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ACCOUNTING AND AUDITING IN DEVELOPING COUNTRIES - ARAB COUNTRIES

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Abstract

Purpose - This paper aims to examine the role and significance of accounting and auditing in developing countries - Arab countries in creating transparency and drive for the national economy. It provides contextual background information on the state of Accounting in Arab countries. This paper attempts to show how effective accounting and auditing help in promoting and supporting national competitiveness in today's globalised and complex world. The paper seeks to critically assess the effectiveness and performance accounting and auditing in Arab countries. It will highlight the factors affecting the role and function of accounting and auditing.

Methodology / Approach - The paper is based on data collected from various documents including those published by the authors (such as articles at journals and books), as well as information from business laws that organized accounting in Arab countries.

Findings – we found that accounting systems and auditing procedures in most Arab countries were designed to cater for the needs of centrally planned economy and they are currently struggling to keep pace with the developed world. The accounting and auditing systems in developing and Arab countries set clear objectives mainly to provide accounting information, including: (i) financial information; (ii) tax information; and (iii) statistical information. They lack standardization and uniformity as they seem to be applied differently across sectors and industries.

Originality: This is the first study (in researcher knowledge) that describes and explains the accounting and auditing in most Arab countries. The paper contributes to the literature by providing a broader picture about the obstacles and problems that effect on developing accounting in Arab countries.

Keywords – Accounting, Auditing, Arab Countries, and Education

ملخص الدراسة

تهدف هذه الدراسة الى تحليل دور المحاسبة والمراجعة في النهوض بالاقتصاد القومي للدول النامية - العربية. حيث قامت هذه الدراسة بعرض ودراسة الوضع الحالي للمحاسبة والمراجعة لعدد من الدول النامية والعربية، وكذلك تم مناقشة التحديات المعاصرة التي تقف امام تطوير مهنة المحاسبة والمراجعة في تلك الدول وذلك بالرجوع الى الأدبيات والدراسات السابقة المتعلقة بموضوع الدراسة مثل المجلات العلمية والكتب ....الخ. أيضا تم التعرض الى أهمية تبني واستخدام معايير المحاسبة والمراجعة الدولية ودورها في تطوير المهنة. كما خلصت الدراسة الى أن المحاسبة والمراجعة في أغلب الدول النامية - العربية لازالت متأخرة وتعاني الكثير من المشاكل والمعوقات، ويرجع ذلك بسبب أن (1) المحاسبة والمراجعة في هذه الدول كانت مصممة من أجل تلبية احتياجات التخطيط الاقتصادي للدولة (2) المحاسبة والمراجعة في تلك الدول كان هدفها الاساسي هو تزويد المعلومات المالية مثل معلومات حول الارباح والضرائب.
ان العديد من الدراسات السابقة اشار الى ان مشاكل المحاسبة والمراجعة في الدول العربية موضوع جدير بالبحث والدراسة، وبالتالي اجاء هذه الدراسة سوف يساهم في المعرفة وذلك بإعطاء صورة شاملة حول وضع مهنة المحاسبة والمراجعة في الدول العربية وكذلك مناقشة ما هي اسباب تأخرها عن الدول المتقدمة.

1. Introduction:

Developing countries are defined as *'third world countries'*, meaning they are less developed and do not include either the western world as their centre (as US) or the eastern world (as Russia). Developing countries are mostly found in Africa such as Libya, Tunisia and Egypt, Asia, Latin America, and the Middle East (Al-Oqla and Al-Angari, 2010). Although developing countries have some common features they are not a homogeneous group (Askary, 2006). Each country is different in terms of Gross National Product [GNP], population size, culture, degree of literacy, and the kind of legal, economic and political system under which it operates (Chand, 2005; Askary, 2006; Al-Oqla and Al-Angari, 2010). However, despite great differences in these factors, they are many characteristics that are quite similar (Al-Hussaini *et al.*, 2008; Askary *et al.*, 2008; Michas, 2010; Zakari and Menacere, 2012), including:

- Low levels of living standards and productivity

- High rates of population growth, dependency burden and levels of unemployment and underemployment
- Political mismanagement and an inefficient public sector
- The absence of Stock Markets
- An absence of the relevant education system in general and accounting education in particular.

