

## **Accounting professionalization amidst alternating politico-economic order of Ethiopia**

### **Abstract**

As a result of apparent variations in the social, political and economic context of countries, accounting professionalization takes diverse forms and passes through varied challenges in different countries. While accounting professionalization in Western societies has generally been well documented, studies that examine this process in developing countries appear relatively limited. This paper examines the accounting professionalization process in the context of alternating politico-economic developments in Ethiopia over the past century. A combination of functionalist, interactionist, and critical perspectives is employed to interpret the ongoing efforts to establish a viable professional accountancy body in the country. The study illustrates how the dynamics of state-profession interactions, structure of the economy, the role of the state in the market for accounting labour, interactions between the state and global forces, and attributes of the aspiring associations have impacted on the professionalization enterprise. The results are interpreted in light of the results of similar studies in other English-speaking developing countries.

**Keywords:** *Ethiopia; accounting profession; functionalist perspective; interactionist perspective; critical perspective; exclusion; closure*

## **INTRODUCTION**

Accounting professionalization has been examined in a variety of settings and from different perspectives. Prior studies employed the functionalist, interactionist and/or critical perspectives to explain the development of professional accounting associations. The functionalist view indicates that the crux of professionalization rests on the profession's ability to produce professionals with esoteric knowledge and skills who are to serve society in an altruistic fashion. On the other hand, the interactionist view maintains that professions are interest groups that attempt to convince society to seek their services so as to defend and further the interests of their members. More recently studies have taken a critical perspective to examine the professionalization processes within the context of state-profession dynamics and professions' attempts for collective social mobility within a set of power relations. According to this perspective, professions define and defend the interests of their members by creating professional monopoly through a process of closure and exclusion to prevent non-members from accessing professional practice (Sian, 2006; Uche, 2002; Walker, 2004; Willmott, 1986; Yapa, 1999).

While accounting professionalization in Western societies has generally been well documented (Hao, 1999), the literature on developing countries appears still limited (Uche, 2002). Some studies on the professionalization of accounting and accountants in developing countries, e.g. in Nigeria (Uche, 2002), Kenya (Sian, 2006), and Brunei (Yapa, 1999) have provided useful insights and have contributed to the literature. The development of accounting profession as viewed in a Western context is closely tied to the rise and development of industrial society (Hoskin and Macve, 1986; Willmott, 1986). That is, societal expectations from the accounting profession and the market for accounting labor exhibit varying forms depending on the level of industrialization of a society.

Since globalization and harmonization are a top priority in accounting nowadays (Chua & Poullaos, 2002) studies of the accounting profession in a wide range of contexts across the globe could contribute useful insights to accounting research and practice. As accounting professionalization is dependent upon a complex set of political, economic, and social contexts in which it takes place, the Western model may not fully explain the development of accounting in developing economies (Seal, Sucher and Zelenka, 1996). Whilst Western European societies have typically followed the Marxian developmental stages of slave society, feudalism and capitalism (in that order), many developing countries have skipped or combined some of these stages. For example, Russia converted from a primarily feudal society in the age of Tolstoy and Dostoyevsky in the second half of the 19<sup>th</sup> century to Stalinism in the 1930s. In addition, many developing countries have had Stalinist, communist and/or Asiatic modes of production at one time or another (Brown, 1974; Wittfogel, 1970). Marx referred once to the “Asiatic mode of production” where the despotic paid officials of the state constitute the ruling class; Marx and Engels referred to Russia in the 1850s as being “semi-Asiatic” (Brown, 1974, p. 27; Wittfogel, 1970, p. 375) whilst in 1905 Lenin claimed that at that time Russia had developed only a restricted Asiatic capitalism (Brown, 1974, p. 27; Wittfogel, 1970, p. 394).<sup>1</sup> Military dictatorships have also been a characteristic of sub-Saharan African countries (Uche, 2002). The countries of Eastern Europe, by and large, are still in transition from communism to fully-fledged market capitalism. Thus further studies with respect to developing countries could contribute additional insights into the development of the accounting profession at a global level and how the development of the accounting profession interacts with the social, economic, and political factors inherent in the prevailing mode(s) of production. The level of development of the private sector and the extent of economic activity undertaken by state enterprises

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<sup>1</sup> According to Wittfogel (1970 p. 438, cited in Brown 1974, p. 27), “Lenin himself at the close of his life believed that Russia was well on the way to an Asiatic restoration”.

bears implications to the level of development of supply and demand for accounting labor (Yapa, 1999). In developing countries like Ethiopia where state enterprises undertake the majority of economic activity (World Bank, 2007) and in which the state has the mechanism to provide supply of accounting labor, examining the dynamics of accounting professionalization and the results of such projects could arguably provide valuable insights.

This study attempts to examine the professionalization projects in Ethiopia based on a review of relevant documents as well as discussions with leaders and selected members of three accounting and auditing professional associations. Ethiopia is an East African country with a population of about 74 million as of 2007 (Federal Democratic Republic of Ethiopia Population Census Commission 2007). The Country's major exports include coffee, gold, leather products, beeswax, canned vegetables, tea, sugar, cotton, oilseeds, and fresh flower. The nation imports mainly processed food, petroleum and petroleum products, chemicals, machinery, civil and military aircraft, transport and industrial capital goods, agricultural machinery and equipment, and motor vehicles (National Bank of Ethiopia, 2006; Nations Encyclopedia, 2004).

The remainder of this paper is structured as follows. The next section discusses perspectives employed in prior literature to study professionalization. Section 3 describes the development of accounting in Ethiopia and explains accounting professionalization processes in the country from the early-1900s through to the 2000s. Section 4 presents overview of current developments and their implications and Section 5 concludes.

