applies all the brand’s audit software/quality control (QC) manual and audit program/processes.

\(^8\) i.e. local members do not receive technical assistance and are not subject to the network’s audit quality review.
Each interview was read and reviewed carefully to identify key themes (Miles and Huberman, 1994), which included: EFSA’s focus on QC manuals, the variant responses between local and international audit firms to the new regulator, and the suitability of these requirements in the Egyptian context. Additionally, these themes were contrasted with the primary and secondary data to reveal similarities and differences and, subsequently, the researcher used them in follow-up interviews. Guided by the theoretical language of the Spectacle, these themes were refined into key issues regarding the POB’s establishment and operation in Egypt.

**The Egyptian Audit Spectacle**

**The Establishment of the Auditors Oversight Unit (AOU)**

Egypt’s economic and regulatory reforms in Egypt’s came to a turning point after the 1979 Camp David Accord and a decision to adopt a market economy model after nearly three decades of a centrally planned socialist system (Waterbury, 2014). Predominantly financed by various international financial institutions, several economic and regulatory reform programmes were initiated by successive Egyptian governments, with many of them reported to have failed to meet their intended objectives (Awadallah, 2006; World Bank, 2002, 2009). As a part of its comprehensive macro-economic reform program, the new 2004 ‘reformist’ Egyptian cabinet sought to implement a new round of reforms to attract foreign investment (Joya, 2011). The economic reform program included the privatization of state-owned companies, substantial restructuring of the financial sector, the issuance of a new tax code, and reforms of financial regulations (World Bank, 2010). These reforms were primarily drawn from the World Bank’s recommendations for ‘assisting’ struggling developing countries (Hopper, et al., 2017). The WB
financed these financial sector reforms via three Financial Sector Development Policy Loans (World Bank, 2007). The objective of the second loan of $500 million was to:

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

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

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

The above wording of EFSA’s objectives reflects an active pursuit of competence through a reference to ‘best international practices’ as promoted by International organizations (e.g., WB, IFIAR, and IFAC). During data collection, most participants referenced the work of international counterparts in audit oversight, particularly the U.S. PCAOB as a benchmark, despite having no
first-hand experience of its operation. For example, in discussions of the PCOAB’s structure and oversight jurisdiction, and on EFSA’s mimicking the language of the PCAOB, interviewees working within EFSA seemed rather uninformed about the role of the Anglo-American self-regulation model in conducting the oversight of auditors of non-public entities.

EFSA has been a member of IFIAR since 2009, an organization whose ‘core principle’ is to promote an effective independent audit oversight (IFIAR, 2012a, 2016a). The implementation of IFIAR’s core principles is not a prerequisite of membership, but members are expected to work towards their implementation in their jurisdictions (IFIAR, 2012a). Interviewee No. 5, a key staff member at the AOU, explained the motivation for creating the unit in 2009: ‘EFSA is a member of IFIAR. EFSA’s board decided to establish an Auditing Oversight Unit [within EFSA] to be compliant to their requirements, similar to the PCAOB in America…we received funding from the WB to establish the oversight unit’.

Modelled on the U.S. PCAOB, the stated aims of AOU involve ‘verifying the registered auditors’ compliance to relevant professional quality standards, decisions and systems as well as their compliance to the applied auditing standards and Code of Ethics’ (IFIAR, 2016a, p.1; Raslan, et al., 2016). According to the Egyptian capital market’s law, EFSA shall maintain a registry of auditors who are licensed to audit listed companies and other financial institutions (EFSA, 2008; 2012b, p.4).

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9 Notably principle no. 4 states; “Audit regulators should have comprehensive enforcement powers which include the capability to ensure that their inspection findings or recommendations are appropriately addressed; these enforcement powers should include the ability to impose a range of sanctions including, for example, fines and the removal of an audit license and/or registration.” “Audit regulators should at a minimum be responsible for the system and conduct of recurring inspection of audit firms undertaking audits of public interest entities. Audit regulators should have the authority and ability to enforce inspection findings and recommendations. The audit regulator should have comprehensive enforcement arrangements such as fines, suspensions and the removal of an auditor’s or audit firm’s license or registration” (IFIAR, 2012b, p.4)
(Raslan, et al., 2016). It is important to highlight that EFSA’s registry comprises about 375 auditors, registered as individuals and not as audit firms. Therefore, the AOU’s oversight is primarily levied on individual auditors, but aspects related to audit programs and quality control (QC) manuals are assessed at the firm level.

The AOU’s main objectives were to set entry requirements to EFSA’s registry and to suggest a mechanism for the compliance review, focusing on QC\textsuperscript{10} (EFSA, 2008; Raslan, et al., 2016). The AOU consists of five departments, \textit{Registration, Compliance Reviews, Follow up on Professional Standards and Cooperating with International Organizations, Enforcement, and Continuous Professional Development}. Interestingly, the AOU’s \textit{entire} staff is limited to 3-5 staff members and are tasked to manage all five departments, while the AOU board consists of around 12 members. Figure 1 below reflects AOU’s institutional structure. In 2014, the EFSA amended the AOU’s board composition by eliminating a potential conflict of interest within the AOU board structure (IFIAR, 2015). Interviewee no. 5, a senior official at EFSA, explained: ‘We amended AOU’s board structure according to IFIAR guidelines. Auditing practitioners were removed as voting board members.’

