INTRODUCTION

Auditing as a profession is a specialty and the field of study has a relatively short history, hardly more than a hundred years. However, in the past century it has managed to catch up with the dramatic changes in the world and has emerged as a specialized field of knowledge. Moreover, the evolutionary growth of auditing has benefited from statistics, mathematics, management and information systems in accounting and great changes in IT, which resulted in the development and enhancement of computer data processing, revolutionized the field of accounting and necessitated quick changes and improvements in auditing. New laws and activities governing economic activities, tax laws as well as the development of auditing and accounting standards have changed auditing into a complex and dynamic field which is expanding rapidly and can, in future, include management auditing and the investigation of the social and economic activities of the economic units.

A BRIEF HISTORY OF AUDITING IN IRAN

It was for the first time in 1933, that Iranian law made it necessary for every company to elect one or more inspectors from among the shareholders or from outside. The inspectors, are responsible to audit all accounting affairs, deeds and records of the general situation of the company and its financial statements which had been fixed by the Board of Directors and to hand in an account to the General Assembly of that company’s shareholders during the succeeding year (Commercial Law, Act No 61, 1933).

The employment of the public accountants in tax auditing was first mentioned in the Income Tax Act 1949. It regulated that whenever the association of Testified Accountants was established in the country, the Ministry of Finance
was required to strongly admit the results of its accountants having audited the balance sheets or accounts of the merchants or companies; and therefore there was no need to audit the general taxpayers’ books (Tax Law, Act 33, 1956).

In the year 1956, the tax law was repeated identically. In its execution, the relevant regulations were prepared in the year 1961, and were approved by the Ministry of Finance. The articles of the Association of Testified Accountants were also prepared and approved, in which some regulations about the structure of the association, accounting and auditing principles and some ethical and professional considerations were mentioned. With the approval of the direct tax laws in 1966, the Association of Testified Accountants collapsed. Chapter 7 of this act required that Certified Accountants be established in order to identify and introduce Certified Accountants, provide required facilities to improve knowledge of accounting and pave the proper ground for compilation and supervision of principles and standards. The regulation concerned with the specific manner of selecting efficient accountants was approved in 1967, and the Society’s Statute was regulated in 1970; hence, the selected accountants undertook to see to taxes, ledgers and books, income and loss statements and taxpayers’ balance sheets.

Along with the measures taken to create a Society of Certified Accountants system to use the services of Certified Accountants in tax auditing, the amendment of Commercial law which was approved in the year 1966, required the public companies to attach the Certified Accountants’ reports to the profit and loss account and the balance sheet. The Certified Accountants were also required to comment on the companies’ accounts as well as to endorse the clarity and transparency of the Board of Directors’ financial reports. This was how auditing of public companies found its way in to the business law. It was assumed that auditing and legal inspection was two separate things. However, since the kind of auditing which were mentioned in the amendment to Commercial law was the responsibility of Certified Accountants, in most stock companies a group of Certified Accountants were appointed to serve the apparently separate responsibilities of auditing inspectors and accountants, simultaneously.
Following the increasing growth in the number of companies, government profit institutions and the establishment of different types of institutions by the government, in the year 1971, an auditing stock company, whose shares were wholly held by government was established to provide auditing services for the companies affiliated to the Ministry of Finance. Subsequently, the auditing of most governmental companies was assigned to the above-mentioned company.

Between the years 1966 and 1979, some other laws also referred to auditing as a necessity. For instance, according to the Tehran Stock Exchange company’s rules and regulations, only companies whose accounts were endorsed by the auditing companies could enter the Stock Exchange.

After the Islamic Revolution in Iran in February 1979, which led to the seizing of companies belonging to some multi-millionaires and nationalizing of some companies and appointing governmental managers for these companies, auditing institutions, especially the foreign auditing institutions faced series of obstacles. In 1981, in a bill to reform some laws of direct tax, the items related to the Certified Accountants were cancelled and subsequently the Iranian Society of Certified Public Accountants was dissolved. The ownership and control of many companies and economic units by the public sector necessitated the establishment of organization and institutions to govern and manage these companies as well as to establish auditing companies to audit their accounts. The establishment of the auditing institutions of the Nationalized Industries-Plan Organization Audit Firm, Mostazafan Foundation Audit Firm, and Shahed Audit Firm, between the years 1980 to 1983 can be mentioned as examples. These institutions employed a large number of accountants who were in the former audit institutions.

In 1983, suggestions were made to merge the auditing institutions of the public sector and the law of the establishment of auditing organization was passed. After the approval of the legal statute of auditing organization in the year 1987, the existing auditing institutions were merged with the governmental ones and the auditing organization was established.
In the 1993, the law “the utilization of the services of the professional and qualified accountants in the capacity of Public Accountants was approved by Iranian Islamic Majlis (Parliament).