## **APPROACHES TO THE STUDY OF PROFESSIONS**

To explain the process of professionalization, prior studies have employed three perspectives: functionalist, interactionist and/or critical. Willmott (1986) indicates that the functionalist and interactionist perspectives were dominant before the 1970s, whereas the critical

perspective has dominated afterwards. Under the functionalist view, the crux of professionalization was regarded to rest on the profession's ability to produce the right professional with the competence as well as the commitment to serve society with altruistic motives. Thus, according to this paradigm, the presence of specialized knowledge of members of the profession that enables them to provide honorable, high-skill service to society has been considered central to the recognition of professions. The interactionist perspective views professional associations as interest groups that defend the interest of their members by convincing the community to grant them the right position in society and to seek their services. Thus, under this view professionalization is a result of symbolic interactions where meanings are negotiated for professions to be accorded the desired image in society (Sian, 2006; Uche, 2002; Walker, 2004; Willmott, 1986; Yapa, 1999).

More recently, studies on professionalization have taken a more critical perspective (Chua & Poullaos, 1998; Sian, 2007; Walker and Shackleton, 1996). These studies use the sociological theories of Max Weber and/or Karl Marx to examine the professionalization processes within the wider context of power relations. Significantly, Willmott (1986) argues that this perspective extends the interactionist views by subjecting the professionalization process into a wider context of power structures where the state, the public and other users of the services of the profession facilitate or constrain the professionalization process. From the critical point of view, professions attempt to attain collective social mobility through the processes of exclusion and closure to restrict the supply of professional services to niche markets to their members. This process involves lots of dynamics with powerful others including state and other components of society. For example, professions operationalize the concept of "furthering the interest of members" by creating professional monopoly via legislation to that end; thus state-profession dynamics set in (Sian, 2006; Uche, 2002; Willmott, 1986; Yapa, 1999).

These perspectives on professionalization have been employed in the study of the development of the accounting and auditing professions in the different empirical settings of various developing countries. Examples include Uche's (2002) study on Nigeria; Sian's (Sian, 2006, 2007) study on Kenya; Yapa's (1999) study on Brunei; and Seal, Sucher and Zelenka's (1996) study on the Czech Republic. These studies indicate the diverse forms in which accounting professionalization can and does take place. It still appears appropriate to examine accounting professionalization in view of the wider context in which it takes place in developing countries especially by closely examining the essence and temporal aspects of state-profession interactions as well as the impact of other context factors to promote and/or constrain professionalization. Specifically, examining context factors such as: the structure of the economy; the involvement of the state in economic activity; the role of the state in the market for accounting labor; and the interaction between state and global forces, may offer the literature additional insights. To that end, a combination of the three perspectives on professionalization as synthesized by Willmott (1986) has been employed in this study to examine the ongoing accounting professionalization enterprise in Ethiopia.

## **ACCOUNTING PROFESSIONALIZATION IN ETHIOPIA**

This paper examines the process of accounting professionalization in Ethiopia in three distinct periods where the nation has had alternating political orders: from a developing market economy (pre 1974) to a communist economy (1974 through to 1991), and then back to a market oriented economy (1991 onwards). Before 1974, Ethiopia was a developing market economy. In 1974, with the coming into power of a military government, the country shifted to a command economy. This led to nationalization of private companies and establishment of state-owned companies. In 1991, the present government came into power, proclaimed a free market economic

system, and privatized a number of state-owned companies. Increased management autonomy was also afforded to the remaining state-owned companies by Proclamation 25/1992 (Government of Ethiopia, 1992).

Ethiopia is a member of the Common Market for Eastern and Southern Africa (Nations Encyclopedia, 2004) and applied for World Trade Organization accession in February 2003 (World Trade Organization, 2007). The nation receives World Bank and IMF loans, grants, and economic policy reform advice in managing its development. The country's GDP and per capita GDP have both improved since 1991; however, external debt has remained high (Gebrekidan, 2005). These signs of growth in the economy and the high external debt may make the presence of a strong accounting profession imperative as the global view is that accounting aids the national development process (Asechemie, 1997; Enthoven, 1965; Willmott, 1986). This notion is supported by studies in the context of Western economies. For example, the Marxist accounting historian Bryer (2005, 2006a) has argued that accounting played a central role in the British industrial revolution. The accounting function is today is also considered as a key element in labor process control (Bryer, 2006b; Mihret, James and Mula, 2009). Thus, a study of accounting professionalization in the context of developing countries such as Ethiopia may help us better understand the role of the profession in assisting economic development.

The process of accounting professionalization in Ethiopia seems to exhibit distinct patterns during the three chronological periods: Pre-1974, 1974 to 1991, and post-1991. These patterns are described below in terms of stakeholders' efforts to promote accounting professionalization and the outcomes of such efforts.

## Pre-1974

Accounting and its key concepts do not appear to have had a recent history in Ethiopia. Kinfu (1990) provides an account of the development of accounting in the country. Kinfu argues that the keeping of records in various forms might have existed in ancient Ethiopia as early as the 3<sup>rd</sup> century A.D. during the Axumite Kingdom of ancient Ethiopia. The start of modern accounting in the country, nonetheless, is traced to the beginning of the 20<sup>th</sup> century. According to Kinfu, the keeping of formal records of government activities started in the 1900s when Emperor Menelik established Finance and *Gauda* (meaning treasury) Ministry which was to keep records of the king's treasury. Kinfu also indicates that modern financial accounting in the private sector started in Ethiopia in 1905 when the Bank of Abyssinia was established. The bank was established as a branch of the Bank of Egypt, which was in turn administered under the British financial system. The author points out that, despite Italian and French involvement in the affairs of the Bank of Abyssinia, the British citizens controlled its administration. As a result, usage of British accounting terminology, financial reporting requirements and personnel training left their footprints. This observation lends support to Frank's (1979) classification of Ethiopian financial reporting practices mainly under the British Commonwealth model<sup>2</sup>, despite the authors' indication that Ethiopian accounting is also not too far removed from the Latin American model.

In the government sector, a commission of trade inspectors was established by government regulation in 1917 to undertake monitoring of trade and customs in the country. The inspectors were required to report their negative and positive findings in relation to (Kinfu, 1990, p. 193):

- a) income raised and amounts expended on maintenance (consumption needs);

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<sup>2</sup> Other countries in the same category include Australia, Bahamas, Eire, Fiji, Jamaica, New Zealand, Rhodesia, Singapore, South Africa, Trinidad & Tobago, and United Kingdom

- b) employees who did little work, but have much expended on their maintenance (consumption needs);
- c) those who worked hard and brought much income with little expenditure on their maintenance;
- d) the period of service of an employee and the type of service he rendered;
- e) ways and means of minimizing cost by folding [combining] jobs to be performed by few employees;
- f) suggestions for improving departments whose expenditures were too high relative to the income they generated;
- g) existence of proper and sufficient top executive authorization for all types of expenditures; and
- h) observing that surplus (more than necessary) employees were placed in market places and check-points.

