

An Evaluation of Iranian Audit Institutions during Ahmadinejad's Presidency

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ABSTRACT: This study analyzes Iranian audit institutions during Ahmadinejad's presidency through media articles that discuss Iranian audit institutions. It examines two major audit institutions namely the Supreme Audit Court of Iran (SAC) and the Iran Audit Organization (IAO). Eight articles are identified. Five articles discuss SAC, and four articles discuss IAO (one article discusses both SAC and IAO). This study uses NVivo to analyze media articles. The analysis shows that SAC and IAO are two highly discussed Iranian audit institutions, suggesting their importance for the Iranian audit profession. However, it shows that SAC and IAO are criticized despite their importance. This should bring Iranian regulators' attention to audit institutions and encourage lawmakers to amend new laws to enhance audit institutions' performance.

Keywords: Ahmadinejad, Iran, Iran Audit Organization, Media articles, Supreme Audit Court of Iran

1. Introduction

This study aims to analyze Iranian audit institutions during Ahmadinejad's presidency. The president is the second most powerful person in Iran, wherein he has an opportunity to serve in the presidential office for a maximum of two terms of four years. The president is responsible for implementing the Iranian constitution. Mahmoud Ahmadinejad served two terms as the president from 2005 to 2013. He was the only non-cleric Iranian president since the Islamic revolution (BBC, 2008) ^[1]. Ahmadinejad focused on offering loans to jobseekers rather than funding infrastructure projects. Ahmadinejad implemented a price subsidies reform in 2010 and reduced the price subsidies on energy and fuel products (Habibi, 2015) ^[2]. A reduction in energy subsidies for households and industry reduced the Iranian economic growth during Ahmadinejad's presidency. The ease of international sanctions because of Iran's agreement with world powers along with a policy of reduction of energy subsidies of the new president, Hassan Rouhani, reduced the inflation rate towards the end of 2014. Rouhani scaled back the cash subsidies that were handed out by the former government, leading to a reduction of the inflation rate from 45% to 15% in 2014 (Anonymous, 2014) ^[3].

Prior studies suggest that Ahmadinejad's economic policies were detrimental to the Iranian economy (Habibi, 2015) ^[2], Habaibi, 2014) ^[4]. However, prior studies failed to evaluate Iranian audit institutions during Ahmadinejad's presidency. Therefore, this study is motivated to evaluate Iranian audit institutions during his presidency. Iran has two major audit institutions namely the Supreme Audit Court of Iran (SAC) and the Iran Audit Organization (IAO). This study uses media articles to evaluate SAC and IAO during Ahmadinejad's presidency. Iran is aspired to participate in the international community. Moreover, Iranian regulators aim to modify existing audit regulations and modify current auditing practices (Ehteshami, 2012) ^[5]. They require auditors to behave in a manner that is compatible with their professional reputations (IAO, 2014) ^[6]. This study contributes to regulators' goal by informing them regarding Iranian audit institutions' situation during Ahmadinejad's presidency, helping the current government to improve the country's audit profession.

2. Supreme Audit Court of Iran (SAC)

SAC is an independent body, which is supervised by the Iranian Parliament. It is responsible for preparing the government's Budget Liquidation Report and auditing the accounts of all ministries, institutes, and governmental companies (SAC, 2014) ^[7]. SAC criticized Ahmadinejad's government for failing to deposit 11.2 billion dollars in surplus revenues of oil exports which were obtained between 2009 and 2010 to the National Reserve Fund. SAC prepared a report regarding the government's failure and sent it to the Parliament and Judiciary System for further action (BBC, 2011) ^[8]. Moreover, SAC criticized Ahmadinejad's government for illegally allocating 8,000 billion rials (Iranian currency) of the country's surplus revenues which should have been allocated to defense and health sectors to other sectors. The health minister criticized the president because of his misallocation (BBC, 2013) ^[9].