By virtue of this act, the government can use the services of public accountants in the auditing and legal inspection of public companies/private joint stock companies, and companies subject to the article A and B of the legal statute of auditing organization, as well as tax auditing of natural and legal persons. In 1995, the instruction about “the way public accountants should be chosen and their qualification, subject to act 1 of the above mentioned law, was approved by Cabinet ministers and subsequently a committee was formed and introduced by the Ministry of Finance who has the responsibility of endorsing the qualification of the official accountants.

In early 1996, to execute the public accountants’ qualification regulations, the Ministry of Finance appointed 7 members of the committee for the qualification of official accountants along with 3 other accountants, as the first 10 official accountants, to draft the statute of the above-mentioned association within a six-month period and send it to the Cabinet Ministers for approval.

In 1999 also, regulation governing the way the services and reports of the Public Accountants and accounting institutions subject to act 4 of the single act of the “law of utilization of the specialized services of professional and qualified accountants as Public accountants” were drafted by the Ministry of Finance and a number of qualified experts was approved by the Cabinet Ministers.

The first official General Assembly of the Association of Public Accountants was held in June 2001 and the accountants volunteer to enroll in the association of Public Accountants were recognized. The volunteers were invited to the association by late June 2001.
The first General Assembly of the Association of Public Accountants aiming to elect the members of its high Council was held on 24th of August 2003. In this Assembly 11 Main members of the high Council and 3 understudy members were elected by the direct vote of the members of the Association of Public Accountants and the activity of the Association of Public Accountants started. Also, the Iran Accounting Association was founded in 1997 with an intention of improving knowledge, research and functions of accounting, but its operation, with a delay of six years, be commenced in 2003. The members of this society are inclusive of university faculty members, graduates and researchers in accounting and other fields.

AUDITING INSTITUTIONS IN IRAN
There are two Audit Institutions in Iran.

1) Audit Organization
2) Iranian Association of Certified Public Accountants

Audit Organisation

Pursuant to the Islamic Revolution of Iran in 1979, according to a bill ratified by the Revolutionary Council, many enterprises were confiscated or come under direct supervision of the Government. To audit and perform statutory examination of these enterprises, three audit firms were established in the public sector. They are the Nationalized Industries and Plan Organization Audit Firm (1980), Mostazafan Foundation Audit Firm (1981) and Shahed Audit Firm (1983).

Due to the escalating increase of governmental financial institutions and companies and development of different institutes by the government, the Audit Company, whose shares totally belonged to the government itself, was established to audit accounts of all companies affiliated to Water and Power Ministry. However, since this company, in practice, was included in the list of organizations governed by the Ministry of Finance, it was made responsible to audit most of the governmental companies.
The Islamic Revolution of Iran in 1979, resulted in electing governmental managers for some companies, expropriating companies belonging to a number of capitalists affiliated to the past Shah’s regime and nationalizing some of the industrial entities. Proprietorship of public economical entities necessitated the formation of institutes to audit the accounts of the national economic or expropriated companies and entities, and formation of audit Institutes of National Industries and Planning Organization, Foundation of the Oppressed and Martyr’s Foundation was necessitated from 1980 to 1983.

In 1983, an act was ratified by Parliament, to merge and embody those three audit firms together with the Audit Company to establish an Audit Organization. Audit Organization’s by-laws was also approved by Parliament in 1987 and the Audit Organization established as a legal entity, with financial independence affiliated to the Ministry of Economic Affairs and Finance, to follow those audit firm’s functions and pursue the activities legislated in the Organization’s Act and by-laws.

In the certified statutes and Act of Audit Organization, the responsibilities of the Certified Inspector and audit affairs of all agencies, which were under the public proprietorship, were ceded to the Audit Organization. Furthermore, the Audit Organization was recognized as a specialized and official reference to compile principles and regulations of accounting and auditing. Hence, for the first time, legal inspection tasks and audit were in practice consolidated, and an organization to audit the financial institutions of public divisions and an official reference to compile principles and standards of accounting and auditing were ordained.

Audit Organization’s by-laws were revised and approved by the Council of Ministers in 2003 to comply with Article 4 of the Third Economic, Social and Cultural Development Plan and the Organization’s legal status changed to State Owned Limited Company.
The main functions of the Audit Organization are:

1) Audit and statutory examination (for those corporations where 50 percent or more of their equity belongs to the government.
2) Financial and management consultancy services (for design and implementation of financial systems and rendering management advisory services).
3) Setting accounting and auditing standards.
4) Training, research and publications.

In fulfilling its main function, to audit and statutory examination of state owned companies, in 2003-04 Audit Organization has audited Banks, Insurance companies, Oil, Gas and Petrochemical companies, regional Water and Power corporations, Post, Telegraph and Telephone companies and Steel, Tobacco and many other large corporations. Social Security Organization, Mostazafan and Janbazan Foundation, Shahid Foundation, and 15th Khordad Foundation and their affiliated companies are other major group of entities audited by the Audit Organization. Investment companies and other enterprises controlled by banking systems are also among those entities audited by the Organization. Audit Organization is also among those few audit firms certified by the Stock Exchange Organization and 165 listed companies are audited by the Organization in 2003-2004.