There are a number of reasons why this research is necessary. First, emerging market economies are becoming more integrated into the global economy as a whole and have become more important to investors worldwide in recent years. The share of global economic output generated by emerging markets is currently just below 50 percent and rising (Francis and Wang, 2008). This has highlighted the increasing importance emerging market economies are playing in the global business environment and signals a need for additional academic research that investigates the audit process in these countries (Michas, 2010).

Another reason why the researcher wanted to carry out the study was that the majority of studies, which investigate audit processes and practices, tend to be related to developed countries. As a result there are only a limited number of studies which address the issues that developing countries have in attempting to improve their professional accountancy and auditing practices and the challenges that policy makers along with local professional bodies encounter (Pratten and Mashat, 2009; Michas, 2010). Therefore, this research will provide information about the accounting and auditing in Arab countries which will be very helpful for the research who study these economics.

2. Accounting and Auditing in Arab Countries

The Arab world stretches across more than eleven million square kilometres (about four million square miles) of North Africa and part of western Asia. It consists of twenty two countries which have a population of more than three hundred million people. The majority of people in Arab countries profess Islam and speak Arabic. The Arab economies are growing in importance, despite regional instability, the projected images of wars and acts of terrorism, the underlying growth rate is strong, driven by oil revenues, population growth and increases in GDP. Paradoxically, there is a big divide between Arab countries, as the Arab world includes some of the world's wealthiest countries such as Bahrain and Qatar, but there are also countries such as Yemen which is struggling with internal conflicts and underdevelopment.

2.1 Accounting in Arab Countries of North Africa

Due to some major difficulties faced the researcher, the dissection in this section will be focused on Libya as one of Arab North Africa countries. When income tax was first introduced in 1923, accounting was at its starting point in Libya (Kilani, 1988). When this tax law was introduced Italian enterprises brought with them Italian accountants, but there was no evidence that Libyans practiced accounting during that period, as the Italian colonial authorities kept their accounting practices to themselves (Kilani, 1988; Abozyredh, 2007). Since the early 1950s, the development of the Libyan accounting profession has been significantly influenced by several factors. These include Libyan accounting education, accounting academics, international oil companies, international accounting firms, and, to some extent, rapid changes in the Libyan social, economic, political and legal environment (Kilani, 1988; El-Moghirbi, 2003; Central Bank of Libya, 2006).

Up to Libya's independence in 1951, there was no domestic accounting profession and most business firms depended upon foreign accounting firms from Italy and the UK (Abozyredh, 2007). No formal accounting education or training was available locally, and so, when independence came, there was a shortage of personnel to fill clerical and technical positions in the administrative and public services (Abofars, 2008). This was one of the country's most serious handicaps and meant that, throughout the 1950s, it relied greatly on advisers from the UK, US and UN to establish rudimentary accounting systems (Abofars, 2008). At that time, many foreign agencies from the UK and the US such as the Libyan Public Development and Stabilisation Agency, the Libyan American Reconstruction Commission, the Libyan and American Joint Service impacted on the development of accountancy in Libya when they carried out various projects (Buzied, 1998). These agencies were all administered by non-Libyans and, through them, the British and Americans implemented their own accounting models, significantly influencing the accounting system (Buzied, 1998).

The discovery of oil in the early 1960s provided the country with the financial resources to develop business activities leading to a significant growth of the economy. Accordingly, there were increasing needs from investors, creditors, business managers and governmental agencies for financial information and resulting accounting services. Subsequently, many foreign accounting firms from Egypt, the US and the

UK opened branches in Libya, predominantly providing audit services. Following the regime change and the major transformation of the country's political system, Libya attempted to distance its processes and reduce the influence of foreign organisations such as those from the UK and US on the national systems. In the wake of the regime change and as part of the restructuring of the Libyan economy, the government embarked on the policy of nationalisation of foreign owned companies. This decision to alter the spheres of influence also impacted on the systems of recognizing and producing professional accountants by putting a strong emphasis on university education and qualifications from Libya (Abofars, 2008).