The foregoing quote makes it clear that operational or performance auditing in a rudimentary sense was started for the government system of Ethiopia in the early 20<sup>th</sup> century. Kinfu (1990) explains that the contribution of foreign advisors to the kings of Ethiopia during the period from the 1890s through to the 1970s led to the issuance of government regulations and proclamations such as those mentioned. Some of the proclamations and regulations continue to define or at least strongly influence the legal basis of accounting and audit practice in Ethiopia to this date. Examples include the 1960 Commercial Code of Ethiopia, the Audit Commission Proclamation of 1944 (which was the foundation for the Auditor General proclamation of 1961) and the Audit Service Corporation Proclamation of 1977.

In discussing the contribution of foreign advisors to the development of accounting in Ethiopia, Kinfu (1990) considers the role of consultants during the construction of the Ethio-Djibouti railway in the 1890s, and of the legal, military, and foreign affairs advisers in the 1930s, as initial contributions. The author then attributes subsequent developments of accounting during the period from 1934 to the early-1970s to the Anglo-American legal and financial advisors to Emperor Haile Silassie I (1928-1974). The first substantial development during this period was the issuance of Ministry of Finance directives in 1942 (Argaw, 2000a; Kinfu, 1990; Kinfu, Negash and Merissa, 1981). This was followed by the formation of the Audit Commission by Proclamation No. 69/1944

to undertake external audit of accounts of the Ministry of Finance (Government of Ethiopia, 1944), which was subsequently mandated to conduct the external audit of other budgetary institutions as well. This marks the start of today's Office of the Auditor General of Ethiopia (OFAG), which, amongst other duties, monitors and regulates the accounting and auditing profession in the country.

In about the same time frame, the Ethiopian Highway Authority and Ethiopian Airlines were established. In addition to this, the Ethiopian Telecommunications Corporation and the Ethiopian Electric Light and Power Authority were made autonomous state-owned companies. These phenomena led to the involvement of foreign companies as partners, financiers or consultants to the Ethiopian state-owned companies. As a result, internal audit was introduced in these enterprises with a view to strengthening internal controls (Kinfu, 1990).

Another development in the 1940s was the start of public accounting in Ethiopia. This is traced to events when British accounting firms, like PriceWaterhouse and Peat, opened branches in the country. As Kinfu (1990, p. 197) comments:

It is apparent that different types of accounting systems were, at this stage, instituted in Ethiopia by the financing agencies and expert advisers [to the state-owned enterprises]. While many foreign experts from different countries played a role in introducing accounting into Ethiopian enterprises, the influence of Britain is particularly evident on the accounting side, especially in the books (.....). Accounting and auditing advisory services were offered to [Ethiopian organizations] by British accounting firms, such as the Price Waterhouse and Peat etc., the first accounting firms to open a practice in Ethiopia. British influence penetrated the accounting practices of many client organizations as auditing and financial advisory services were provided by their foreign and indigenous counterparts and were to remain British-oriented even up to today.

Argaw (2000a) reinforces Kinfu's (1990) points regarding the development of accounting in the 1940s, in commenting that:

The history of [modern] internal auditing [in Ethiopia] dates back to the 1940s just about the time the profession has also evolved in Europe and in the United States [of America]. The difference in the two situations is that, in Europe and the United States [of America], it was not so much of the commencement of the internal audit task within various institutions but the development of the real professionalization by the establishment of the Institute of Internal Auditors (IIA) in 1941.

As a consequence of the growth of the demand for trained manpower in accounting and auditing up to the early-1940s, the Addis Ababa College of Commerce was established in 1943. The College of Business was then opened at Addis Ababa University in 1963 and at Asmara University in 1969. These institutions have played essential role in the development of the accounting profession in Ethiopia (Argaw, 2000a; Kinfu, 1990).

Other significant developments in the history of accounting in Ethiopia took place in the 1960s. Firstly, the Commercial Code of Ethiopia was proclaimed in 1960 (Government of Ethiopia 1960). This Code contains accounting and external auditing provisions, which still serve as the legal basis for financial reporting and external audit of companies (Argaw, 2000a; Kinfu, 1970; Kinfu, Negash and Merissa, 1981; World Bank, 2007). The code provides some requirements for financial accounting, reporting, and external auditing of companies that operate in Ethiopia. The limitations that possibly constrained the code's contribution to the development of accounting and auditing in the nation include that it does *not*: (a) specify the accounting standards to be followed in financial reporting; (b) define the qualifications of an auditor; (c) require compliance with professional standards on auditing; or (d) impose an audit requirement upon private limited companies with less than 20 members (World Bank, 2007). The second development was the formation of the Office of the Auditor General (OAG) in 1961 by Proclamation 199/1961 (Government of Ethiopia, 1961). This proclamation accorded the OAG greater authority than was provided in the 1944 proclamation when the office was established as an audit commission (Argaw, 2000a; Kinfu, 1990). The proclamation has subsequently been revised three times, in 1979, 1987 and 1997 (Government of Ethiopian, 1997). The 1997 version of the proclamation is the legal basis for external audit for government organizations in Ethiopia today.

The idea of the need to monitor and regulate the accounting profession in Ethiopia was felt as early as 1966 when the then Ministry of Commerce and Industry drafted legislation to the same end (Kinfu, Negash and Merissa, 1981). The legislation proposed the establishment of public accountants' certification committee; suggested minimum required qualifications for certification; and provided for monitoring of public accounting practice. Kinfu, Negash and Merissa (1981) assert that the act was not enacted due to a lack of a sufficient number of well qualified Ethiopians to meet the requirement, the presence of some people in accounting practice without meeting the minimum requirement but who received practicing licenses through practical experience, and the dominance of foreign public accounting firms and experts who arguably lack the motivation to achieve the end sought.