On paper, and per EFSA’s 2018 submission to IFIAR, the AOU’s organizational structure seems to conform to the expectations of the global spectacle (e.g. independent voting members, funding, direct compliance reviews). Furthermore, the EFSA’s member profile seems to satisfy all of the IFIAR’s requirements for an independent oversight body with a sound inspection system. However, a closer look reveals how the dynamics of the Egyptian spectacle might project such

\textsuperscript{10} In terms of official structure, the legislation grants the AOU board of directors adequate power and independence to perform its function. However, in practices, these duties were delegated to AOU staff (EFSA Decree 50/2014).
an illusion. For instance, IFIAR stresses on the independence of POBs governing body and its members from the profession. EFSA is thus perfectly aligned with the IFIAR requirements since all of its voting members do not have a public accounting experience except for one ‘audit’ expert. In reality, it is this audit expert who often steers the work of EFSA’s board on auditor’s oversight matters. Additionally, AOU’s governmental funding (independent of the profession) appears to project the desired image of independence but in reality, both the regulator and the regulatees acknowledge its insufficiency.

[Figure 1 about here]

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

The above quotes and discussion highlights how the AOU’s establishment was inspired and influenced by the global regulatory arena, evidenced by the pressure from IFIAR and the WB funding to establish the AOU. According to Debord’s transformational dimension of the spectacle, enacting a national POB and the consecutive decisions to alter AOU’s organizational
structure to mimic IFIAR’s members portrays Egyptian attempts to convey a new local reality, where the oversight of local auditors did not exist beforehand, that would be compatible with the global audit spectacle. Aspects of the spectacle’s metaphoric perspective can be viewed in how the AOU was funded and staffed. The AOU’s limited financial resources, together with the number of staff hired and their technical knowledge, suggests potential operational constraints in conducting the AOU’s oversight functions.

The AOU’s oversight approach

The AOU’s main method for conducting compliance reviews is by examining the auditor’s submission of an EFSA registration form. Interviewee No. 5, a key AOU executive, explained AOU’s approach in designing its compliance reviews:

‘[In 2009, after examining all the Egyptian auditing regulations and Egyptian auditing standards (based on 2004 ISA), we summarized all auditors’ duties and responsibilities. We rephrased these duties and restructured it in the form of a checklist/questionnaire. We used this questionnaire to create a tool to measure compliance and audit quality of our registered auditors. However, we faced a problem that people did not really get what we are looking for. For the first few years, we tried to raise awareness about the new concept of compliance reviews. We are trying to expand the “Audit Quality” culture. … We visited most audit firms of our registered auditors We also selected a sample of their client’s audit files and checked their audit quality system using the checklist of our questionnaire. We also discussed and reviewed the questionnaire with the auditor]…. [We used this checklist questionnaire as basis to construct the registration forms]’
The above quote highlights two main aspects in the AOU’s selection of its oversight approach. Firstly, the AOU selected a ‘light-touch’ enforcement style, evidenced by allowing a transitional period to ‘raise awareness’ (Martinow, et al., 2016). Secondly, the AOU conducts its compliance reviews by merging checklists related to auditor’s duties into a registration form, signed by the auditor, to visibly demonstrate the verifiability of its audit oversight (Dowling, et al., 2015; Power, 2003). The registered auditors are compelled to update their registration form annually. The form contains sections covering information about the auditor’s firm, current and previous clients, the availability of written policies on HR, independence, and documentation requirements. It also contains a checklist of the availability of audit programs and, particularly, QC manuals. (See Appendix B.1: Regulations on Auditors` registration). Interviewee No. 6, a partner at an international audit firm, stated:

‘In Egypt, we do not have active compliance reviews. Instead, the AOU practices its oversight function by setting barriers to entry… A sort of pre-practice compliance review… Selectively, they tailor the requirements to entry for people [auditors] they see fit… Supposedly, I was already granted auditors` license to practice; and they [AOU] should conduct their compliance reviews on me during or post conducting the audit. Supposedly, if I made a mistake, then they can apply sanctions or even de-register me’

The AOU’s oversight hence focuses on the registration form and checklists (i.e. the existence of certain polices inspired from by IFIAR Reference Guide to POBs (IFIAR, 2016b) as a form of pre-practice compliance review. The emphasis is on satisfying the form and highlighting the visibility of certain policies at the firm level. Although auditors are registered at EFSA as individuals, the AOU processes and examines the registration forms on an audit firm basis, in
accordance with the Egyptian audit practice law (131/1951). In the spectacle’s language, the AOU has imported the globally accepted control mechanism and tools (e.g. QC manuals, written polices, checklists, etc.) to ensure that the Egyptian spectacle can ‘join’ the integrated global spectacle. The AOU requires the auditor’s firm to satisfy a number of requirements that are equivalent to those of international firms, even though the Egyptian law does not recognize audit firms as entities but only as individuals. To some extent therefore, these local requirements highlight the performativity nature of the spectacle by creating a reality of an audit firm oversight in a context where the legal requirements only applied to individuals in the profession.