The accounting practice in Libya is influenced by four key sources of impact namely (Mahmud and Russell, 2003; Ahmad and Gao, 2004; Al-Badre, 2007; Alfaitori, 2007; Pratten and Mashat, 2009; Zakari and Menacere, 2012):

1. Statutory requirements (i.e., governmental laws and regulations) that control business in this particular country.
2. The impact of accounting technology and know-how imported from other countries (particularly from the UK and through publications and the experience of qualified personnel and companies).
3. The influence of accounting education and the contribution of academics and practitioners in the accounting field.
4. Some changes in the Libyan social, economic, political and legal environment.

In Libya, as in several of its counterparts in the rest of the world, a number of laws have been issued and promulgated to regulate accounting practice. Therefore, the major influence on accounting practice has primarily been statutory (Al-Hasade, 2007; Abozyredh, 2007; Al-Hadi, 2008). Accounting technology and know-how imported from other countries also has a major impact on accounting practice in Libya. Mahmud and Russell (2003) indicated that British and American accounting practices, transferred to Libya through oil companies, have affected the country's oil companies. This, in turn, also has influenced other business enterprises (non-oil companies) as employees move in and out of the oil sector.

Education has been recognised as a key element in political and socio-economic development (Mahmud and Russell, 2003; Ahmad and Gao, 2004; Alfaitori, 2007; Abofars, 2008). Universities in Libya played a major role in constructing and developing the accounting practices in the country (Mahmud and Russell, 2003).

2.2 Accounting in Middle Eastern Countries

The accounting profession in the Arab countries has gone through different stages leading up to their current situation. The Middle Eastern countries began to regulate the accounting profession during the first half of the twentieth century, influenced by prevailing Mandate regulations (Al-Emary and Manah, 2010). For example, the accounting regulations of Egypt of 1909, Iraq and Palestine of 1919 were influenced by British precedents. The Syrian and Lebanese commercial laws were based on French counterparts. The British Mandate had transferred the British income tax system and accounting practices to Egypt and Palestine in 1932 and 1941, and the French did the same with their systems and practices to Syria and Lebanon in 1942 and 1944 (Aldine, 1999).

Many Middle Eastern countries, in recent years have experienced or are undergoing major structural economic changes that have a significant impact on the whole economy and their population. These changes have included the privatisation of the public sector, encouraging foreign investment and establishing Arab Stock Markets [ASM] such as in Syria, or developing existing ones, such as Egyptian, Saudi or Kuwaiti stock markets (Ellabbar and Havard, 2005; Al-Hussaini *et al.*, 2008; Alami, 2009). According to Al-Qahtani (2005) and Marashdeh and Shrestha (2010) these systematic challenges have been aimed at:

- Removing official barriers that have blocked the market due to monopolistic or oligopolistic power.
- Liberating economic activities and allowing the forces of the market to take control based on the laws of demand and supply in production, commerce, and service.
- Reducing the government role in the national economy by giving the private sector more influence.
- Creating the appropriate judicial and institutional settings as incentives for both local and foreign investments.

Due to the adoption of these new economic changes in the Middle Eastern countries, the last ten years have witnessed an increasing interest in developing auditing and accounting practices. Companies listed in the Egyptian Stock Market [ESM] and Jordanian Stock Market [JSM] all have had to adopt the IASs and ISAs for preparing and auditing their financial statements (Pryor, 2007).

Egypt has a developing economy whose Stock Exchange dates from 1882 (Abd-Elsalam and Weetman, 2003). In the mid-1970s, the Egyptian government followed an open-door policy by liberalising the national economy; it initiated several improvements to the accounting and auditing standards and practices. These developments were accompanied by increasing competition among audit firms, decreasing audit fees, and an increasing pressure to enhance the efficiency of audits without decreasing effectiveness (Wahdan *et al.*, 2005). The Egyptian government issued the *Banking Law No. 163* in 1957, the *Company Law No. 159* in 1981, and the *Capital Market Law No. 95* in 1992 in order to restructure (1) financial reporting, (2) disclosure requirements, and (3) accounting and auditing professions (Farag, 2009). The company law has required an auditor to collect all required evidence in order to report whether financial statements fairly present the company's financial condition and results of operations (Fawzy, 2004).