Another mission of Audit Organization is services design and implementation of accounting information systems. Audit organization based on the approved strategic plan, long-term objectives follow with:

i. Size development operations,
ii. Varying field services
iii. Improvement of the quality of services

Project Management Services Unit in several financial and industrial design systems including financial systems design, costing, cost-based activity, methods of turnover operations, purchasing, warehousing, production and sales, budget,
management reports, organization and description of business affairs, Financial, Regulations, financial services (accounting reform) economic units in various industrial fields and conducted extensive experience in this field.

Research and publishing activities started, and continued expanding. During this period, 193 publications, including books and textbooks in areas of financial accounting, management accounting, governmental accounting, auditing and other related fields, accounting writing, and translation have been published.

The Auditing Standard Setting Committee includes 7 members of professional and experienced individuals as follows:

i. Five individuals of Senior Managers and members of the Board of Executive of the Audit Organization.

ii. Representative of IACPA, Iranian Association of Certificated Public Accountants.

At least, three members of the Technical Committee should be in the Standard Setting Committee. Since its inception, several auditing and accounting standards have been issued and table 4-1 and 4-2 presents the list of these standards.
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## Table 4.2

### Auditing Standards – Approved in Iran

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<td>Related Parties</td>
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<td>Events after the Balance Sheet Date</td>
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<td>Using the work of Another Auditor</td>
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<td>Other Information Included in the Reports Containing Audited Financial Statements</td>
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<tr>
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The Board of Governors comprises of the Minister of Economic Affairs and Finance as chairman, Head of Management and Planning Organization, Minister of Petroleum, Minister of Industries and Mines and Minister of Commerce. The Board sets policies of the Organization; approves plans, manuals and financial statements of the Organization and appoints members to the Board of Executives Accounting and Auditing Standards and also the Board of Governors should approve the Organization’s Code of Ethics and its disciplinary rules.

The Board of Executives comprises of Chairman and Chief Executive Officer of the Organization and four or six expert accountants, all appointed by the Board of Governors. The Board is responsible for planning, organizing, preparing manuals, managing and execution of programs. Each Board member directs and supervises a part of the Organization’s activities Exposure drafts of accounting and auditing standards should be reviewed and confirmed by the Board of Executives before submission to the Board of Governors.

High Supervisory Council comprises of three expert accountants appointed by the Board of Governors and is responsible for continuous supervision of the Audit Organization’s activities, review of internal control system, statutory examination of the Organization’s financial statements and reporting its findings to the Board of Governors and where appropriate to the regulatory bodies.

**Iranian Association of Certified Public Accountants (Chartered Accountants)**

Main function of the Iranian Association of Certified Public Accountants are financial control on the production units, and commercial services, also ensure the reliability of financial statements in order to maintain the above mentioned units, public interest, rightful owners of capital and other persons and beneficial owners based on the approved bill of 1993. And activities commenced in the second part 2001. According to Article 2 of the Constitution a set of community affairs to promote accounting and auditing profession in the country and monitoring the work of Certified Public Accountants was established.
1) Formation of Certified Public Accountants
2) To improve and expand services through assistance in preparing, compiling, disseminating and promoting the principles and standards of accounting, auditing, financial services and professional-law behavior.
3) Raising knowledge through Certified Public Accountants expands and improves education, investigation and publication of specialized periodicals and professional.
4) Support the rights of professional members
5) Contact between continuous technical and professional members
6) Communication with professional groups and institutions, regional and international.

Also, Iranian Association of Certified Public Accountants was persuaded to employ the specialized and professional services of the recognized accountants in the following:

i. Legally auditing and investigating the accounts of companies admitted to or applied for Admission to Bonds and Securities Exchanges.
ii. Auditing, non-sharing/non stock companies and profit as well as non-profit institutions.
iii. Legally auditing and investigating the companies and institutions included in parts (a) and (b) of Article 7 of Legal statute of auditing body approved in 1987.
iv. Auditing taxes of natural and legal people.

In 1995, ‘ Regulation of Assessing Certified Accountants’ Competence and Selecting them’- a case included in the note of Act 1, was approved by the Cabinet, and subsequently a committee to assess the Certified Accountants’ competency was set up and introduced by the Ministry of Finance and Economy.

In early 1996, upon enforcing the regulation of assessing the Certified Accountants’ competence, the Ministry of Finance and Economy assigned a mission of ten members, 7 of whom were from the assessing group and 3 from other accountants, as the first Certified Accountants to produce a comprehensive statute and introduce it to the Cabinet for approval in a six month period. This
statute was produced in due time, and in September 1999 it was handed in to the Cabinet.

Based on the first note of Article 5 of the Iranian Association of Certified Public Accountants, the manual of electing the High Council had, according to the Founding Board’s suggestion, to be approved by the Ministry of Finance and Economy. The High Council of eleven members among the community members is selected. The High Council is the highest mainstay of society and some their duties and authorities are as follows:

1) Select Board members.
2) Determine the policies and programs approved by the society.
3) Approved by-laws and professional discipline and supervision.
4) Approval of financial regulations, trading, administrative and community employment.
5) Annual budget approved by the society, financial statements and Annual Performance Report of Board of Directors.
6) Right to determine the amount of income - fixed and variable- members.
7) Prepare an annual report for presentation to the Council of Economic Affairs and Finance Minister.
8) Manager to determine the specialized Journals Society.