Kinфу, Negash and Merisa's (1981) assertions regarding the challenge that the presence of individuals who appear less qualified than the defined standard could present sounds reasonable in view of similar experience in other countries, e.g. Kenya and Australia. The experience in Victoria, Australia (Chua and Poullaos, 1993; 1998) and Kenya (Sian, 2006; 2007) suggest that inclusionary usurpation rather than closure might assist the development of the profession at least at certain stages in its development. This strategy helps to attain a critical mass of members at the early stage of development of the profession (Ramirez, 2001; Sian 2006). Similarly, the authors' observation is in line with Uche's (2002) assertion that dual membership to professional associations could lead to a conflict of interest and might complicate the struggle for jurisdiction. The challenges presented by the dominance of foreign qualified practitioners, be they locals or foreigners, in the development of indigenous professional associations were also experienced in Nigeria (Uche, 2002; Wallace, 1992).

The absence of aspiring professional groups to take advantage of the government initiative and establish a professional accountancy body is clearly evident here. Although the state has a role to play in the development of accounting professions (Sian, 2006; Uche, 2002) it may be the efforts

of the professions themselves that matters the most. From both functionalist and interactionist perspectives, the failure of the foregoing attempt to establish an indigenous professional accounting association should not come as a surprise. From the functionalist perspective, producing the professionals with esoteric knowledge should precede the development of the regulated profession because the crux of professionalization rests in the product rather than in the process. Thus without a professional body to control the knowledge base and to train, examine, and certify potential members, a professional body cannot remain on the cutting edge (O'Regan, 2001; Walker, 2004).

From the interactionist perspective, it is the professional body, in its endeavors to further the interests of its members, that promotes and develops the profession. The concepts of exclusion and closure may not come into play unless the profession first forms a critical mass of members (Sian, 2006). Specifically regarding the presence of non-qualified and part-qualified practitioners, who were in public professional practice without meeting minimum requirements, the experience of Kenya shows that promoting inclusionary usurpation at the beginning is a more constructive strategy than exclusion and closure. The authors believe that there would be little motivation to exclude and close in a profession that contained, say, only 20 or 50 people.

The developments in the legal, educational, commercial climate in Ethiopia until the early 1970s have created conducive environment for the development of the accounting profession in the country (Jones & Kinfu, 1971). Consequently, an effort to establish indigenous professional accounting associations in Ethiopia occurred in 1973 when the Ethiopian Professional Association of Accountants and Auditors (EPAAA) was established (Argaw, 2000a; Kinfu, 1990; Kinfu, Negash and Merissa, 1981). The EPAAA was aspiring to develop to a level where it would certify and license public accountants to practice in Ethiopia. Composition of members to the association included mainly accounting and auditing practitioners. As of 1975 the association had 38 members who were in public practice. Kinfu, Negash and Merissa (1981) assert that the EPAAA achieved

minimal success because most of its members were expatriates who were already certified abroad. From the critical perspective, this may be interpreted as members lacking the motivation to abide by the newly proposed modes of exclusion and closure. In the face of these challenges, the EPAAA issued two directives related to audit practice, namely, Board of Directors Directive No. 1 on special investigations, and No. 2 on bidding for audit contracts. Subsequent to the nationalization of private companies that followed the change of government in 1974, the association issued Board of Directors Directive No.3 on financial accounting and reporting (Weldegiorgis, 1992).

The literature indicates that the state has been a central actor in accounting professionalization processes in Europe (Caramanis, 2002; Ramirez, 2001) whereas it was considered generally to be neutral in Anglo-American cases (Sian, 2006). The sub-Saharan African experiences of Kenya (Sian 2006, 2007) and Nigeria (Uche, 2002) suggest that the contribution of government in winning the types of challenges observed in Ethiopia has been paramount. The problem persisted in Ethiopia, arguably because professional and government initiatives were sequential rather than simultaneous and synchronized.

In sum, this first period (pre-1974) was the time when foundations for the development of accounting were laid down. However, the accounting practice and professionalization did not achieve a high level of development in this period. Attempts were made to establish a professional accounting association but minimal success had been achieved. State and individual professional endeavors to the same end were sequential rather than simultaneous. The professional association established during this period also adopted the strategy of exclusion and closure rather early in its development without working to define and control the knowledge base for provision of certifications. This seems to have restricted its development as all its certified members were certified abroad and possibly lacked the willingness to shift professional commitments to EPAAA and away from the international association that certified them. A more inclusionary policy, such as

that adopted in Kenya and in colonial Victoria, might have better served the profession's interests during this period.

### **1974 - 1991**

Following a revolution in Ethiopia, a military government came into power in Ethiopia in 1974 and declared a communist ideology. As a result, private companies underwent nationalization and the number of state-owned companies in the country increased. Following this event, international public accounting firms that have been operating in Ethiopia, i.e. PriceWaterhouse Peat and Co and Mann Judd & Co., were closed (Kinfu, 2005; Weldegiorgis, 1992). Most people agree that the period up to 1991 was a time when the development of accounting (in the Western sense of the term) appears to have been held back (Argaw, 2000a; Blake, 1997; Kinfu, 2005). Nonetheless, an important landmark in the history of accounting and auditing in this period was the formation of the Audit Service Corporation (ASC) by Proclamation 126/1977 (Government of Ethiopia, 1977). The ASC currently undertakes external audit of public enterprises. Internal audit as a separate function also appeared in this period (in 1987) when the Auditor General was given the mandate to monitor and regulate internal auditing in government offices and public enterprises (Argaw, 2000a). This proclamation also gave the auditor general the authority to issue minimum requirements for recruitment of internal auditors, provide training to internal auditors, and require reports on internal audit of government organizations.