The Egyptian Society of Accountants and Auditors [ESAA], emerged in 1977, plays a central role in the accounting and auditing professions within Egypt, it is an association of chartered accountants that develops educational and professional standards. The ESAA is a member of International Federation of Accountants [IFAC] (Wahdan *et al.*, 2005) and it issues Egyptian Auditing Standards [EAS] in 1997 (Fawzy, 2004).

In Jordan, the *Auditing Profession Law No. 32* of 1985 was issued to regulate auditing practice (Rawashdeh, 2003). This legislation established the Jordanian Association of Certified Public Accountants [JACPA], and organised the linkage between auditing practitioners and public and private corporations, and limited liability companies. The

JACPA is a member of IFAC and some regional bodies such as the Arab Association of Certified Public Accountants. In addition, it has approved ISAs as national standards and used them to audit all listed companies in the Amman Stock Exchange [ASE] (Al-Akra *et al.*, 2009). According to the Al-Akra *et al.* (2009) accounting practice in Jordan was limited to the recording of transactions, satisfying only the formalities of the outdated law requirements with no set form or content for financial statements. In addition, accounting regulation in Jordan has suffered from many weaknesses according to Al-Akra *et al.* (2009) including the lack of professional regulations that meet the international standards for accounting and auditing.

As far as Lebanon is concerned, auditing is a legal requirement for all listed companies on the Beirut Stock Exchange [BSE] and other stock corporations, banks and insurance companies, limited companies and some individual enterprises (Tabet, 1998). Although the ISAs have not been approved as national standards, the auditors are using them widely when providing auditing services and reporting (Abu-Mansour, 2001). Mansour (1997) has confirmed that Lebanese auditors are required to implement ISAs because the Lebanese Association of Certified Public Accountants [LACPA] is a member of IFAC. According to Harb (1999), the Lebanese auditing profession is mainly influenced by the *Commercial Law of 1942* as a legal requirement. This law ordered that all stock and limited companies must appoint an auditor and specified the auditor’s responsibilities and duties. It further stated that the stock companies should appoint one additional auditor or more to add more credibility to the auditing process.

In Syria, the auditing profession is ruled by two pieces of legislation: the *Commercial Law of 1949* and the *Certified Public Accounting System* [CPAS] *of 1958*. The Commercial Law requires that an auditor should be appointed for stock corporations. Other legal texts have dealt with auditor responsibilities and auditing reports. The *CPA System* was issued to organise auditing practice and to establish the Syrian Association of Certified Public Accountants [SACPA]. However, the SACPA has not been given the legal authority to organise the accounting and auditing practice effectively (Alkadi, 1992). Syrian Stock Exchange [SSE] was established in 2009 (Abdmoulah, 2010). Financial reporting in Syria is not oriented toward a fair presentation of the financial position and results, rather it is directed towards compliance with legal requirements and tax law, and accordingly can be described as a form over substance accounting system (Deloitte and Touche, 1990). Syria does not apply any special accounting principles, but depends on some rules and regulations issued concerning different accounting principles such as inventory valuation and depreciation of fixed assets (Alkadi, 1992).

2.3 Arab Gulf Countries

For the Arab Gulf Cooperation Council [GCC] countries, namely, Bahrain, Qatar, Oman, Kuwait, Saudi Arabia and UAE, the accounting and auditing professions have been organised by company law and auditor law. Although only Kuwait and Bahrain are members of IFAC, the IAS and ISA have adopted by all GCC countries (Al-Qahtani, 2005). In all GCC countries, the government regulates financial reporting and controls the accounting and auditing professions. Professional accounting bodies exist in four states; namely, Bahrain, Kuwait, the UAE and Saudi Arabia. However, the Bahrain Society of Accountants and Auditors [BSAA], the Kuwait Accounting and Auditing Association [KAAA] and the UAE Accountants and Auditors Association [UAEAAA] have no regulatory power to license accountants and auditors or to establish accounting and auditing standards (Al-Basteki, 2000). In contrast, the Saudi Organisation for Certified Public Accountants [SOCPA], established in 1992, is empowered by the Saudi Ministry of Commerce to issue accounting and auditing standards and has the authority to recognise certified public accountants (Al-Amro and Al-Angari, 2007; Al-Hussaini *et al.*, 2008).