Board of Directors consisting of three (3) or five (5) persons from among the members of that society by the High Council for three years and choose the head of High Council. If some of the Board of Directors wants a change, new members will be selected for the remaining period.

Between the Supreme Council of the Board, one person as the Chairman and Secretary for the Society for three years will be elected. Chairman and Secretary to the Board will be on full time duty.

In order to ensure that the regulations related to adequacy of professional supervision and excellent supervision are achieved a committee was appointed with the following duties:
1) Commenting about the independence and accuracy of information contained in the Annual Performance Report Board of Directors.

2) Investigating and commenting on society, especially the annual financial statements prepared by the Board of Directors and approving it. The approving of this manual in 2000 paved the way to found “the Iranian Society of Certified Accountants” and High Council election.

The first general assembly of the Iranian Society of Certified Accountants was held on September 11, 2001 on the Council’s members’ suggestion. In this session, the High council members were elected directly through the society’s vote and practically commenced their activities.

PROFESSIONAL ETHICS OF AUDITORS IN IRAN

In the legal article of Auditing Organization, approved on 17 December 1987, a compilation of accounting and auditing principles and standards have been determined as a part of the organization’s duties. Principles and standards of accounting and auditing consist of accounting standards, auditing standards, professional ethics and the related guidance.

The principles and standards of accounting and auditing are applicable after it was approved by the related authorities. The commands of professional ethics rule can be accounted as a valid document for all professional accountants unless its violation is stipulated in some circumstances.

The purpose of this organization is to follow the presentation of necessary guideline in relation to professional ethics including general standards and fundamental principles which should be observed by all professional accountants in order to achieve the related purposes in the field of accounting.

The employed terms of this collection include the following conceptions

a. A Professional formation includes the public and official association of accountants, and the authorized professional association and organization of accounting and auditing in Iran.
b. A professional accountant is an individual or an institution that is a member of a professional organization.

c. An independent professional accountant is a person who presents his professional services independently to all clients. This term is also applied in relation to the professional accountants employed in professional institutions.

d. A professional accountant is under the employment of the professional accountant who works as an individual under the employer, with the exception of professional institutions.

e. The professional services include every kind of service in the area of accounting, auditing, taxing, management counseling and financial management which are presented by professional accountants and its performance depends on the utilization of accounting knowledge and the related skills to it.

f. The notice of informing all people is about the introduction of the professional accountant and his/her services, on condition that it has not been done for the sake of showing the superiority of that professional accountant and also it should not be done for advertisement.

g. The advertisement of informing all people is related to the services and skills which are presented by professional accountants for the purpose of attracting customers.

h. Professional reporting is a task which necessitates a professional statement to financial information by an independent professional accountant.

PURPOSES OF ACCOUNTING PROFESSION

From the standpoint of professional ethics, the purposes which are followed by the accounting profession include accessing to the best professional standards, performing the operations at the highest possible level, based on the above-mentioned standards, and safeguarding the public interests of people. Achieving these purposes necessitates securing the following conditions:

a. Validity: Society needs valid information and informational systems.

b. Professionalism: Professional individuals in the field of professional accounting should be easily identified by employers and other related persons.
c. Service Quality: Trusting the fact that all of the presented services are done by professional accountants at the highest possible level of quality.

d. Confidence: The users of the services of professional accountants must be assured that there is a framework for professional behaviors which supervises service presentation.

**FUNDAMENTAL PRINCIPLES**

The essential condition of achieving the objectives of accounting profession by professional accountants relies on believing these fundamental principles, including:

a. Honesty: A professional accountant should be honest in doing his/her professional service

b. Impartiality (objectivity): A professional accountant should be objective. He should not let his objectivity in presenting the professional services to be underestimated by prejudgment, support, and contradiction of others’ interest or influence

c. Competence: A professional accountant should perform his/her professional services with attention, competence and perseverance. It is his duty to upgrade his professional skill and knowledge to the extent that people can rely on him. In other words, his services should be acceptable and based on the recent revolution as far as it is concerned with the profession, rules and regulations.

d. Confidentiality: A professional accountant should pay attention to the confidentiality of the information he/she acquires during the presentation of his/her own professional services and should not employ or divulge such kind of information without getting a clear permission from the employer nor has he such a right or responsibility to reveal it from a legal or professional viewpoint

e. Professional ethics: A professional accountant should behave in such a way that it is compatible with the advantage of his/her professional job and refrain from doing anything which may have a negative influence on the validity of his/her profession
Professional principles and standards: A professional accountant is responsible to do his/her professional services based on the related principles and standards and also perform the requests of his/her employers in such a skillful and careful way that is compatible with their obligations of honesty and neutrality, and in the case of the independent professional accountants with their independency.