Relatedly, Interviewee No. 2, a partner at an international auditing firm, commented on the AOU’s functionality in its local context:

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

Previous studies have highlighted that, in different parts of the world, the use of checklists was a part of audit firms response to compliance reviews. (Houghton, et al., 2013; Humphrey, et al., 2011; Martinow, et al., 2016). This is a practice welcomed by POBs for the ease of auditability it offers, particularly for POBs with limited resources. However, in the Egyptian case, it was the AOU, not the audit firms, which introduced and relied upon checklists. A possible explanation is that the AOU suffers a shortage of staff due to EFSA’s limited financial resources. Interviewee No. 4, an ex-advisor to EFSA and a partner at a local firm, commented on AOU’s staffing constraints and the limited nature of its compliance reviews: ‘Well, currently... It is active in a
sense of managing which auditors should be allowed to register at EFSA`s auditor`s registry’. In summary, the AOU`s oversight approach consists of ensuring the mere existence of a checklist for pre-registration. At the same time, the AOU staff seems to passionately believe that implementing its current oversight approach will result in improved audit quality. The amount of paperwork related to the registration process (witnessed by one of the researchers during the fieldwork) seem to corroborate the genuineness of this passion. This is consistent with the spectacle theme, whereby the global integrated spectacle and its control mechanisms are presented as an unquestionable reality and ‘has spread itself to the point where it now permeates all reality’ (Debord, 1967; 1988, p.23). From the regulator’s perception, the AOU is a newly established oversight body which satisfies the expected global organizational structure and has brought in international best practices. The AOU contends that relying solely on registration checklists does not affect the functionality of their oversight. The following sections demonstrate the response of audit firms (local vs international) and the degree of actual change to their audit practices.

Audit Quality Compliance Reviews on Local Firms

Most local firms in Egypt are small sized firms, led by one partner. Several factors\textsuperscript{11} relating to the Egyptian context have alienated small audit firms (Raslan, et al., 2016; Wahdan, 2005), including the AOU’s registration requirements requiring significant changes for small audit firms,

\textsuperscript{11} Raslan, et al. (2016) details some of factors contributing to the weakness of the Egyptian auditing environment. A) The applicable Egyptian auditing standards are outdated. (Based on 2004 International standards on Auditing). B) Egyptian auditors are not subject to any kind of audit oversight. C) Auditors in Egypt lack adequate awareness of issues such as auditor`s independence and conflict of interest (Raslan, et al., 2016) D) The deficiencies regarding the accounting education quality . E) They often do not have an adequate Quality Control department. (Raslan, et al., 2016)
such as developing and implementing QC manuals. This section presents the, at times less than convivial, interplay between the AOU and local firms regarding the new registration requirements. Interviewee No. 22, a manager at a local firm, commented on AOU’s oversight:

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

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

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

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

‘I do not agree with that. This a trap set by EFSA to benefit international firms. The trap is that they require a QC manual for small firms and then hold us accountable to it if they conduct a compliance review… They [EFSA] actually tell you that you can copy it from the internet from firms abroad. I think some firms did not even translate it into Arabic. Big four firms already have these manuals and submitted it as it is. For firms with no international affiliation, it’s very costly to get an audit software, QC manual and apply these requirements’
Interviewee No. 28, a managing partner of another local firm, commented on EFSA`s compliance reviews:

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

In the case of small Egyptian firms, the AOU appears to have adopted a mainly supportive enforcement to encourage them to comply. As illustrated by a quote above (Interviewee No. 19), the AOU repeatedly allowed for the re-submission of registration forms until the firm gets it ‘right’. The AOU`s focus was, thus, on increasing the ‘visibility’ of the audit processes through the presence of written audit procedures and QC manuals that would conform with the requirements of the global spectacle.

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

‘We have a QC manual that is adapted from IFAC`s  guide for Small and Medium Practices. We translated it into Arabic to make it understandable for my staff. In 2014, the AOU asked to have our QC manual to maintain our registration…I think they [EFSA]

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12 In 2010, IFAC stated issuing a ‘comprehensive guidance to help SMPs operate more efficiently in the increasingly complex and competitive global marketplace for professional services’ (IFAC, 2018)
made the requirements harder to kick auditors out of the registry. We passed it with no problems…I also had to submit that to the foreign regulator’

The AOU oversight requirements largely affected small audit firms. The absence of written audit processes, QC manuals, and other requirements set out in the AOU checklist prevented the registration of some operators. Interviewee no. 5 explained:

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

With regards to the case of the small audit firms’ responses to public oversight, past research has indicated that POBs mostly target smaller and risker audit firms (Hermanson et al., 2007), which in many cases has led to the exit of small firms from the market (DeFond and Lennox, 2011). In the Egyptian case, there have been only around six cases of sanctions and two cases of de-registration for local auditors since 2009. This is may be due to the AOU’s supportive enforcement style in encouraging auditors to update their audit processes and to satisfy the AOU’s checklist. However, these requirements/control tools are primarily nominal, to satisfy the form required of ‘best international practices’ rather than the substance of these practices. As the
above quotes indicated, it was fairly easy to pass the AOU requirements following the submission of audit processes and QC manuals inspired/copied from international audit firms.