A SAC's report to the Parliament showed that a surplus of \$1.058 billion of oil revenues was not returned to the treasury (Thai News Service Group, 2009) ^[10]. In 2009, the Iranian government purchased a huge amount of gasoline and gas oil, without the Parliament's approval. Imports reached up to \$5 billion, whereas the Parliament had only approved a purchase of up to \$3 billion. Moreover, the Iranian National Oil Company failed to declare its \$61 million of revenues to tax authorities (Thai News Service Group, 2009) ^[11]. Mohsen Rezaei, a presidential hopeful, criticized the Ahmadinejad administration's bureaucratic system. Mohsen Rezaei mentioned that financial fraud frequently occurs, and Ahmadinejad should improve his administration to better defend against fraud.

The Iranian government established the National Development Fund (NDF) based on Article 84 of the Fifth Five-year Socio-Economic Development Plan (2011-2015) in 2011 to use its oil revenues for future investments. However, the government must have the Parliament's approval for taking any fund out of the NDF. SAC reported in 2014 that Ahmadinejad's government had illegally taken \$4.1 billion out of the NDF without the Parliament's approval (Fashtami, 2014) ^[12]. Moreover, SAC reported that Iran did not receive its 4.1 million dollars revenue of selling crude oil to the UAE, criticizing Ahmadinejad.

3. Iran Audit Organization (IAO)

IAO is the primary regulator of the audit profession in Iran (Mirshekary and Saudagaran, 2005) ^[13]. It was established by an act of the Parliament in 1987. It is affiliated with the Ministry of Economic Affairs and Finance. Its main objectives are to address the government's audit and specialized financial services' requirements, to set accounting and audit standards under Sharia, and to fulfill the country's accounting needs. IAO modifies Iranian audit standards based on international standards while considering Iranian rules. The Auditing Standards Setting Committee of IAO creates Iranian auditing standards. The committee has nine members. Five are from the Board of Executives of IAO, two are from the Iranian Association of Certified Public Accountants, a member is from the Security Exchange Agent Organization, and the last member is from the industry (Chatterjee, Mirshekary, 2010) ^[14].

IAO introduced thirty-three audit guidelines in 1997, which after revision become audit standards in 1999. IAO revised some of the audit standards later on (Gholamhossin and Abdolhamid, 2012) ^[15]. It codified and published a revised set of audit standards using the International Auditing Standards (IAS). It released a comparative table to compare the National Auditing Standards with IAS. Moreover, it introduced national standards that are similar to IAS (Mirshekary and Saudagaran, 2005) ^[13]. However, Iran is in the preliminary stages of International Financial Reporting Standards' adoption, and a full adoption is not yet taken place. All companies in every sector are required to follow national standards (Simon Fraser University, 2011) ^[16]. Iranian authorities do not recognize the financial statements of companies that fail to follow the national standards.

Failure to comply with principles and criteria of professional competence and care, non-compliance with provisions of the Code of Professional Conduct, and any behavior against professional affairs may cause IAO to consider some disciplinary actions (IAO, 2014) ^[6]. The disciplinary actions can range from compulsory learnings; oral and written warnings; fines, restitution, and job completion through other members at expense of the offender; prohibition from independent professional activities; suspension of membership; to dismissal

from professional bodies for any non-compliance (IAO, 2014) ^[6]. IAO audits many major Iranian institutions such as Iranian banks, National Iranian Oil Company, gas and petrochemical companies, National Water and Electricity Company, telecommunication companies, Iranian Tobacco Company, Tehran Stock Exchange, insurance companies, Iranian Retirement Fund, and the Foundation of Martyrs and Veterans Affairs (IAO, 2013) ^[17]. Fig. 1 depicts the IAO's auditees.

