

A REVIEW OF AUDIT DEVELOPMENTS IN IRAN

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Abstract

Considering the role and importance of the auditing profession, the present research has reviewed the developments of auditing and finding the root causes of its lack of development in Iran. After studying the relevant research literature and identifying the factors affecting the development of audit services at the international level, the root cause of this backwardness was investigated. The results show that the role of Limperg's Dynamic Theory, Legal Requirements of Mautz and Sharaf, and Adam Smith's Theory of Division of Labor are effective on this issue. Also, the development of international trade, the formation of online work teams, sanctions, advertising; Creating a demand for auditing services, establishing standards and regulatory laws, requiring the development of various skills, forming institutions that establish, implement and oversee various services; Benefiting from expert forces in various sciences, development of human knowledge, etc., can lead to the development of the assurance services market.

Keywords: *Auditing, History of Auditing, Iran*

INTRODUCTION

Accounting and auditing are rooted in the environment (Limperg, 1985). Since the environment is continuously changing, accounting and auditing are also bound to change (Rezazadeh, 2017); This issue is referred to as Limperg's dynamic theory (ibid.). In other words, based on Limperg's dynamic theory, environmental changes cause changes in businesses as well as people's needs and tastes, and these changes provide the basis for the formation of new demands. On the other hand, according to Adam Smith's theory of division of labor in the book "Wealth of Nations", it is also considered an advantage to do things professionally (Roozbahani and Tasaddi Kari, 2016); Because due to the complexity of affairs and the development of activities, it is not possible to do all the work by one person.

This causes the specialization of affairs and the need to employ experts. Therefore, the development of accounting and auditing services can be justified based on Limperg's dynamic theory and Adam Smith's theory of division of labor.

Today, the role and position of audit services is hidden from few people. In this regard, Flint believes that auditors have an economic role and a moral mission (Power, 1990 and Rezazadeh, 2017). Considering the importance and position of the profession, auditing services, as well as the reassuring effect on the decisions of the audience, the purpose of the current research is to review the evolution and history of auditing in Iran. This review emphasizes the role of factors influencing the development of these services. The results of this research show that the role of the environment, legal requirements and specialization of affairs has been effective in the development of assurance services in the country, which is in line with Limperg's dynamic theory, Mautz and Sharaf's view of legal requirements, Adam Smith's theory of division of labor and also There is a two-way relationship between science and audit practice. Also, the results show that the basic concepts of auditing provided by the American Accounting Association Committee and Wanda Wallace's point of view do not play a role in the development of Iranian auditing services.

The development of Iran's audit services market and alignment with international competitors can lead to the reduction of negative competition, the reduction of the phenomenon of price-cutting, as well as the reduction of the risk of audit institutions, and this can help to increase the independence of auditors. In addition, this can lead to the reduction of the problem of selection in auditors' comments (Tasadi Kari et al., 2022¹ and Tasadi Kari et al., 2022²).

In the following, after stating the theoretical foundations, the identification and classification of effective factors will be mentioned in order to provide a framework for discussion and conclusions.

LITERATURE REVIEW

Auditing has changed in line with the environmental changes, and from its primary purpose of providing assurance regarding the accuracy and accuracy of accounting information related to the liquidity and assets of government and public institutions and the affairs of new businessmen, the scope of its activities has been limited to providing services. It is reassuring and complementary in financial and non-financial fields (Rezazadeh, 2017). So that today, in addition to providing assurance in the field of financial statements, auditors also provide accreditation of activities and businesses. In this regard, today, due to the

development of information technology and the increase of internet businesses, auditors worldwide are considering the accreditation of web-based services (Shams Ahmadi, 2012). Also, the evidence shows that Deloitte takes care of the accreditation and authentication of valuable items. As the Deloitte Institute, following a contract with the Major League Baseball, has taken measures regarding the authenticity and validity of the signatures of the memorabilia provided by the league to prevent fraud (Aoki, 2004).

Mautz and Sharaf believe that auditing has emerged due to legal requirements (Mautz and Sharaf, 1961). This attitude is influenced by mandatory financial reporting and the role of legal requirements (Rezazadeh, 2017); On the other hand, Wallace (1980) states that there are evidences that show that the use of audit services was requested voluntarily before it was offered compulsorily (Wallace, 1980). In this regard, Wallace states that before the approval of the Securities Law during the period of 1933 and 1934, 82% of the reporting units voluntarily used the services of auditors, and in the midst of the approval of this law, the use of these services reached the border. 94% increased (ibid). Evidence also shows that auditing services were used in America in the 1880s and 1890s (ibid.).