Although the presented fundamental principles and objectives refer to general or public aspect and do not consider special circumstances, the guideline present some guidance about the know-how of the application of the above-mentioned fundamental principles and objectives in situations which professional accountants encounter during doing their activities.

Guidelines are divided into three sections including the following:

a. Those which are applicable for all professional accountants with the exception of some special cases which have been exempted.

b. Those which are applicable in the case of independent professional accountants.

c. Those which are applicable in the case of the professional accountants under employment who may also be extended to the independent professional accountants employed in professional institutions.

GUIDELINES IN THE CASE OF ALL PROFESSIONAL ACCOUNTANTS

1. Honesty and Objectivity

Honesty not only means being honest but it also includes an honest and fair contact. The objectivity principle obliges the professional accountants to have an honest and fair contact, devoid of the contradiction of interests. Professional accountants do their own professional services in different way. Without considering the kind or amount of the professional services, a professional accountant should safeguard his sense of honesty and protect his judge by observing full impartiality.
Professional accountants should take the following factors in an appropriate situation into account during the selection of circumstances or the activities dealing with related obligations of impartial observance:

a. Sometimes, professional accountants are placed in a situation where there is a possibility of imposing pressure on them. This situation may reduce their impartiality.

b. It is not easy to describe and define all conditions by which professional accountants may be influenced by imposing pressure on them. In determining the essential criteria and standards for recognizing the connections which are possible or seem to reduce the impartiality of professional accountants, reasonable conditions should be taken special consideration of as a determinative factor.

c. For observance of objectivity, professional accountants should hold back creating a relationship which paves the way for the possibility of imposing others’ influence, pre-judging or supporting inclinations.

d. Professional accountants are responsible to gain confidence regarding a strong belief on objectivity on the part of co-workers employed in the professional services under their supervision.

e. Professional accountants should refrain from accepting or donating gifts or presents which may logically develop this belief, having an unsuitable effect on their professional judgment or on persons having relationship with them. What is recognized as an uncommon present is different in every case. However, professional accountants should generally avoid being from placed in a situation which reduces their professional validity.

2. Conflict of interests

Often, professional accountants encounter the issue of the conflict of interests, in the process of presenting his professional services. These kinds of conflict of interests may be revealed in completely different forms, from the rather simple cases to the complicated problems such as fraud and illegal operations. Although presenting a comprehensive list of the whole case which may experience
conflict of interests is not applicable, professional accountants should be conscious of the conditions leading to the appearing of conflict of interests.

The positions of professional accountants are sometimes in conflict with the expectations of the organization, both inside and outside. Therefore,

a. The danger of imposing pressure can be disclosure on the part of the employer management, the senior co-worker of professional accountant, or because of family or the personal relations. In fact, a professional accountant should avoid the creation of relations or interests which can have a negative influence on his performance and reduce his professional honesty.

b. A professional accountant may be requested to act against the professional principles and standards.

c. A professional accountant may encounter a conflict between his reliability to the superior and the observance of professional principles and standards.

d. One of the evidences of the meaning of conflict in interests is the presentation or promulgation of misleading information which may occur for the sake of employer’s interests, without considering this fact that the presentation or promulgation of such information may be in favor of the interests of a professional accountant or not.

3. Professional Competence

The conception of professional competence consists of the two following basic aspects:

a. Acquisition of professional competence: Acquiring professional competency necessitates getting a higher education based on the principles of the related professional organization by means of acquiring special educations, passing examinations and gaining professional experience.

b. Protection of professional competence: Protecting professional competence necessitates having a continuous awareness of the changes which are made in the related profession (new theories regarding the principles and standards of accounting and auditing and the related rules and regulations), especially the application of a program whose performance can guarantee this point that the
professional services, by making use of a suitable quality control system, are presented with desirable quality and its conformity to the professional principles and standards.

4. Confidentiality

Professional accountants are responsible to keep confidential the information which is acquired with respect to employers’ tasks. This should be continued even after terminating the relationship existing between the professional accountant and the employer. The information related to employer should be constantly accounted as confidential and a professional accountant is not authorized to reveal it unless the employer gives the legal permission to him or legal or professional obligations necessitate the presenting or divulging of this information. Professional accountants are responsible to gain confidence about the employees working under their supervision or individuals, seeking advice or service are also observing the principle of confidentiality.

The principle of confidentiality is not only concerned with not revealing the information, but it obliges a professional accountant to safeguard the collected information at a suitable level, not to use the above mentioned information for the sake of its own interests or third parties, and not to behave in such a way that he is making use of this kind of information.

Overall, the cases in which professional accountant are permissible to reveal the information include the following:

a. When the employer reveals information. In this case, the professional accountant should take into account the interests of all third parties which may arise from this matter.

b. In cases in which the law recognizes as necessary to reveal the special information.

c. When a professional accountant is responsible for the revealing of information such as:

1. In observing the obligations of professional principles and standards
2. In favor of supporting his own professional interests in legal claims
3. In doing quality studies by the related professional organization

5. Tax services

A professional accountant is able to place his employer in the best tax situation by presenting tax services according to laws and regulations and the observance of honesty and objectivity. In these circumstances, providing and maintaining a reasonable backing can negative the imagination of doing every kind of precluded activity in favor of the employer.