**Audit Quality Compliance Review on International Audit Firms**

This highlights the interplay between the AOU and international firms in Egypt. Using Debord’s spectacle analogy, this can be viewed as one of the transformation stages into the global integrated spectacle. In other words, the AOU is now implementing its (imported) compliance review process on global actors, i.e. international audit firms.

According to the law governing the audit profession (law 133/1951), international audit firms operating in Egypt are required to have an Egyptian managing partner. These firms normally operate as a regional office abiding to all policies and procedures of the global parent network. Using their network’s resources, Egyptian international (including Big 4) firms conduct their audits using the network’s unified integrated software and QC manuals. Therefore, satisfying the AOU’s requirements did not entail formulating any visibly new audit practices or procedures.

Interviewee No. 6 commented on the local compliance review for Big 4 firms:

‘The local regulator doesn’t have the resources… or may be the knowledge to thoroughly inspect and confirm the documents they asked for. The big “names” already have a QC manual and no one dares to discuss the content with them… EFSA employees are going to teach the Big 4 how to construct a QC manual? Of course not. In fact, EFSA used the Big 4 to give them training courses at its inception. The “know how” is at the Big 4. Many government agencies go to them for help. They will not bother them for a missing part of QC manual. They probably use Big 4 manuals as a benchmark’
The above quote highlights an important aspect of the interplay between international audit firms and the POB in developing countries. Since the local oversight depends on the mere existence of written audit processes and procedures, then passing a local compliance review is almost a formality for the Big Four firms. Additionally, local Big Four firms use updated audit software, and receive regular training on latest auditing standards, particularly when compared to POB employees in developing countries. There are significant variations in technical resources between the AOU and the Big Four firms in Egypt. Interviewee no. 1, an audit partner at a Big Four firm, commented on this issue:

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

Therefore, the introduction of POB in a local context did not constitute any pressure on the Big 4 firms. In fact, they welcomed the added layer of oversight. Interviewee No. 5 described the Big Four’s response to AOU’s compliance review:

‘They have no problem with our inspections. In fact, they are very interested in it. Because as a part of their network compliance review, they are asked if they have local compliance reviews? If they were inspected by the local regulator or not? And what were their remarks?’
For the purpose of passing the AOU’s checklist compliance reviews, Big 4 firms rely on the availability of their network’s resources (updated QC manuals, written audit processes and advanced software). As a part of a global network, local branches of international audit firm receive detailed QC manuals and other network policies and procedures. However, there were conflicting views among the auditors of international firms about the actual degree of implementation of some audit processes (i.e. audit software and QC manuals).

A number of interviewees, including three partners from different firms, pointed out that they constantly used the integrated software and implemented the QC manuals. They stated that their implementation represented the ‘Big Four’ audit quality guarantee, based on ‘best international practices’. In contrast, several interviewees, mainly managers or senior level auditors, argued that the implementation of these audit practices (i.e. software, QC manuals & ISAs) was not consistent. They attributed the reasons to two main differences between the Egyptian and the international context. The first set of differences related to Egyptian businesses and their operations. Interviewee No. 20, a senior auditor at an international audit firm, noted:

‘The [Software] is applicable in the case of mainly multinational companies where they have a well-documented and functioning internal control system. However, most Egyptian companies do not have adequate internal control or well-documented cycles, so using the audit software will be a waste of time. We mark [software] as done, after we have finished

13 Interviewee No. 8, 3 and 27 were partners at three different Big 4 firms. 2. Interviewee No. 11 was a partner at an international audit firm. Interviewee no. 23 was an audit manager at one of the Big Four firms. Interviewee No. 14 was a manager responsible for quality control in an international audit firm.
14 Interviewee No. 26 was an ex-manager of a Big 4 firm. Interviewee no. 25 was an ex-senior auditor with previous experience in two Big Four firms. Interviewee No. 17 was a senior at an international audit firm. Interviewee no. 20 was is a senior auditor at an international audit firm.
our audit. We have to mark it as it was used in the course of the audit, because it’s a requirement by our [audit firm] international office.’