According to Rezazadeh (2017), there is a two-way relationship between science and audit practice (Rezazadeh, 2017); Therefore, identifying the obstacles to the action and studying the challenges and interpretations are among the factors affecting this development. On the other hand, the committee of the American Accounting Association, in the "Statement of Fundamental Concepts of Auditing", considers four factors to be effective in the development of the use of auditors' services, including conflict of interest, lack of direct access, economic consequences, and complexity (the committee American Accounting Association, 1973). Wallace also believes that the three viewpoints of the supervision hypothesis, the information hypothesis and the insurance hypothesis have led to the development of the assurance and audit services market in the world (Wallace, 1980). Therefore, from reviewing the mentioned materials, it can be concluded that the factors affecting the development of auditing at the international level can be summarized in table number one.

Table 1
Factors Affecting The Development of The Auditing Market in The World

No.	Title	Factor	Source
1.	Dynamic Theory	The environment and changes	Limperg (1985)
2.	The Philosophy of Auditing	Legal requirements	Mautz and Sharaf (1961)
3.	The theory of division of labor	Specialization of affairs	Smith (1937)
4.	The relationship between science and practice	Two-way communication between science and practice	Rezazadeh (2018)
5.	Statement of fundamental concepts of Auditing	1. Conflict of interest; 2. lack of direct access; 3. Economic consequences, and 4. Complexity.	Committee of the American Accounting Association (1973)
6.	The Economic Role of the Audit in Free and Regulated Market	1. Agency Theory: The Stewardship (Monitoring) Hypothesis. 2. The Information Hypothesis. 3. The Insurance Hypothesis.	Wallace (1980)

Iran's auditing profession experts believe that the market of assurance services and other complementary services in the country has not developed compared to its formal predecessors and this profession has not been able to reach its true position. In confirmation of this claim and by referring to the website of the world's four major auditing institutions, it can be seen that these institutions, in addition to providing assurance services in the field of auditing financial statements, provide accreditation in the field of climate change, legal services, and assurance services. Under the web and authentication, they pay valuable items. The documents indicate that the Deloitte Institute has entered into a contract with the Major League Baseball to verify the authenticity of the valuable items in order to check the authenticity and validity of the signatures of the memorabilia provided by the league in order to prevent fraud (Aoki, 2004). On the other hand, the big four audit institutes engage in activities such as consulting, which include consulting in the field of strategies, management and accounting analysis, customers and marketing, main business operations, human capital, technology and organizational performance; Financial consulting including bankruptcies of

natural and legal entities, financial disputes, legal (court) consulting, discovery in the field of electronic services, investment project consulting and similar cases; Risk consulting including organizational risk management, information security and privacy, data quality and integrity, strategic risk and reputation, regulatory risk, project risk and cyber risk, business continuity management and sustainability; In the tax and legal field including tax and rights, transfer pricing and international tax activities of multinational reporting units, implementation of tax computer systems and tax consequences of various business decisions, tax reduction, indirect tax, preparation of tax bills. ; And in other fields, including reviewing documents, merging and preparing basic financial statements. Meanwhile, according to the auditing experts working in Iran, the majority of the service income of the country's auditing institutions is limited to the opinion of the institutions regarding the desirability of the basic financial statements. In other words, unlike the international counterparts, the focus of the services of audit institutions in Iran is related to commenting on the desirability of summarized financial statements. The use of the services of independent auditors in the country is largely due to some legal requirements, including the provisions of Article 2 of the Civil Service Management Law for holding tenders, Article 272 of the Direct Taxes Law and the guidelines for accepting securities in the stock exchange. Bahadar Tehran, as well as Article 5 of the Civil Service Management Law regarding the conditions of acceptance of applicant reporting units in the stock exchange. In other words, using the services of independent auditors in the country is also due to legal requirements.