As this period is generally considered as a time when the development of accounting was directly or indirectly constrained (Blake, 1997; Kinfu, 2005), limited achievements were made in terms of the development of professional associations as perceived from the perspective of the Western model. The EPAAA was not active throughout this period. The use of accounting as a useful tool in organizations was undermined; as one of the leaders of IIA-Ethiopia commented:

During this period, private companies were nationalised. There were many public enterprises. There was no separation of technocrats and bureaucrats. Professionals could not succeed in their careers unless they were associated with the Workers Party of Ethiopia. Hence, professional standards were weakened during this period.

Uche (2002 p. 478) indicates that military regimes could at times be used to the advantage of developing professions through clever lobbying:

Given the power of the State and the supreme powers usually conferred on military rulers, the dynamics in the relationship between the State and the profession in developing countries [...] are usually less systematic. Given the existence of few checks and balances in the system, any party that is able to influence the top military class may well be in a position to define the history of the entire profession. In other words, interest groups' lobbying for regulatory benefit is easier under such military governments mainly because legislative initiative during such periods is concentrated in a few individuals

Despite the existence of a military government during this episode of the development of accounting in Ethiopia, this situation was not exploited by the accounting profession possibly for two reasons. First, the professions do not seem to have actively lobbied those in power to utilize the situation. Second, the Ethiopia military government of this period had a communist ideology which arguably does not appreciate the role of Western-styled accounting in a society. For example, in the former Soviet Union, Mikhail Gorbachev was considered a radical in the 1980s for proposing the use of Western cost-accounting as a part of his overall strategies of *glasnost* (openness) and *perestroika* (restructuring) (Gorbachev, 1987). In a communist economy, accounting serves as a central planning tool as contrasted with its accountability and value-adding roles in Western corporate governance mechanisms (Hao, 1999; Seal, Sucher and Zelenka, 1996). The greater emphasis of the Ethiopian government on internal audit compared to external audit could be in line with this notion of accounting's role in a planned economy. Arguably, Ethiopia's strengths today in internal audit built upon the foundations laid down in the communist years. In accounting terms, the communist period in Ethiopia cannot be regarded as a total negative. Every historical period must be examined dialectically in terms of its thesis and anti-thesis. As Marx wrote:

Men [*sic*] make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past. The tradition of all the dead generations weighs like a nightmare on the brain of the living (Karl Marx, *The Eighteenth Brumaire of Louis Bonaparte*, 1852 (Marx 1994).

In sum, there seems to be a general consensus that the change of political ideology to communism in 1974 held back the development of accounting professionalization in Ethiopia (Argaw, 1997; Blake, 1997). Blake and Woldegiorgis (1992) point out that the EPAAA was generally reactive in its actions during this period. The closing of Ethiopian branches of international audit firms (Woldegiorgis, 1992) is another indication of this impact. Of course, this incident, by creating a shortage of supply of external audit services, served as a triggering point for the formation of ASC in 1977 (Woldegiorgis, 1992). The formation of the ASC enables the government to provide accountancy labor to the public enterprise sector, which remains today in Ethiopia the largest sector in terms of economic activity (World Bank, 2007). This might reduce the state's demand for external accounting labor and thus it sound in its interests not to support exclusionary closure moves of the accounting associations. As Hao (1999) and Seal, Sucher and Zelenka (1996) argue, in a centrally planned economy, accounting is a passive technical tool that assists the central planning process. These authors illustrate that when such an economy transforms to a more liberalized one, the concept of accounting professional service as perceived in the Western context becomes evident.

### **Post 1991**

Post 1991 was a period when the country shifted back to a free-market economic order after being structured as a command economy for seventeen years. Post-1991, a number of public enterprises were privatized, which resulted in a new corporate governance structure that would be expected to enhance the importance of financial reports (Seal, Sucher and Zelenka, 1996). Change

of government and the type of government are important influences on the development of the accounting profession. The contribution of government in the development of accounting in other sub-Saharan African countries, i.e. Nigeria (Uche, 2002) and Kenya (Sian 2006) are examples of such influence.

There has arguably been some government interest in enhancing accounting and auditing in the country during this period. The free-market system has been taken as one of the signals of the hope for a better future for the accounting profession (Argaw, 2000a). The Ethiopian government has been undertaking financial reforms in the financial reporting and internal audit areas in the public sector (Peterson, 2001). As part of its economic policy reforms, the government has been working to improve the financial infrastructure of the country and to encourage private investment via enhanced platform for risk assessment and reduced corporate failure. Under this framework, a World Bank and IMF joint initiative study —Reports on Observance of Standards and Codes (ROSC)— was undertaken in 2007 focusing on financial reporting and external audit in Ethiopia (World Bank, 2007). The Ethiopian government has also been providing enhanced support to the development of internal audit since 1994 (Teklegiorgis, 2000). In 1994, the Prime Minister set up a task force that forwarded recommendations to improve internal audit in government offices. Consequently, the Ministry of Finance and Economic Development (MoFED) has been mandated to develop a manual for internal audit in government organizations.

During this period, the EPAAA has been re-activated and three other professional associations, i.e. the Ethiopian and Accounting Finance Association (EAFA), the Ethiopian chapter of the Institute of Internal Auditors (IIA), and the Accounting Society in Ethiopia (ASE) have been established. Furthermore there has been an ongoing public sector financial reform of Ethiopia since the early-1990s (Peterson, 2001) as well as state interaction with Western financial institutions like the World Bank and IMF that could be exploited to the advantage of the profession.

### ***Re-activation of EPAAA***

Post-1991, EPAAA has gained a more active status than in prior periods. At present, the association has three categories of members: two classes of practicing and non-practicing. The practicing member category contains authorized auditors and authorized accountants. Authorized auditors are those having certificates as a chartered or certified accountant and memberships with recognized international accounting bodies. Currently auditors are mostly members of the UK based Association of Chartered Certified Accountants (ACCA) (World Bank, 2007) and some are members of the AICPA. The second is authorized accountants, who provide accounting services as independent firm; whereas membership as a practicing auditor also requires auditing experience. Membership as an authorized accountant requires university/college accounting education plus practical experience in the field. These requirements should be met to obtain practicing licenses from the Office of the Federal Auditor General. However, membership to the EPAAA is not mandatory to obtain practicing license. Members in the third category are those who meet the membership criteria but do not choose to obtain a license and engage in public practice.