A professional accountant should not behave in such a way that the employer supposes that there is no criticism to the prepared tax returns and the presented consultations but he should be assured that the employer is aware of the resulting limitations on these kinds of services and that the resulting conclusion was not in conformity to the opinions of tax authorities.

When a professional accountant finds some reasons based on the existence of any kind of the following cases about tax return or presented information, he should avoid accepting the task continue the service presentation:

a. The presented information is inaccurate or misleading
b. The information is prepared without any sufficient attention or there are no documents in relation to its reality or fact.
c. The information has been deleted or manipulated in such a way that it paves the way for tax authorities to be misled

6. Advertisement

In order to publicize themselves or their own work to society, professional accountants should keep the following points in their mind:

a. They should not make use of tools or methods which might cause anxiety to their professional authorities.
b. They should not make any unreachable claims regarding the kind of services they can present, their professional titles, educational experimental documents.
c. They should not express any negative statements in relation to the services of other professional accountants.

GUIDELINES IN RELATION TO INDEPENDENT PROFESSIONAL ACCOUNTANTS

1. Independence

When independent professional accountants take the charge of doing something which necessitates professional reporting, he should be devoid of any kind of interest or profit, without considering its real results, which might have an influence on his honesty, objectivity, and independence.

Independent professional accountants are limited to the following persons:

a. Individual or institutions doing professional services.

b. Partners or proprietors of professional institutions.

c. All professional managers and employees who are involved in doing any kind of activity which necessitates professional reporting in relation to the same activity.

Although introducing a complete list of the cases which violate the independence of the independent professional accountant is not possible, the following are cases which reduce the fact or apparent freedom of independent professional accountants.

a. **Having any financial relation with the client**

Having a financial relation with client can influence the independence and there is a possibility for every rational supervisor to suppose that the independence is violated. The financial relations of independent professional accountants, including their relatives recognized by the related professional organization, can be accomplished by one of these ways:

- Having direct financial profits or considerable indirect financial profits with client
Receiving financial facilities from the management or any member of the Board of directors, senior managers or major shareholders are employer or offering financial facilities to them, excepting the amount of paid financial facilities under normal condition from bank systems and other credit institutions

Cooperating with the management or any member of the Board of directors, its senior managers or major shareholders

Possessing financial profits in an economic unit which has a considerable influence in the employer’s company or under its considerable effect.

b. Having any occupational (job-related) relation with the client

When an independent professional accountant has been a member of the Board of directors, an administrative manager, a senior employee of a company or been a partner or under the employment of these individuals, it seems that he is having some interests which can reduce his independence during professional reporting in relation to that client.

c. Presenting other services to the audit client

When an independent professional accountant presents other services to their client, in addition to doing the auditing or other operations which necessitates professional reporting, he should keep this fact in his mind that he should not take into account the role of management of the section under investigation, in decision-making or execution. In cases where an independent professional accountant is responsible for presenting professional services concerning the adjusting entry of the account or providing and maintaining the accounting record of the client, the auditing of those special financial periods should not be done by him. It is worth mentioning that the services which are presented by the professional accountant to their client, in the normal procedure of accounting operations are not accounted for, as the evidence of the above mentioned services, such as assessing the internal control, presenting the letter of management and the essential suggestions regarding its settlement and presenting every kind of proposed and counseling adjustment are not presented. An independent
professional accountant who is responsible for presenting counseling services or designing informational systems for an employer, in addition to observing carefully the auditing principles and standards, he should act in such a way that it does not reduce his professional competency and independence when he accepts to take the charge of auditing for the same financial period or every kind of task which necessitates professional statement.

d. Family and private relations

Family and private relations can influence the auditor independence. Therefore, gaining confidence on this point that these kinds of relations in every activity cannot jeopardize the independence of the professional accountant is of special importance. Exactly determining the permissible limit of family and private relations is impossible between an independent professional accountant and employer, or individuals such as the chairman or members of the Board of director, and senior administrative and financial managers who are working at the management positions of employers. However, if the professional accountant recognizes the existence of these kinds of relations as a threat to maintain his own fact or apparent independence, he should investigate seriously the lack of admission of services. The range of the above mentioned relationships is very widespread, including, both personal normal relations and genealogical and causal relations of the professional accountant. A complementary standard in this respect is compiled by the related professional organization.

e. Fees

A professional accountant should consider that when a major part of his annual income is provided continuously by means of an employer or a group of the related employers, it can lead to the creation of doubt and ambiguity in relation to his independence.

f. Conditional fee

A professional accountant should avoid accepting he should not or presenting services which depends on the fees, rely on achieving a special result, a
percentage of a special fee or cases like that, unless the amount of fee is specified, based on rules and regulations.