In this regard, Tasaddi Kari et al. (2023) in a research identified factors affecting this backwardness. The results of their research showed that several factors affect the lack of development of the assurance and audit services market in Iran. In this research, which has an exploratory nature, the data-foundation theory method was used; The results of their research show that in the field of causal conditions, two main factors, economic factors as well as laws and regulations, can help to overcome the existing situation (Tasaddi Kari et al., 2023); Economic factors include the development of international trade, the competitiveness of the economy and the possibility of predicting economic risks, and the factors of laws and regulations include the creation and development of the demand for audit services, the establishment of evaluation standards, regulatory laws on the transparency of all types of audit reports, and also It is mandatory to develop different audit skills (Ibid); Also, in the field of contextual factors, two factors, internal environment factors and external environment factors, can contribute to this outcome (Ibid). Among the factors influencing the factors of the

internal environment, we can mention the benefit of expert human forces in different fields, the development of organizational knowledge and the formation of work teams on the line (Ibid), and among the factors of the external environment are It is possible to mention the development of information and communication technology infrastructures, crisis management and education budget allocation by the government (Ibid). In the field of inhibiting and intervening factors, they also refer to the role of political and economic sanctions, the ban on the advertising of audit institutions, the failure of the public accounting community of Iran to issue statements, the limitation of audit operations at the end of the financial year, and issues of representation and non-existence. The separation of ownership from management was achieved (Ibid). The results of their research showed that in the field of solutions, the role of government policies and executive solutions is undeniable (Ibid). The role of government policies includes outsourcing and the formation of legislative institutions in the field of establishing, implementing and monitoring standards and laws related to the development of various audit services, and among the factors of executive solutions are the liberalization of advertising, the cooperation of the country's public accountants community with the Ministry Information and communication technology is for creating a suitable platform for virtual space and also defining the rights of the beneficiaries (Ibid). They also found that the development of the audit services market in Iran and the alignment with the assurance services market at the international level will reduce the phenomenon of price cutting, the specialization of activities, the creation of a positive and constructive competitive environment, the specialization of audit institutions' employees, and the creation of independence. financial, reducing the risk of auditors and increasing the national gross income and economic growth (Tasaddi Kari et al., 2023). Also, in another study, they ranked the identified factors on the development of the audit services market. The results of this research also show that in the order of establishing evaluation standards, the requirement to develop different auditing skills, the development of international trade, the creation and development of the demand for auditing services, the role of regulatory laws on the transparency of audit reports, the competitiveness of the economy and the possibility Forecasting economic risks have an effect on the development of the audit services market (Tasaddi Kari et al., 2022). Table number two briefly shows the factors affecting the lack of development of the audit and assurance services market in Iran.

Table 2
Factors Affecting The Development of The Auditing Market in Iran
According to Tasaddi Kari et al. (2023)

Causal Factors	
Economic Factors	<ol style="list-style-type: none"> 1. Development of international trade; 2. Competitiveness of the Economy; 3. The possibility of Predicting Economic Risks.
Laws and Regulations	<ol style="list-style-type: none"> 1. Creating and developing the demand for auditing services; 2. Establishment of evaluation standards; 3. Regulatory rules on the transparency of audit reports; 4. Requirement to develop various auditing skills.
Contextual Factors	
Internal Environmental Factors	<ol style="list-style-type: none"> 1. Employing specialized human forces in various sciences; 2. Development of organizational knowledge; 3. Formation of online work teams.
External Environmental Factors	<ol style="list-style-type: none"> 1. Development of information and communication technology infrastructures; 2. Crisis management; 3. Education budget allocation by the government.
Inhibiting and Interfering Factors	
Factors	<ol style="list-style-type: none"> 1. Political and economic sanctions; 2. Prohibition of advertising audit institutions; 3. Failure of the community of certified accountants to issue professional statements; 4. limiting audit operations to the end of the year; 5. Representation issues and separation of management from ownership.
Solutions for the Development of the Reliable Service Market	
Government Policies	<ol style="list-style-type: none"> 1. Outsourcing and establishment of standards and rules necessary for the development of audit services. 2. Outsourcing and formation of the enforcement body of the laws established in the field of various auditing services. 3. Outsourcing and formation of an institution overseeing the

	implementation of the necessary laws for the development of various auditing services.
Executive Solutions	<ol style="list-style-type: none"> 1. The release of advertising. 2. Cooperation with the Ministry of Information and Communications to benefit from the platform of virtual space in line with the development of assurance services. 3. Defining the rights of beneficiaries.