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

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

This view was corroborated by interviewee No. 25, an ex-senior auditor with previous experience in two Big Four firms. Finally, Interviewee No. 2, a managing partner in a non-Big 4 international firm, commented on quality control practices within Egyptian audit firms:

‘A big part of the quality control practices in Egypt, is just satisfying a checklist. Nevertheless, in our firm, we do have a designated quality control reviewer, which is an additional cost on us. We don’t receive direct support from our international affiliates like the Big Four. The practical reality is that firms compromise between compliance and resources available. This is a pragmatic way to have some kind of an independent arrangement or consultant to handle this issue. Basically, it is about tailoring your quality control’

To summarize, the AOU’s new oversight arrangements did not materially affect the audit practices of the Big Four firms in Egypt. As a part of their respective international network, local
Big four affiliates relied on their network’s QC manuals and other policies to satisfy the AOU’s compliance. This is largely made possible because the AOU conceives of the mere existence of QC manuals and detailed audit procedures as evidence of implementation. Therefore, international firms operating in Egypt did not face any obstacles in registering their auditors at EFSA. In fact, passing the local POB compliance reviews benefited the local Big Four firms in portraying the image of compliance in their network’s compliance reviews. Furthermore, our interviewees indicated that the presence of such audit processes (QC manuals) did not translate into a change of audit practices or actual implementation. Overall, the AOU’s oversight approach may be unintentionally promoting a documented, but symbolic, presence of compliance reviews in audit firms, (Knechel, 2013; Power, 2009)

**Overall Discussion**

Ostensibly, the primary objective of POBs is to improve audit quality by monitoring the processes and practices of audit firms, especially in the wake of major corporate audit failures. However, many studies have expressed concerns that such independent oversight reforms may be symbolic with minimum effect on audit practices and quality. They are enacted primarily to *credibilise* the regime of global audit regulation and to maintain the status quo for the global audit market and for the benefit of its dominant players, namely the large Big Four and international firms; (Humphrey, et al., 2011; Power, 2003). According to Debord’s dimensions of the spectacle, these audit failures represented a Megaspectacle, that interrupt the global integrated audit spectacle and consequently led to the creation of the PCAOB and other POBs, as part of the reforms designed to project an image of confidence in the audit profession (Boje, et
This wave of audit regulatory reforms (i.e. POBs) was viewed as a circumscribing system put in place to merit public trust (Gumb, 2007; Gumb et al., 2015), and a form of spectacle which is then replicated globally. POBs have been promoted to developing countries, by international agencies such as IFIAR and the WB, as a crucial reform to improve audit quality and to integrate local practices into the global audit spectacle.

The Egyptian case demonstrates how the AOU’s establishment represented a local part in the integration within the global audit spectacle. To mimic international best practices, the AOU sought to mirror the oversight tools used in developed countries (e.g. QC manuals and other firm requirements), on the assumption that they would improve audit quality. A new spectacle of oversight is thus deployed by local POB actors who become submerged in a spectacular frame, fundamentally believing that audit quality can be primarily achieved by developing material representations of audit compliance, regulation and oversight. Arguably, this spectacle serves to portrays an image of enhanced ‘audit quality’ that is necessary to subdue public concerns and pressure. This argument is reinforced by the nature of the audit quality itself, as a socially constructed concept, pursued by POBs and audit firms as an ‘espoused’ ideal, which is easy to express in rhetorical terms, but difficult to be precisely observed by outsiders (Holm and Zaman, 2012, p.53). For instance, Hazgui and Gendron (2015, p.1248) reported that, under the pressure from the PCAOB and the EC to have a ‘sufficiently advanced’ regulatory oversight, the French POB, the Haut Conseil du Commissariat aux Comptes (H3C), altered their compliance review mechanisms and introduced a form or co-regulation within the profession. In our case, the emphasis was on a documentary representation of oversight (checklists) to be replicated locally. Hence, the AOU appears to rely on the use of checklists and rule-based compliance reviews to
legitimize their work, thereby presenting a form of ‘audit trail’ evidence and ‘regulated transparency’ (Dowling, et al., 2015; Power, 2009, p. 852).

However, the POBs’ effectiveness in changing local audit practices is so far very minimal, as previously hinted by Hazgui and Gendron (2015). The AOU’s choice of conducting compliance reviews that depend on pre-practice checklists have largely failed to induce visible change in the audit practices of Egyptian spectacle for local as well as international audit firms. From the performative perspective of the Egyptian spectacle, the AOU’s needed to balance between the necessity to meet IFIAR expectations of conducting a globally accepted compliance reviews with its limited financial and knowledge. The AOU opted for focusing on the visibility of certain pre-practice checklists and sometimes unrealistic requirements (i.e. QC manual and QC reviewer in small audit firms) and equated their presence with their implementation. In turn, the AOU’s inability to verify the implementation of such polices helped creating an Egyptian performative spectacle that allowed for the creation of a local reality that is limited to symbolic compliance for many Egyptian audit firms. For small firms, the focus was on the risk arising from the inspection and how to portray the image of compliance through symbolic submission (and re-submission) of imported QC manuals; with the objective of passing the AOU inspection and not in terms of its practical implementation.