The interview with one of the leaders of the EPAAA indicates several points that clarify the association's current status. As at November 2008, the association had 123 active members. This is arguably a slow development when compared with 23 members in 1975. Also, one of the reasons for this minimal increase is that OFAG is currently requiring membership of any local professional accountancy associations in order to provide a practicing license. With the opening of the ACCA-Ethiopia branch in Addis Ababa, the ACCA made arrangements with the EPAAA such that members of the former obtain automatic membership to the latter. It had a plan to launch a joint examination scheme with the ACCA such that the ACCA would include Ethiopian variants of its

taxation and commercial law papers when relevant materials are developed on Ethiopia for these papers. Under that scheme the EPPAAA was supposed to actively participate in the process. The contribution that this arrangement could provide to the development of the association is not exploited in terms of further development of the association because of limitations of the EPAAA. Students and members of ACCA are also members of the EPAAA, under the new arrangement. So the ACCA pays some amount of money per each ACCA student in Ethiopia and the two associations' emblems are affixed to the ID cards of the ACCA students.

The interview also suggests that like the pre-1991 period, the challenge still remains that members' commitment to EPAAA has been limited. Members maintain membership and pay fees just out of interest to assist the development of the accountancy profession in Ethiopia. Not all members demonstrate high level of commitment to the association because membership is voluntary. There is no exclusive benefit to members because there is no requirement for practitioners to be members of this association. For auditors, international association membership is generally sufficient and for authorized accountants, EPAAA membership is not mandatory. The participant commented:

Practicing members regularly pay their fees and meet all the requirements of their international associations which provide them with exclusive benefit. But understandably, that is not the case when we consider their commitment with EPAAA.

The speech by former president of the EPAAA at an IFAC conference (Mengesha, 2006) suggests that the association did not perform brilliantly in this post-1991 period as well. The speech as well as the first-mentioned author's discussion with one of the leaders of the association indicates that there are some limiting factors that held back the development of the association and thus of accounting in the country. One of the reasons is that the profession is not properly regulated. OFAG provides practicing licenses, but there is no authorized professional accounting body to monitor the

practice. Leadership problems in the association itself are another factor. Earlier the board had forums for consultation with key government officials; this is nonetheless lacking at present.

Moreover, the tendering requirement for auditors to secure clients resulted in price competition (Lemessa, 1996) which arguably put auditors in a competitive rather than a cooperative basis. In response to the problems of price competition, OFAG assessed the audit firms and graded them as A, B, C, with A being highest grade and C the lowest grade. However, somewhat understandably, this was not well received by the practitioners. In their view, as far as they have practicing certificates from recognized bodies such a grading was not meaningful and should have been left to the market. The grading is not regularly updated, which worsens the problem.

Furthermore, the EPAAA does not have the legal backing that would enable it to monitor and regulate the profession; this made the association ‘a voluntary club’ rather than a strong professional association (World Bank, 2007). It is not a member of IFAC which requires having a large membership base, providing certification, having a code of ethics and professional conduct, provision of CPD to members, doing monitoring and regulation, and having local recognition. These prerequisites cannot be achieved unless the association has a monopoly on the Ethiopian market. Sucher and Zelenka (1996) argue that professionalization of a service could be achieved if a professional service is standardized through codification of the cognitive base where the professions could train their members to enable the latter to provide the service. It is argued that the EPAAA cannot achieve the professional monopoly largely due to its inability to define, develop and control its cognitive base to provide certifications.

Because public enterprises undertake the largest proportion of the nation’s economic activity (World Bank, 2007) it could be said that the private sector did not develop at a rapid pace in Ethiopia. As Marx observed, in each mode of production there always remain residues of the previous mode of production. Modern Ethiopia contains a mix of capitalist and Stalinist aspects with

the public-sector having gone through Gorbachev-style reforms throwing an additional ingredient into the mix. This could be one explanation of the not so developed external audit market in the country to date. In addition, the state as a supplier of accounting labor to the public enterprise sector reduces the importance of societal expectations from a self-regulated public accounting profession. Although the authority to sign audit reports is reserved for certified/chartered accountants, these professionals are equipped with imported knowhow (mainly from the UK), a situation that does not impel aspiring local professional associations to produce indigenous experts.

In addition, unlike the case in other countries, for example Nigeria (Uche, 2002), Kenya (Sian, 2006), and China (Hao, 1999), there have been no state measures taken to promote local qualifications and to protect local knowhow from imported competition. Finally, there is a decoupling between the knowledge base applied in an accounting practice and the one taught in universities and colleges. The practice is largely UK oriented because of the contribution of British experts in the introduction of accounting in the country (Kinfu, 1990) and the dominance of Ethiopian accountants with UK certifications (World Bank, 2007). On the other hand, USA accounting standards are taught in schools. This might adversely influence the aspiring professional associations' ease of attempting to develop and control its knowledge base as a step forward to the provision of certifications.

### ***Ethiopian Association of Finance and Accounting (EAFA)***

Another notable attempt to establish a local accounting body was the formation of Ethiopian Accounting and Finance Association in 1994, with a broader membership base than that of EPAAA. As the experience of the British accounting profession indicates, restriction of membership to a few qualified individuals leads to competing associations being formed (Walker and Shackleton, 1995; Willmott, 1986). However, this association has not been highly visible, except in its early years. Due

to the broad membership, the threat of shortage of members may not have applied to EAFA. However, just as applied to EPAAA, this association did not offer exclusive benefits to its members as it has neither the capacity to administer certification exams nor the authority to regulate the profession. Former members whom the first-mentioned author contacted noted that the association had been active during the term of office of the executive committee members. A member stated, ‘since the change of leadership, the EAFA did not have a meaningful activity in the country’. The body’s weakness and transitory nature can be seen by the fact that it has been unable to effectively transfer power from one generation of leaders to the next.