Table number three also shows the order of these seven priorities in terms of causal factors:

Table 3
Ranking of The Factors Affecting The Development of
The Audit Services Market in Iran
According to Tasaddi Kari et al. (2022)

No	Factor	Subagent
1	Laws and Regulations	Establishing evaluation standards
2	Laws and Regulations	The requirement to develop various auditing skills
3	Economic Factors	Development of international trade
4	Laws and Regulations	Creation and development of demand for audit services
5	Laws and Regulations	Regulatory rules on the transparency of audit reports
6	Economic Factors	The competitiveness of the economy
7	Economic Factors	The possibility of predicting economic risks

The comparison of the results of the research of Tasaddi Kari et al. with factors affecting the development of the audit services market in the world shows that the role of Limperg's dynamic theory, Mautz and Sharaf's view of legal requirements, Adam Smith's theory of division of labor and the two-way relationship between audit science and practice with the

development of audit services It has a direct connection in Iran. This relationship is shown in table number four.

Table 4
Comparison Table of Factors Affecting The Development
of The Audit Services Market in The World And Iran

Causal Factors		Origin
Economic Factors	1. Development of international trade.	Limperg's Dynamic Theory
Laws and Regulations	<ol style="list-style-type: none"> 1. Creating and developing the demand for auditing services; 2. Establishment of evaluation standards; 3. Regulatory rules on the transparency of audit reports and 4. Requirement to develop various auditing skills. 	Mautz and Sharaf legal requirements Adam Smith's theory of division of labor
Contextual Factors		Origin
Internal Environmental Factors	<ol style="list-style-type: none"> 1. Employing specialized human forces in various sciences; 2. Development of organizational knowledge and 3. Formation of online work teams. 	The relationship between science and practice Limburg's dynamic theory Adam Smith's theory of division of labor
External Environmental Factors	<ol style="list-style-type: none"> 1. Development of information and communication technology infrastructures; 2. Crisis management and 3. Education budget allocation by the government. 	
Inhibiting and interfering factors		Origin
Factors	<ol style="list-style-type: none"> 1. Political and economic sanctions and 2. Prohibition of advertising audit institutions. 	Limburg's dynamic theory
		Legal requirements
Solutions for the development of the reliable service market		Origin

Government policies	<ol style="list-style-type: none"> 1. Outsourcing and establishment of standards and rules necessary for the development of audit services. 2. Outsourcing and formation of the enforcement body of the laws established in the field of various auditing services. 3. Outsourcing and formation of an institution overseeing the implementation of the necessary laws for the development of various auditing services. 	Mautz and Sharaf legal requirements
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DISCUSSION AND CONCLUSION

Accounting and auditing, due to being environmental, are still changing and evolving. Due to the fact that the services of the auditing profession were first demanded in the world and this set the stage for its development at the international level, but these services in Iran have not been able to align themselves with the development at the international level and hence the auditors of the country were lagging behind their international counterparts in providing assurance services and complementary services. Therefore, the purpose of the present research is to review the history and evolution of audit history in order to find the background of this backwardness. In this regard and by reviewing the available sources, the factors affecting the development of auditors' services can be classified into six levels and 11 factors. The results of the research of Tasaddi Kari et al. (2023) showed that the factors affecting the lack of development of the assurance services market of auditors in the country based on the GT model can be defined in the form of causal, contextual, inhibiting factors, factors and solutions. and classified the consequences. In this regard, there are 12 sub-codes and seven core codes in the field of causal factors, 10 sub-codes and six core codes in the field of background factors, eight sub-codes and five core codes in the field of inhibiting factors, 17 sub-codes and six codes in the field of factors and solutions. 13 sub-codes and seven core codes were identified in the context of outcome factors (Tasaddi Kari et al., 2023). The correspondence of the findings of the factors affecting the development of auditing and assurance services in Iran shows that the development of auditing and assurance services

depends on Limburg's dynamic theory, legal requirements of Mautz and Sharaf, Adam Smith's theory of division of labor and the relationship between science and is the act of auditing; In other words, the results show that the statement of fundamental concepts of auditing and Wanda Wallace's point of view do not play a role in this backwardness. Therefore, for the development of the audit services market in Iran, it is necessary to focus on the effective factors by the relevant institutions in order to align Iranian auditors with international counterparts.

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