External auditor's laws have been enacted in all GCC member states to regulate the auditing profession from 1962 according to Al-Qahtani (2005) who argues that the effectiveness of the audit function depends on the qualifications of the auditor. Furthermore, the various GCC legislative statutes require auditors to collect sufficient evidence in order to support their professional opinions, the maintenance of official accounting standards and statutory requirements as well as a clear financial position for the stakeholders who are interested in the organisation which has been audited by them (Al-Qahtani, 2005; Al-Jadaani and Al-Angari, 2009).

For the all GCC countries, the Stock Exchanges were established in the early 1990s and they have developed significantly over the last decade. Several factors have successfully contributed to this development, which includes the achievement of higher economic growth, monetary stability, privatisation, financial liberalisation and a new institutional framework for investors (Marashdeh and Shrestha, 2010).

3. Obstacles Facing the Development of Accounting in Arab Countries

Some important features of development in the accounting and auditing professions in Arab economics during the last fifty years can be observed. Prior studies (Obaidat, 2007; Askary *et al.*, 2008; Al-Akra *et al.*, 2009; Farag, 2009; Michas, 2010) evaluated these financial professions and found four common characteristics. The first characteristic according Al-Akra *et al.* (2009) and Michas (2010) when describing accounting and auditing professions in the Arab countries is the various countries' previous association with developed countries and how this association affects the current economic and political situation or the side effects of a previous colonial connection. The second characteristic describes the recurring state of change for the professionals and the resulting lack of established stable concepts or standards (Al-Akra *et al.*, 2009; Farag, 2009). This feature might be related to the condition of political and economic instability that exists in many Arab countries.

The third characteristic according to Farag (2009) and Al-Akra *et al*. (2009) is the dominance of government agencies in relation to the professional bodies. This is either because of the lack of qualified professional bodies or a professional body which does not have the authority that would enable the professional body to issue professional standards and a code of ethics (Farag, 2009), Al-Akra *et al.* (2009) point out that there is a desire to implement a uniform accounting system for the whole economy in the centrally controlled systems prevailing in some countries. The fourth characteristic described by Farag (2009) is related to the social view of the accounting profession, which is generally downgraded. Arab societies consider this profession as a means of tax evasion rather than as a system of useful information for prudent financial decision-making.

Several studies in accounting and auditing areas conducted in the Arab countries i.e. Egypt, Jordan, Libya, and Bahrain found that there is a compliance gap between accounting and auditing requirements and actual practices (Wahdan *et al.*, 2005; Faraj and Akbar, 2010; Al-Akra *et al.*, 2009; Joshi and Deshmukh, 2009; Zakari and Menacere, 2012). According to Jahamani (2003), this non-compliance with auditing is mainly caused by (1) the lack of experience and expertise in the professions, (2) the lack of accounting and auditing education, and (3) the lack of developments of accounting and auditing regulations.

Al-Rashed (2002), Hassan (1998) and Jahamani (2003) highlight the following problems of accounting and auditing practice in most Arab economies:

1. There is a shortage of qualified accountants and auditors.
2. Accounting information is not available or is not available in the proper form, or is received too late.
3. There is a lack or weakness of legislation relating to accounting and auditing standards and procedures.
4. A strong national association of accountants and auditors is lacking.
5. The non-existence of any clear accounting policies and standards.

Additionally, Jahamani (2003), Humphrey (2007), and Michas (2010) point out key factors which have a significant influence on accounting and auditing education in Arab countries. These include:

1. Locally authored accounting and auditing textbooks are inadequate.
2. Teaching of accounting and auditing subjects at the college level is inadequate.
3. Qualified accounting instructors are insufficient.
4. Professional development opportunities for accounting educators and practitioners are lacking.
5. There is a lack of accounting and auditing research.