### ***Institute of Internal Auditors (IIA)–Ethiopia***

The Government of Ethiopia has accorded a relatively better attention to internal auditing in the country after 1991. The content of the speech by vice minister of Finance and Economic development, Teklegiorgis (2000, p. 9), illustrates this point. In 1994, the Ethiopian Prime Minister set up a taskforce to come up with recommendations to improve internal audit in government offices. Based on the recommendations of the task force, legal backing has been provided to internal audit by issuing the Councils of Ministers Financial Administration Regulation, which provides the Ministry of Finance and Economic Development (MoFED) with the responsibility to develop an internal audit manual for use by all internal audit departments in public bodies, putting the responsibility on the heads of the public bodies to ensure that the internal audit function is properly staffed and functions properly. This proclamation also led to the establishment of internal audit departments in almost all public bodies. For nearly the last decade and half, the Ethiopian government has been providing support for the development of internal auditing not only by strengthening internal audit in government offices but also by supporting the development of the profession in the nation. The support of the government to Ethiopian Chapter of the Institute of

Internal Auditors is an illustration of this support. We call this the Gorbachev-style reforms of the public sector. Like in the former Soviet Union under Gorbachev there has been an emphasis on improving efficiency in the use of resources through the implementation of Western-styled accounting, management, and new technologies (see Gorbachev, 1987; 1996 for discussions of his reforms)

The Ethiopian Chapter of the Institute of Internal Auditors was established in 1996 (Argaw, 2000b, p. 5). The formation of the IIA Ethiopia was a result of the personal initiatives of some professionals who were engaged in accounting practice and academics. Prior to the formation of the IIA chapter, Woldegiorgis (1992) completed a masters' degree at City University of London on 'Training and Education of Internal Auditors in Ethiopia.' One of the author's recommended courses of action for the development of internal audit in Ethiopia has been the establishment of a local IIA chapter in the country. In 1996 the chapter was established with a group of individuals including Woldegiorgis. A founding member and one of the current leaders of the association commented:

We talked to the Auditor General. The Office of the Auditor General was given the responsibility to monitor internal audit in government organizations. We also organised other people including from academics. A minimum of 17 members were required to establish a chapter. In 1996, we applied to the IIA for establishment of the chapter by fulfilling all the criteria. Then, the chapter had to get legal personality to operate in Ethiopia. For that, we had to translate the charter to Amharic. Then we got the legal personality and started operating.

The discussion with one of the leaders of IIA-Ethiopia indicates several points. The Chapter developed into an institute in January 2008 and as at November 2008 the it had 492 members and more than 15 institutional members as well as 24 certified members. Through the local chapter, the IIA-global allows Ethiopian members to sit the exams with reduced fees. The Ethiopian Institute organizes conferences in the country and facilitates members' attendance of international conferences of the IIA. IIA-Ethiopia believes that it has attained some achievements. The first one is

the opening of the exam centre. Due to this the Institute presently has 24 certified members, which could not have been achieved without this exam centre. Secondly, the chapter has created awareness of internal audit as a profession. The chapter conducted conferences, participated in public lectures, radio talks and undertakes awareness creation through the chapter's newsletter.

In summary, the association is active at present and is growing at a reasonably sound pace. But the Institute cannot exercise exclusion and closure easily as the challenge remains the same for the Global IIA as well. O'Regan (2001) explains that internal audit is still under the process of professionalization at a global level because of the absence of a professional monopoly. It has not yet established itself as a clear sub-set of the accounting profession in the manner of the tax consultants, management consultants, and liquidators. Instead it is still largely perceived as the lesser known little brother of external auditing.

### *Accounting Society of Ethiopia (ASE)*

Yet another development in the current (post-1991) period is the formation of Accounting Society of Ethiopia (ASE) in 2004. ASE is visible among the academic community because the executive committee members were mostly from the Addis Ababa University. The Association aims for a broad-based membership that accepts practitioners, accounting academics, and students as members. The Association believes that it is on the right track towards achieving its objectives. In the words of the Association's president, in a personal interview with the first-mentioned author:

The association has brought about some attitude change in the sense that people have seen that it is possible to develop an active professional association. It has finalized the preparation to open branches in 4 regional towns in collaboration with regional university lecturers. This will help broaden the membership base. ASE is administering accreditation examinations of 10<sup>+3</sup> accounting graduates of the Technical and Vocational Education and Training under the Federal Ministry of Education.

The Association believes that awareness in the business community seems to have been raised and that this situation has helped the Association create a positive impression on members, potential members and the business community. This enhances the value that society places on the accounting profession. Nonetheless, there are some factors that have been constraining the success of the Association. First, there are major financial constraints to conduct its activities. Currently the association is working towards alleviating this problem by following viable fund raising strategies. It has started publication of books which enables it to generate income by selling these books and via company sponsorships. In addition the publications are aimed to serve as part of the effort towards developing the knowledge base for conducting certification exams in the future. The ASE is involved in administering accreditation examinations to accounting graduates of technical and vocational schools under the Ministry of Education; this helps the association generate income as well as gain recognition.

Most of the challenges that apply to similar associations in Ethiopia also apply to ASE. As the president indicated, member benefits are limited; all they get are recommendation letters in support of applications for jobs or promotions and for licensing as authorized auditors and accountants. Certification and consequential benefits are not available at the moment.

### ***Summary of post-1991 period***

It could be noted that the post-1991 period brought about some favourable conditions for the development of accounting and auditing in the country that could be exploited by aspiring professional associations. As one of the leaders of IIA-Ethiopia commented:

There are some developments that could be considered as a suitable environment for the development of the profession. But, at the same time the tone at the top is what matters the most. There needs to be some government commitment to afford professional associations with the legal authority to monitor, regulate and develop the profession.

This comment implies that there is a need for clever lobbying efforts by aspiring professional associations to gain the needed state support. To date, no local professional accountancy association is empowered by legislation to set standards or to monitor and regulate the profession. The EPAAA has not developed to a level where it can offer certification examinations. Thirty-five years of its existence could be considered long enough to develop this capacity in view of the experience of other professional associations like the Institute of Certified Accountants in Nigeria which started to administer certification examinations in six years. In the absence of a strong professional accountancy body, the Office of the Auditor General attempts to oversee the profession and it licenses practicing accountants and auditors. The government is providing the services that the private-sector profession provides in developed Western countries. As local professional associations in the country are yet to develop the capacity to administer professional certification exams, foreign qualified Ethiopian accountants are hitherto serving as a fallback.