Furthermore, the Egyptian case demonstrated that firms with international affiliations, including local Big 4 firms are likely to pass AOU’s oversight mechanisms. From the AOU’s perspective, the brand name of international firms embodied the projected perfect image of ‘best international practices’ of the global integrated spectacle that they were aspiring to join. In a sense, by presenting their networks’ audit programs and policies, local Big Four affiliates were regarded as
being compliant by the AOU. However, this research has demonstrated that the presence of these global Big 4 ‘state of the art’ audit processes did not necessarily mean that they were being implemented by their local affiliates in practice. Their actual implementation was highly dependent on local constraints, such as national laws, institutional resources, levels of education and technical knowledge, firm culture and cultural factors. Additionally, even if the previous factors did provide a supportive environment, the implementation of such audit processes should not be regarded as an automatic improvement to audit quality. This point dovetails with prior work suggesting that the use of these surveillance tools project the image of control to the public, thereby reinforcing the credibility of audit reforms and POBs (Boiral, 2013; Debord, 1988; Uddin, et al., 2011).

Conclusions

We sought to analyse the spread and operation of POBs in developing countries and the consequences thereof for audit practice, particularly in light of the stated efforts by international institutions to address cases of audit failures. The Egyptian oversight case demonstrated that both the AOU and local auditors were submerged in a spectacle of compliance, rather than initiating actual changes to audit practices. Debord (1967, p.1) stated that the global integrated spectacle exists for its own reproduction and ‘presents itself as a vast inaccessible reality that can be never questioned’. The evidence from the Egyptian case also reveals the local POB’s focus on replicating the oversight structures and activities POBs’ developed countries; effectively following from an *aspiration of oversight* to participate in the integrated spectacle of the global audit regulatory arena.
As a result, the representation of the AOU’s performativity, namely in relation to its organisational structure (e.g. organigram; composition of the board) and of its oversight activities (i.e. compliance reviews and monitoring visits), greatly contributed to the global/integrated spectacle of audit regulation. However, such attempt at mimicking international best practices in the specific context of developing countries has ‘material’ limits and consequences. The AOU’s level of staffing and expertise is woefully low and underfunded, therefore encouraging a preference for selective, and arguably not resource-intensive, mechanisms of oversight. The consequences for the audit firms are two-fold. For local firms with little access to expert knowledge and processes from international firms, the AOU’s registration and oversight processes create a symbolic but ‘spectacle-rich’ version of audit monitoring and quality, with little potential to encourage substantive developments in local audit practice. For internationally-affiliated local firms, the AOU’s oversight and monitoring is effectively being bypassed, due to a significant asymmetry of knowledge and expertise between the regulator and regulatee; again leading to no substantive changes in audit practice. A major distinction between the POB performative spectacle in developed and developing countries is the institutional capacity. Such financial and technical capacity helps portray a stronger image of functionality. Thereby, it allows POBs in developed countries to challenge symbolic reforms, to re-gain public trust and to conform to the expected global image. As for developing countries, the pressure to establish a globally accepted POB, amid weak institutional capacity, pushes them towards enacting (consciously or not) a more performativity-based spectacle

As a result of the above findings, we argue that this study contributes to the literature (Canning and O’Dwyer, 2016; Hazgui and Gendron, 2015; Maroun and Atkins, 2014), by revealing: 1) The
circumstances surrounding the creation and operation of a POB namely in a developing country, and the challenges faced thereof, 2) The rationale behind AOU’s approach to compliance reviews and the reaction of local vs international affiliated firms to the new regime and, 3) An interesting case of a cross-recognition of oversight, where the POB in a developed country context (the CEAOB in this context), relies on compliance reviews by a POB in developing country (AOU). In so doing, we hope to address the concerns about the scarcity of empirical studies on POB and the attributes of compliance reviews in developing countries (Cooper and Robson, 2006; Malsch and Gendron, 2011; Suddaby et al., 2007). 15

This state of affairs in developing countries has implications for the global audit arena and particularly for transnational organizations (IMF, WB, and IFIAR) regarding the importance of sustainable technical and financial resources for POBs in developing countries. This is especially important in the case of Egypt, in light of the transitional status extension, which was granted to Egypt until 2018 by the CEAOB, regarding its reliance on Egyptian oversight (EC, 2016). This extension grants the right to Egyptian auditors to perform audit activities in the EU without EU oversight, despite the acknowledgement of the CEAOB that the Egyptian oversight is under transition (EC, 2016). The establishment of a ‘functional’ POB should lead to an improvement in core audit practices. However, amid the domination of the global audit spectacle, and the unquestioned praise of its control mechanism, namely the POBs, audit reforms and POBs’ compliance reviews can be viewed as a part of the immense accumulation of images reinforcing the spectacle of audit quality to the public. In so doing, we acknowledge that POBs and local auditors are not necessarily engaged in active deception or impression management, but may be

15 A notable exception is Raslan et al. (2016), who addresses auditor risk assessment and quality control elements in Egyptian audit firms.
merely endeavouring to follow best international practice as advocated by transnational organizations. At the same time however, these actors can be seen to be perpetuating and amplifying the global/integrated spectacle of audit oversight.