Culture has been shown to be a major factor affecting the structure of business and society (Hassan, 2008; Askary *et al.*, 2008; Al-Akra *et al.*, 2009) and, latterly, accounting and auditing (Maali *et al.*, 2006; Askary *et al.*, 2008; Sim, 2010). Similarly, the legal structure and the development of stock markets in a society affect its accounting structure (Abdmoulah, 2010). The Arab countries have a great deal in common, although they may perceive themselves from time to time as having different political and economic aims. Despite great wealth in some of them, they are all developing countries attempting to build a modern business infrastructure within the constraints of limitations in available social and physical resources. Countries in the Middle East and Northern Africa share the common bond of an Islamic religious and cultural heritage which specifies certain rules about life and economic activity.

Prior accounting studies (Kantor *et al.*, 1995; Maali *et al.*, 2006; Abumustafa, 2006; Wilson, 2009) found that Arab countries share similar characteristics in the accounting field. For example, some share an

Islamic Finance System and Islamic banking. In addition, The Arab world has been presented as a largely homogeneous unit in cultural, legal, and religious terms (Kantor *et al.*, 1995; Wilson, 2009). Hofstede (1991) places Egypt and Saudi Arabia in a common Arabic-speaking group that includes such politically diverse countries as Lebanon, Libya, Iraq, and Kuwait. These countries are portrayed as highly masculine and uncertainty avoidant with a large power distance and a low individualism or collectivist perspective on life (Hofstede, 1991). This cultural oneness is supported in many cases by an Islamic philosophy.

Another similarity is that several Arab countries have moved from planned economies to the global economic stage and are adopting some of the characteristics of a market economy (Maali *et al.*, 2006).

4. Dissection

Prior accounting research (Ahmad and Gao, 2004; Ashraf and Ghani, 2005; Zeghal and Mhedhbi, 2006; Askary, 2006; Cooper and Robson, 2006; Abulgasem and Alukel, 2007; Ali and Ahmed, 2007; Askary *et al.*, 2008; Aggestam, 2009; Arsoy and Gucenme, 2009) have investigated the influences of the environmental factors on accounting and auditing professions. These studies identify several factors, such as international factors, economic and political influences, legal systems, taxation, culture, religion, and accounting education system, that seem to affect the development of auditing and accounting practices in emerging countries – Arab countries. Ali and Ahmed (2007), Askary *et al.* (2008) Aggestam, (2009) and Arsoy and Gucenme (2009) have all found that any significant change in these factors in a particular country could affect its accounting and auditing regulations and policies. For instance, a decision to establish or develop a stock market and attract international investment could trigger the restructuring of the auditing and accounting systems and strongly motivate the adoption of international accounting and auditing standards

With the growing internationalisation of economic trade and the globalisation of businesses and financial markets, financial information prepared and audited according to a national auditing and accounting system may no longer satisfy the needs of users whose decisions are more international in their scope according to Beke (2010). Thus, to meet the new global environment and to the new requirements of decision makers, accounting regulating authorities have sought out solutions that allow for the improvement and advancement of accounting and auditing (Zeghal and Mhedhbi, 2006). Recently, several initiatives have been proposed such as harmonization of accounting standards and practices on an international scale. This initiative’s goal is to have a coherent set of accounting standards and practices that provide national and international decision makers with a relatively homogenous information product that is comparable and reliable (Carmona and Trombetta, 2008). Thus, some Arab countries such Jordan, Bahrain, Egypt, Qatar and UAE who have adopted international accounting and auditing standards [IASs, IFRSs and ISAs] to improve the credibility and quality of accounting information and in order to share the global economic.

Economic conditions are a major determinant in the development of a country’s accounting system. For example, a country’s level of economic growth has a positive effect on the development of accounting systems and auditing practices. According to Bakre (2006), Celik and Ecer (2009), Al-Akra *et al.* (2009), and Salehi (2010), the economic factors such as nature of business ownership, nature of the economic system, and the stock market have an important effect on accounting and auditing professions. For instance, the stock markets in some Arab economics such as UAE and Egypt have developed significantly over the last decade (Chen *et al.*, 2005; Samer, 2008; Abdmoulah, 2010). Several factors have played a vital role in this development, which include the achievement of higher economic growth, monetary stability, stock market reform, privatisation, financial liberalisation and new institutional framework for investors (Marashdeh and Shrestha, 2010). As result of these developments, the accounting and auditing practices have been positively affected. However, Hassan (2008) concludes that the development of accounting in emerging economies depends mainly on the cultural and political motives rather than on economic changes. In addition, Hassan (2008) argues that both types of motives are interchangeable as cultural and political ones are hidden under the promoted economic benefits. Cooper and Robson (2006) suggests that legitimacy is a dynamic process in which the development of accounting regulations is located in relation to the desires of various groups such as regulatory agencies, the accounting profession and the government officials (the state).