## **CURRENT DEVELOPMENTS AND THE FUTURE**

There has been ongoing public sector financial reform in Ethiopia since the early-1990s that has been undertaken with the support of Western consultants and Western funding agencies (Peterson, 2001). Particularly in relation to the accountancy profession there has been a World Bank and International Monetary Fund initiative study that resulted in Reports on Observance of Standards and Codes (ROSC). Among other things, ROSC forwarded a recommendation for the establishment of National Board of Accountants and Auditors, under which professional associations would be established. As has been the case in Greece (Caramanis, 2002), the dynamics of the state, such global agents, and the professions could create an opportunity for the development of the profession.

Earlier than the ROSC study, there was a Ministry of Trade and Industry initiative in which a road map for the development of accounting standards in Ethiopia was formulated. This was done by the ACCA as a consultant and with the involvement of various stakeholders in the country. Also, the Ethiopian Civil Service College had an initiative to establish an institute for certification of accountants in the public sector. At the time of writing this paper, all these initiatives were coordinated and a national steering committee has been established to work towards establishment of local financial reporting standards and a national board of accountants and auditors. The stakeholders of all the initiatives were by the time members of the national steering committee.

The climate may be considered right for the existing professional associations to come together (perhaps by way of merger), review their previous strategies, and exploit the opportunities to evolve into a national accountancy body that would have a better chance of obtaining state support to regulate and monitor the profession. Such a strategy of transformation has contributed positively to the development of the accounting profession in Nigeria (Uche, 2002). Creating a cooperative atmosphere among the associations sounds possible in Ethiopia because, unlike the cases in Nigeria (Uche, 2002) and Kenya (Sian, 2006), there has been little competition among the aspiring professional associations. This little competition seems to have existed mainly because none of these associations were granted the statutory authority of monopoly to monitor and regulate the profession. In addition, the associations have slightly different orientations in that the EPAAA has been predominantly focused on public practice whereas the rest do not show public practice as a prime goal.

Considering a merger between some of the existing professional accounting associations could help develop greater authority in lobbying and better capacity to develop and control the knowledge base. Developing the capacity to train and produce local qualified members may appear quite overwhelming, yet it is not insurmountable. Institute of Certified Accountants in Nigeria

(ICAN) overcame such a challenge, inter alia, through collaborations with higher education institutions. Would-be members of ICAN were attached to universities to study the theoretical parts of the ICAN syllabus, an arrangement which enabled ICAN to focus on the professional parts of the syllabus (Uche, 2002). But, in the case of Ethiopia, the professional associations should, in our opinion, first work closely to resolve the issue of the difference between orientation in universities and in practice. As this is a critical step in any attempt to develop accounting practice in the country, it appears to be an urgent need for the future.

## **CONCLUSION**

The paper has examined the process of accounting professionalization in Ethiopia during three chronological periods of the country's politico-economic developments. Modern accounting in Ethiopia has been practiced in different forms since the early-1900s. Government regulations and proclamations since the 1920s have contributed to the development of accounting in the country. The development of accounting from 1900s through to 1974 seems to have been continuous; while it was relatively stagnant from 1974 through to 1991. It is interesting that government attempts to found internal audit within the context of a communist system were partially successful and the strength of internal audit relative to external audit in Ethiopia today has its roots in these communist-era developments. We can see here the classic Marxian dialectic of thesis-antithesis-synthesis in action: The modern-day synthesis captures aspects of both the pre-1974 Western-styled accounting and the 1974-1991 communist-era preoccupation with more effective internal auditing. In terms of accounting development in the country the communist-era cannot be viewed as a total negative. Post-1991, government support for the development of accounting and auditing has been evident but has not resulted in the institutionalization of accounting legislation as yet.

The paper also indicates that attempts to establish strong local professional accountancy bodies that could exercise professional monopoly have never been fully successful. This remains the case despite some attempts by accounting professionals and the state for several reasons. Firstly, there has been no legislation that enables aspiring professional associations to regulate the profession. Accounting professions develop where the associations gain the support of states while, at the same time, the professions maintain some autonomy to monitor and regulate the profession (Yapa, 1999). This appears to be lacking in the context of Ethiopia perhaps because the profession did not cleverly lobby the state apparatus to institute legislation. Another explanation for this could be the structure of the economy. As observed by Yapa (1999) in the Bruneian context, there is a prevalence of small and medium enterprises in Ethiopia that could have led to a less developed external audit market. Also, there is no external audit requirement on most medium private enterprises in Ethiopia. Furthermore, public enterprises undertake a large proportion of economic activities in the country and the state supplies accounting labor to this sector. The country has a mix of communist and capitalist aspects. This tends to make the market for accounting services rather thin, which is exhibited by the high level of competition among audit firms (Lemessa, 1996). In turn, this creates little social expectation regarding the services of the accounting profession as compared to that in the ultra-capitalist Western countries.

Secondly, the existing local professional associations have not been strong enough to define, own, and control a cognitive base that could enable the exercise of closure. As in Brunei (Yapa, 1999), no associations has sufficient legal basis to provide certification examinations that would serve as a prerequisite for licensing of practitioners. The state's and professionals' endeavors in regard to establishment of a strong local professional association were generally unilateral and sequential instead of coordinated and synchronized. State/professional association dynamics have

been limited or quite inconsequential in all the three periods in which Ethiopia had different political systems.

There have been ongoing public sector financial reforms in Ethiopia since the early-1990s that have been undertaken with the support of Western consultants and Western funding agencies. This could be exploited by existing professional accounting associations by forming some sort of cooperation and developing the capacity to produce qualified members. Despite the observed tendency of interest to enhance accounting and auditing infrastructure in the country post-1991, the state controls most of the regulation. This is illustrated by the role of government bodies undertaking such activities instead of passing over to professional associations by strengthening the latter. In the authors' view, the different aspiring associations need to work closely and exert lobbying efforts to attain a shift from the existing state regulation to self-regulation.

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