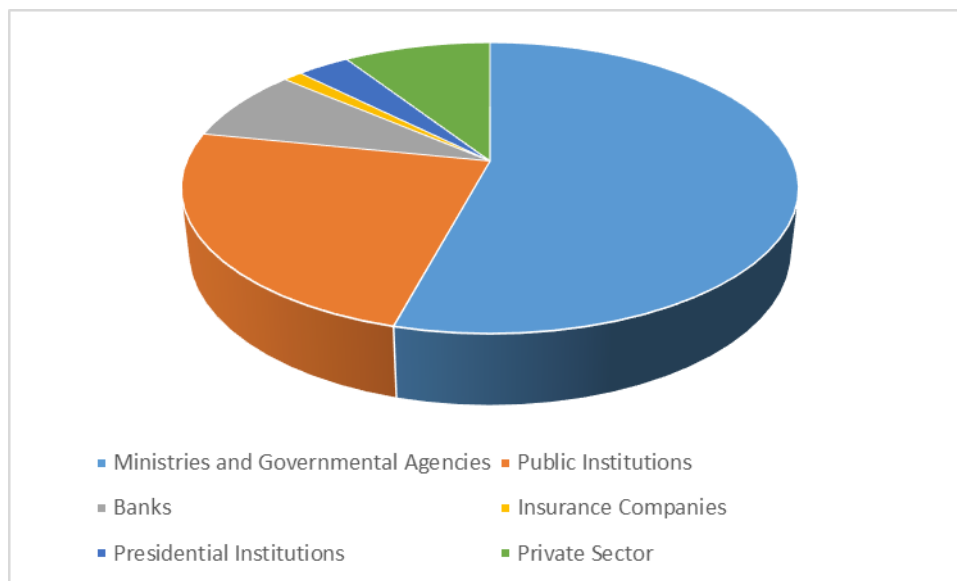


Figure 1 Different auditees of IAO

IAO audits 906 institutions, including 491 ministries and governmental agencies, 218 public institutions, 73 banks, 11 insurance companies, 30 presidential institutions, and 83 private institutions. Moreover, it provides additional audit services, namely special purpose audit and capital increase, governmental demands, review of internal controls, audit plans for an acquisition of capital assets, an overview of midterm financial statements, tax audit, operational audit, and examination of prospective financial information for its auditees (IAO, 2013) ^[17]. The dual roles (regulator and auditor) of IAO enable it to better realize the accounting needs and address them. The majority of IAO's employees are professionals, including 225 certified practicing accountants. Fig. 2 depicts the qualification levels of IAO's employees.

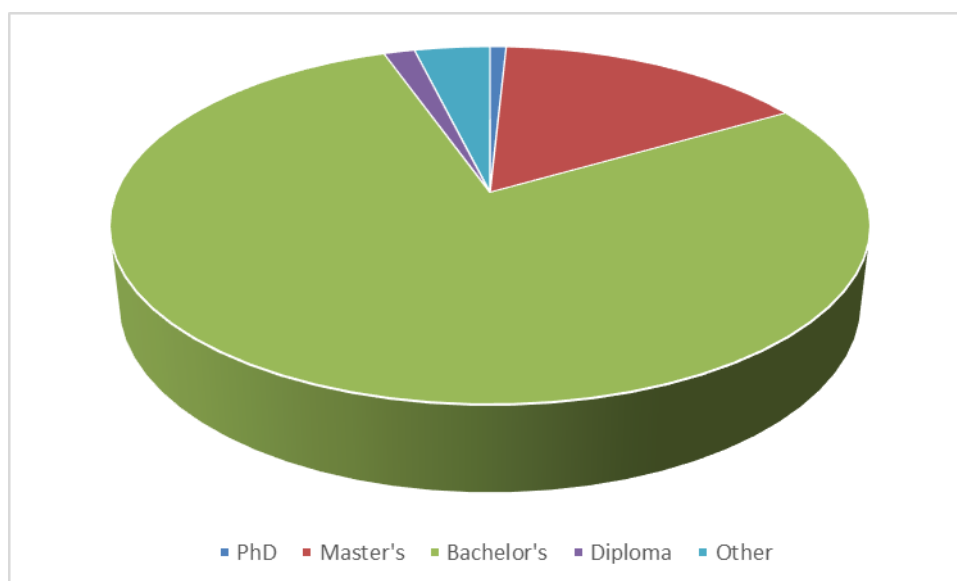


Figure 2 Qualification levels of IAO's employees

Twelve employees of IAO have a Ph.D. degree, 231 have a master's degree, 1,139 have a bachelor's degree, 23 have a diploma, and 156 have other types of qualifications. IAO's employees have different job responsibilities such as a member of the board of directors, senior manager, audit manager, senior supervisor, supervisor, senior auditor, and auditor (IAO, 2013) ^[18].