g. **Purchase of goods and acceptance of gifts and parties**

Purchase of goods or receipt of services along with special conditions, acceptance of parties without any reason behind it, and receipt of gifts more than necessary are serious threat to the freedom of independent professional accountants. Therefore, professional accountants and their relatives, in addition to avoiding from these cases, should take precautionary measures at a normal level.

h. **Property possession**

All properties of a professional institution should belong to their independent professional accountant unless the prevailing rules or regulations recognize dedication of all or a part of the property to others as permissible.

i. **Previous partners**

If one or some members of the previous partners of professional institutions become the employer of professional institutions, determining this case that whether fact or apparent independence of the professional accountant downgrades or not depends on the judgment of the independent professional accountant.

j. **Legal claims**

If an independent professional accountant or employer becomes involved in a legal claim, the independence and objectivity of the professional accountant may be noted. If this happens, the professional accountant should decide on the acceptance or continuation of the activity proportionate to the nature of the legal claim or controversy.

k. **A continues relation between senior employees and an employer**

Making use of senior employees in cooperation with one employer for many years might be a threat to independence of the professional accountant. If
this happens, an independent professional accountant should take some actions for the purpose of gaining confidence on maintaining independence and objectivity.

2) **Professional Competence**

An independent professional accountant should decline to accept the professional services which lack necessary qualification for doing it. If an independent accountant needs expertise work for the purpose of doing some parts of his professional services, he can take advantage of these services after accepting to do it.

3) **Fee**

An independent professional accountant who accepts the charge of doing professional services should perform these services with honesty and impartiality and also based on the related technical standards. Accomplishing this necessitates skill and knowledge which are acquired by training and experience. Thanks to the presentation of these services, an independent professional accountant has the right to receive the fee. Professional fees should be proportionate to the value of the professional services for the employer by taking the following points into consideration:

A. Skill and knowledge which are necessary for doing those services  
B. The level of education and the experience of those individuals which are necessary for doing those services  
C. The amount of time which is necessary for doing those services  
D. The amount of responsibility doing those services calls for

4. **Incompatible activities in accounting profession**

A professional accountant should prevent doing and accepting the activities which are incompatible with the presentation of professional services and might reduce or hurt his honesty, objectivity, independence or professional reputation.
5. Connection with other independent accountants
Replacing an independent professional accountant:

Although selection and changing the professional counselors is an undeniable right of employers, he is responsible to investigate every kind of professional reason for not accepting the job when a professional accountant is asked to be a substitute for another professional accountant. This is not possible without communicating with the previous professional accountant. Connecting with the previous professional accountant not only leads to protecting and strengthening professional relationship and creating harmony among professional accountants but also causes the proposed professional accountant to have a good or correct reason regarding the acceptance of a new job.

Therefore, having a connection between the two sides can help:
a. The professional accountant is to be aware of accepting a job where all facts related to it, is not clear.
b. To protect the rights of minority owners of commercial units which are not completely informed of the reasons for changing the professional accountant or sometimes they disagree with the change.
c. To support the interests of the previous professional accountant who has done his duties, knowingly as an independent professional person.

6) Advertisement
In order to determine the permissible amount of advertisement by any of the professional accountants, the following points should be considered:
1) In authorized advertisement, the essential information should be publicized realistically, correctly, completely, and suitably.
2) The following cases are among the activities which are not compatible with the above-mentioned standards.
a. Creating expectations which are not based on reality, are misleading or unjustifiable regarding the results.
b. Suggestion or affectation about ability for using one’s influence in courts, organizations enacting rules, tax authorities and similar organizations or official authorities.
c. Expressing some statements with respect to praising himself without relying on verifiable facts.

d. Expressing some material indicating one’s comparison with other independent professional accountants.

e. Illogical claims regarding being a specialist expert in a particular field of accounting, knowledge or similar skills.

3) Informing the society of the services which are presented by any of the professional accountants is acceptable when it is done by a professional organization.

4) In cases where advertisement is not permissible, an independent professional accountant should take the following into account in order to inform others:

a. He should suggest matters which are not factual, misleading or ethical.

b. Matters should be presented by a desirable quality and by observing all professional etiquette.

c. He should avoid repeating or distinguishing his name.

5) The following cases are indicative of the situations in which giving information to all people is acceptable including,

   Appointments and changes - Some important cases such as becoming a member of professional societies and changing the partner or address

   Seeking-job professional accountants – just for cooperation with other professional accountants or for the purpose of being employed by an employer

   Guidebook – the information which is written in the guidebook and published by a professional accountant should include only name, address, contact number, and kind of presentable service

   Book and journal publication, interview, delivering a speech or participating in the related programs to mass media - a professional accountant who participates in providing and presenting professional matters in a framework based on the aforesaid form can mention his name, professional
degrees, and the name of his institute but he is not authorized to give information about the presentable services by him and his own institute.

Training course, meetings and similar professional programs – Professional accountants might invite owners, employees or other professional accountants to participate in training courses or meetings which are organized for the intention of helping employers. But, inviting others depends on getting permission on the part of the related professional organization.