References


### Appendix 1: List of Interviewees

<table>
<thead>
<tr>
<th>No.</th>
<th>Position</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A Partner at one of the Big Four firms &amp; a current/previous ESAA board member</td>
<td>1 Hours, 5 Mins</td>
</tr>
<tr>
<td>2</td>
<td>A managing partner at an international firm, a current/previous ESAA board member</td>
<td>1 Hours, 4 Mins</td>
</tr>
<tr>
<td>3</td>
<td>An audit partner at one of the Big Four firms &amp; current/previous ESAA board member</td>
<td>1 Hour, 20 Mins</td>
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<tr>
<td>4</td>
<td>A managing partner at a local firm &amp; a current/previous ESAA board member</td>
<td>54 Mins</td>
</tr>
<tr>
<td>5</td>
<td>EFSA senior official</td>
<td>2 hours 40 Mins</td>
</tr>
<tr>
<td>6</td>
<td>A managing partner at an international firm &amp; current/previous ESAA board member</td>
<td>3 Hours</td>
</tr>
<tr>
<td>7</td>
<td>An audit partner at one of the Big Four &amp; a current/previous ESAA board member</td>
<td>32 Mins</td>
</tr>
<tr>
<td>8</td>
<td>An audit partner at one of the Big Four firms</td>
<td>35 Mins</td>
</tr>
<tr>
<td>9</td>
<td>An academic and a partner at a local audit firm</td>
<td>1 Hour, 35 Mins</td>
</tr>
<tr>
<td>10</td>
<td>A managing partner at a large local audit firm</td>
<td>54 Mins</td>
</tr>
<tr>
<td>11</td>
<td>An audit partner at an international audit firm</td>
<td>47 Mins</td>
</tr>
<tr>
<td>12</td>
<td>Previous senior auditor at an international audit firm</td>
<td>48 Mins</td>
</tr>
<tr>
<td>13</td>
<td>An audit manager at an international audit firm</td>
<td>1 Hour</td>
</tr>
<tr>
<td>14</td>
<td>An audit partner at an international audit firm</td>
<td>40 Mins</td>
</tr>
<tr>
<td>15</td>
<td>An academic and a managing partner at a local audit firm</td>
<td>50 Mins</td>
</tr>
<tr>
<td>16</td>
<td>An audit manager at a local audit firm</td>
<td>39 Mins</td>
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<tr>
<td>17</td>
<td>A senior auditor at an international audit firm</td>
<td>41 Mins</td>
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<tr>
<td>18</td>
<td>An audit manager at an international audit firm</td>
<td>34 Mins</td>
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<tr>
<td>19</td>
<td>A senior auditor at a local audit firm</td>
<td>34 Mins</td>
</tr>
<tr>
<td>20</td>
<td>A senior auditor at an international audit firm</td>
<td>46 Mins</td>
</tr>
<tr>
<td>21</td>
<td>A senior auditor at an international audit firm</td>
<td>33 Mins</td>
</tr>
<tr>
<td>22</td>
<td>An audit manager at a local audit firm</td>
<td>33 Mins</td>
</tr>
<tr>
<td>23</td>
<td>An audit manager at one of the Big Four firms</td>
<td>30 Mins</td>
</tr>
<tr>
<td>24</td>
<td>A junior auditor at one of the Big Four firms.</td>
<td>32 Mins</td>
</tr>
<tr>
<td>25</td>
<td>A previous senior auditor at two of the Big Four firms</td>
<td>34 Mins</td>
</tr>
<tr>
<td>26</td>
<td>A previous manager at one of the Big Four firms</td>
<td>56 Mins</td>
</tr>
<tr>
<td>27</td>
<td>An audit partner at one of the Big Four firms</td>
<td>43 Mins</td>
</tr>
<tr>
<td>28</td>
<td>A managing partner at a large local audit firm</td>
<td>30 Mins</td>
</tr>
<tr>
<td></td>
<td>Name</td>
<td>Duration</td>
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<tr>
<td>29</td>
<td>A director of the EU- Egypt twinning program</td>
<td>1 Hour 2 Mins</td>
</tr>
<tr>
<td>30</td>
<td>A senior auditor at one of the Big Four firms</td>
<td>35 Mins</td>
</tr>
<tr>
<td>31</td>
<td>A senior auditor at an international audit firm</td>
<td>32 Mins</td>
</tr>
<tr>
<td>32</td>
<td>A senior auditor at an international audit firm</td>
<td>30 Mins</td>
</tr>
</tbody>
</table>
Appendix 2: Regulations on Auditors’ Registration

Decision No 33/2009
Dated 28/4/2009
Regulations for Listing and De-listing of Auditors
in the Capital Market Authority’s (CMA’s) Auditors Registry

The CMA Board of Directors

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

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

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

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

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


The CMA Board of Directors decided the following:-

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

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

A. Perform financial audit services and issue any audit report on the financial statements of Listed Companies, Initial Public Offering (IPOs) Companies,
2

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

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

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

A. The auditor is registered in the Ministry of Finance’s General Registry of Accountants and Auditors (who are authorized to audit Joint Stock Companies) for at least five years period. A certificate to this effect must be submitted.