4. Findings

Media articles provide relevant concepts and explanations. They help researchers to determine the adequacy of prior concepts. Moreover, they provide a ground for new concepts (Metz, 1983) ^[19]. Media articles help to consider this study's topic from different perspectives. They provide complementary information regarding participants' comments and scholarly literature, helping to further explore this study's topic. For example, Hammacott (2014) ^[20] used media articles to examine the cause of income tax evasion in the UK. Media articles enable researchers to study in different periods to examine all changes (Metz, 1983) ^[19].

BBC considers itself "the world's most trusted news organization: independent, impartial and honest" (Tribune Publishing Company, 2015) ^[21]. BBC is considered as the most important source of news by over 50% of people in the UK. Fifty-three percent of British people use one of BBC's news outlets such as TV, radio, or website as their primary source of news. BBC TV is the primary television news channel of 34% of British people. Its website is the primary destination of 52% of online news consumers (Hollander, 2013) ^[22].

Tribune Publishing Company has 435 digital agencies that partner with local businesses to carry on its online strategies (Tribune Publishing Company, 2015) ^[21]. Tribune Media is the U.S.'s largest independent broadcaster. It is comprised of 42 owned or operated broadcast stations, national entertainment network WGN America, Tribune Studios, Grace note, WGN-Radio, and a large number of iconic real estate properties (Tribune Media, 2015) ^[23]. Tribune 365 offers customized and innovative multi-market solutions across all media platforms (Tribune Publishing Company, 2015) ^[21]. Table 1 describes the examined media articles.

Table 1 Description of the Examined Media Articles

Title	Source	Date
President orders dismissal of Iran Insurance's board of directors	BBC	9/05/2007
Iran: In search of \$1b missing oil money in Iran	Thai News Service Group	16/02/2009
Iran: "Iran's missing oil money"	Thai News Service Group	8/05/2009
Iran Audit Court sends report on government "violations" to judiciary	BBC	17/12/2011
Iran Audit Court accuses president of mispending surplus revenues	BBC	25/06/2013
BBC Monitoring quotes from Iranian press 01 Feb 2014	BBC	1/02/2014
Supreme Audit Court of Iran confirms government is taking \$4.1 billion out of NDF	Tribune Content Agency LLC	28/05/2014
Iran official dismisses Audit Court report on oil sale to UAE	BBC	23/07/2014

This study identifies media articles that discuss Iranian audit institutions. Eight articles are identified. Five articles discuss SAC, and four articles discuss IAO.1 This study uses NVivo to analyze media articles. The analysis shows that SAC and IAO are two highly discussed Iranian audit institutions, suggesting their importance for the Iranian audit profession. However, it shows that SAC and IAO are criticized despite their importance. This should bring Iranian regulators' attention to audit institutions and encourage lawmakers to amend new laws to enhance audit institutions' performance.

1) One article discusses both SAC and IAO.

5. Conclusion

This study analyzes Iranian audit institutions during Ahmadinejad's presidency. This study is motivated because prior studies failed to analyze Iranian audit institutions during Ahmadinejad's presidency. It examines two major audit institutions namely SAC and IAO. It evaluates media articles that discuss Iranian audit institutions. Eight articles are identified. Five articles discuss SAC, and four articles discuss IAO (one article discusses both SAC and IAO). This study uses NVivo to evaluate media articles. The analysis shows that SAC and IAO are two highly discussed Iranian audit institutions, suggesting their importance for the Iranian audit profession. However, it shows that SAC and IAO are criticized despite their importance. This should bring Iranian regulators' attention to audit institutions and encourage lawmakers to amend new laws to enhance audit institutions' performance.

This study contributes to Iranian regulators' goal by informing them regarding Iranian audit institutions' situation during Ahmadinejad's presidency, helping the current government to improve the Iranian audit profession. However, it is not without any limitations. First, it identifies eight articles, questioning the generalizability of its outcomes. Second, it uses English articles, whereas many of Iranian articles are in Persian. Therefore, it has limited access to relevant media articles. Future research can consider Persian media articles and re-examine this study's findings. This will help to determine whether English and Persian media articles provide the same information regarding the countries' major audit institutions.

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