Employing employees – the real demand for new employees should be announced by the media which usually publicizes these demands to all people. These kinds of publicizing should not compromise with all every kinds of advertising factors.

The concerned information about professional backgrounds and experiences – such information is presented only for employers or in response to others’ request and include matters such as the name of partners, the address and the summary of the real professional services which have been presented.

Headline and signboard of professional units– the limit and amount of the articulated information in headlines and signboards of professional units including visiting cards and marks should be based on the standards of the related professional organization.

Articulating the name of the independent professional accountant in the published document by employer – this work is only permissible when the limit, kind, and nature of the presented services have been specified clearly by the professional accountant on condition that it does not lead to the misleading of users regarding the nature of the aforesaid documents.
GUIDELINES IN RELATION TO PROFESSIONAL ACCOUNTANTS UNDER EMPLOYMENT

The materials of this section are concerned with professional accountants under employment. However, if they are specified by the related professional organization under particular conditions, these materials can also be related to the independent professional accountants employed in professional institutions.

1) A contradiction between moral obligations toward employer and a strong belief on professional principles

A professional accountant under employment not only has a moral obligation toward employer but he also has a strong belief on his own professional principles. Sometimes, a contradiction between the two is created. Although a usual priority of an employee is supporting legal aims of the followed organization, regulations and backing instruction, it is not expected from a professional accountant to do the following to support the aims of the followed organization as a subterfuge including:

a. violate the rules and regulations
b. break the professional principles and standards
c. tell on truth to individuals who are working as the auditors of employer or mislead them in any way possible, e.g. by silence
d. allow his name to be articulated or related to those documents in any way in documents in which facts are presented incorrectly in a major way

2) Supporting professional co-workers

A professional accountant should behave, especially when he has more authority or higher position, in such a way that each of his co-workers can judge and decide personally about one’s own related accounting matters and he should only be able to resolve the probable views in a professional way.

3) Professional Competence

When doing special tasks given to a professional accountant under employment, who is not qualified to do it as far as it is concerned with education
and experience, he is responsible to inform the employer of the degree of his knowledge and experience and the necessity of using others’ help and guidance.

4) Presenting Information

It is expected from a professional accountant to present financial information honestly and professionally in such a manner that it is comprehensible according to the related framework. Financial and non-financial information should be kept in such a way that the real nature of commercial events, properties, and debts be explained clearly, classified in a correct way, and registered on time.

EXECUTING PROTECTION OF GUIDELINES

Most professional accountants observe the professional behavior standards, without needing compulsion or disciplinary punishment. However, some circumstances might arise which violate these standards advertently, inadvertently, or by false understanding. Doing this is in favor of the profession and its members by which all people become sure that shortcomings to performing professional behavior rules are investigated and then the necessary disciplinary actions are taken. Therefore, the professional accountant should be ready to justify reasonably any kind of possible violation from the professional behavior rule. Shortcoming in observing professional behavior rules or lack of ability in reasonable justification of deviation from standards might be accounted as professional breach of rules or regulations and lead to disciplinary actions.

Protecting the execution of professional behavior rule should be predicted in the article of association of the related professional organization. Disciplinary actions might be performed by the related organization, legal authorities, or jointly.

Disciplinary actions are concerned with the following cases including:

a. Shortcoming in observing the principles and standards related to professional competence and attention
b. Not taking the guideline of professional behavior rule
c. Behaving against professional authority

Disciplinary actions are taken when settling the problem is not possible in a peaceful manner. The issued sentences are usually consisting of the following:

a. Notice (written or verbal)
b. Reprimand (Written or verbal)
c. More training
d. Penalty, income compensation, compensation of receipt fee, or finishing the work by another member, along with paying the expenses by him
e. Preventing professional independent activities
f. Membership suspension
g. Dismissal elimination from professional organization

**SUMMARY**

In the past century auditing has managed to catch up with the dramatic changes in the world and has emerged as a specialized field of knowledge. After the Islamic Revolution in Iran in February 1979, which led to the seizing of companies belonging to some multi-millionaires and nationalizing of some and appointing governmental managers for these companies, auditing institutions, especially the foreign auditing institutions faced series of obstacles. The establishment of the auditing institutions of the Nationalized Industries and Plan Organization Audit Firm, Mostazafan Foundation Audit Firm, Shahed Audit Firm, between the years 1980 and 1983 can be mentioned as examples. These institutions employed a large number of accountants who were in the former audit institutions.

In 1983 suggestions were made to merge the auditing Institutions of the public sector and the law of the establishment of auditing organization was passed. After the approval of the legal statute of auditing organization in the year 1987, the existing auditing institutions were merged with the governmental ones and the auditing organization was established. In the 1993, the law “the utilization of the
services of the professional and qualified accountants in the capacity of Public accountants was approved by the Iranian Islamic Majlis (Parliament). In the legal article of Auditing Organization, approved on 17 December 1987, a compilation of accounting and auditing principles and standards has been determined as a part of the organization’s duties. Principles and standards of accounting and auditing consist of accounting standards, auditing standards, professional ethics and the related guidance.