B. Submit the original and a copy of the auditor’s membership card in the Accountant and Auditing Free Practitioners Division of the Commercial Syndicate

C. Provide evidence support that the auditor has audited joint stock companies accounts for a period of at least five years provided that during every year of which, he/she should have audited the accounts of at least five companies in accordance with the Egyptian Auditing Standards.

D. Auditor shall fulfill at least one of the following conditions:

1. Being a member of the Egyptian Accountants and Auditors Society, or has obtained any other equivalent professional certificates, or has been granted the Ph.D. from a duly recognized university, or

2. Being listed in the Central Bank of Egypt’s - Bank’s Auditors Registry provided that he/she has audited the accounts of a Bank in accordance with the Egyptian Accounting Standards for at least one year, or
3.

3. Being listed in the Egyptian Mortgage Finance Authority’s- Mortgage Finance Companies Auditors Registry provided that he/she has audited the accounts of a Mortgage Finance Company in accordance with the Egyptian Accounting Standards for at least two years, or

4. Being listed in the Egyptian Insurance Supervisory Authority’s- Registry of auditors licensed to audit the accounts of insurance, reinsurance companies and insurance cooperatives provided that he/she has audited the accounts of an Insurance Company in accordance with the Egyptian Accounting Standards for at least two years, or

E. A certificate that no criminal judgments were rendered against that auditor or any of his executive partners.

F. A certificate shall be submitted from the Accountant and Auditing Free Practitioners Division of the Commercial Syndicate, stating that no disciplinary judgments were rendered against that auditor.

G. Meet the capability and professional capacity requirements through submitting evidence as to the existence of the following:

1. A task force of at least three people with expertise in accounting and auditing for joint stock companies for at least five years period.

2. A system in place for quality control and professional independence checks

3. A system in place to ensure commitments to continuing professional education aimed at exposing the audit staff to various issues relating to challenges and new developments in the Egyptian Accounting and Auditing Standards especially those related to specialized financial industries like Banking Sectors, Insurance Sectors, Securities Companies, Structured Financial Instruments, Contracts and Derivatives.
Article (4) The auditors listed in the registry referred to herein above shall abide by the Egyptian Auditing Standards and by the regulations and restrictions set forth by the Capital Market Authority, in order to ensure appropriateness and accuracy of data and information to be made available to the public.

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

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

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

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

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

A. Errors, omissions, and misstatements, whether intentional or through oversight, in the submission of any application, data forms and/or reports filled by the auditor to either the Auditors Oversight Unit and/or the Capital Market Authority.
B. Non-compliance with the standards and codes of audit practice including but not limited to:

- Egyptian Auditing Standards inclusive of the quality control standards and independence standard

- The auditor did not verify the clients’ compliance with the Egyptian Accounting Standards in the preparation of the financial statements being audited

- Non compliance with the Code of Ethics promulgated by CMA

C. Non-compliance with the requirements of Continuing Professional Development (CPD) set forth in the Rules and Regulations pertaining thereto for auditor registration.

D. Failure to furnish all information requested in connection with the registration or inspection of registrants.

E. Failure to cooperate with the reasonable requirements of a periodic inspection and/or special investigation of alleged violations.

F. Material misstatement and/or inadequate disclosure in any financial report(s) issued by a regulated entity and audited and reported upon by a registrant and failure of the auditor to report on such violations/misstatements.

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

A. Issuing a notice of violation to the auditor indicating the period of time granted to him to provide corrective action and indicate measures taken to prevent re-occurrence.

B. Requiring the registrant to promote its professional capacity through increasing the number of its professional staff or promoting the staff professional capacity and provide additional professional training for some or all of the designated professionals.

C. Requiring a registrant to assign a reviewer or quality control supervisor on outstanding engagements,

D. Prohibiting a registrant from accepting new audit clients (from the legal entities mentioned in article no. 2) until taking proper corrective action to address raised violations.

E. Temporary suspension of registration for a period that does not exceed 12 month.

F. De-listing of the registrant from the auditors’ registry.

AOB’s decisions are issued with the approval of the majority of the attending votes except for the proceedings no. (D), (E), (F) mentioned above, where an affirmative vote from at least five voting members of the AOB is required to decide on initiating these specific disciplinary proceedings.
Article(10) A notice with raised deficiency and the above mentioned disciplinary proceedings will be issued to the registrant. The registrant shall have 30 days to respond to the matter(s) set out in the Notice before being presented for approval by the CMA’s Board of Directors.

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

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

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

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

Dr. Ahmed Saad Abdel-Latif

Chairman