In terms of the relationship between the religion factor and the accounting and auditing practices, the prior studies of Islam and accounting (Karim, 2001; Lewis, 2001; Lewis, 2005; Kamla *et al.*, 2006; Abd- El-Razik, 2009) concluded that in the Islamic world the Islamic principles from '*Sharia*' influenced the accounting systems. According to Kamla *et al.* (2006), the '*Quran'* (the revealed words of God) and *Sunnah* (Contains God's inspired acts; sayings of the Prophet Mohamed) are the material sources of Islamic Law. Together, they are referred to as the Islamic principles or *Sharia*. The Islamic tradition places ethical or social activity ahead of individual profit maximisation. Speculative investments, such as margin trading, are not allowed because Islam bans transactions that involve uncertainties. Partnerships are a common form of business organisation. That is, Islam recognises and encourages commerce. Although it requires business activities to be conducted in compliance with principles enshrined in the Sharia. What is lawful, '*Halal'*, and unlawful, '*Haram'*, for various aspects of business activity is prescribed. The *Sharia*'s prescriptions include all areas of trading activity and this religious body of knowledge advises the nature of allowable traded goods and services, as well as the mores of business conduct (Kamla *et al.*, 2006).

The challenges and problems of accounting education in Arab economies have been a source of ongoing debate and controversy from the accounting and auditing researchers (Ahmad and Gao, 2004; Bakre, 2006; Watson *et al.*, 2007; Aggestam, 2009; Celik and Ecer, 2009; Siddiqui, 2009; Hammami and Fedhila, 2009). Yapa (2000), Ahmad and Gao (2004) and Bakre (2006) found that almost all developing countries that have been colonies under powerful Western rulers have inherited their accounting education from a colonial system. Ahmad and Gao (2004) argue that accounting education in emerging countries should focus on national information needs and emphasize the use of accounting not only to business enterprises but also to state and economic development activities. Social and economic characteristics must be fully taken into account in improving accounting education systems and curricula from the West. Likewise, Bakre (2006) suggests that developing countries need to evolve appropriate accounting structures, education and training that can better address their peculiar economic problems, rather than just adopting the accounting systems that have been developed by western nations. The teaching of accounting in developing countries is facing serious challenges due to the increasing number of students (Hammami and Fedhila, 2009).

Within the Middle East region there are a number of developing countries and the global changes to the business market and the impact of international businesses who operate in multiple markets according to Taylor *et al.* (2003) highlights the challenges that Hammami and Fedhila (2009) identify the provision of accounting and auditing information that meets the users' needs in this region.

5. Conclusion

The conclusion that can be drawn from the above is that the level of progress which has been made towards enhancing accounting and auditing in the developing and Arab world vary from country to country and the description that seems to fit crudely is that there is *'the Good, the bad and the Ugly'*.

Despite the ambitious development plans their objectives clash with the economic environment which is deeply rooted in red tape. Consequently accounting and auditing professions are largely inconsistent with accounting in a market economy. It is axiomatic that financial accounting is designed to provide standardised information that is needed to prepare financial statements for the benefit of both private and public sector; however, in developing and Arab world there are all sorts of differences and constraints when it comes to applying accounting and auditing regulations. There seems to be clear gaps between accounting legislation and its enforcement. As far as accounting education and accountant's development schemes are concerned, accounting institutions and bodies suffer from lack of facilities, poor resources and ill qualified teaching staff, in addition to inadequate infrastructure. Furthermore, computer hardware and software and Internet are short supply. In addition to accounting education problems, the culture, economic and political influences all have an effect on the development of auditing and accounting practices in emerging countries – Arab countries.

In short, accounting and auditing in the developing - Arab world despite several efforts by individual countries, is not up to the required standard and has a long way to go before matching international practices and meeting the needs of the market economy.

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