

A REVIEW OF HISTORY OF ACCOUNTING & AUDITING IN IRAN

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Abstract

The noteworthy early efforts in teaching of accounting at the Dar-alfonoon school in 1921 led to creation of the field of accounting. After that, researchers & instructors gave it momentum during later decades. The first direct publication to accounting & auditing in Iran was in circular No.1935.4.13, which for the first time addressed reforms such as Balance sheet of debtor and creditor, which was itself a pace maker for tax laws of subsequent years. Also, "The income tax law" was passed in 1951 - though this law never went into effect - number of reforms was devised in it, such as cost & income. History of accounting in Iran can be studied from following periods: 1) Iran prior Islam, 2) Iran after Islam till Qajar period, 3) From Qajar period till Constitutional revolution, 4) From Constitutional revolution till beginning of 1960's, 5) From 1960's till present. This study also provides interesting information on the following subject: formation of the committee of public accounting standards codification in Iran, the formation of audit institute, the society of certified accountants of Iran, and formation of Iran stock market. The operating period of the Stock Market can be divided to four periods: the first period (1967 - 1977), second period (1977 - 1988), third period (1988 - 2004), and the fourth period (from 2004 - present) etc.

INTRODUCTION

Accounting in Iran was formed simultaneously with formation of the first civilizations, and evidences point to advancement of the science of accounting in Iran. Accounting has had a revolutionary, as well as evolutionary advancement in response to financial requirements of times. Surveying of properties during Sassanid period, and the notational system of keeping records of income & expenditures of the government during Seljukid period, in which the income & expenditures of each state was recorded in a particular book, is an obvious example of existence of an advanced accounting science. However, the lagging economy & sciences, lack of coordination between laws and needs of the society, etc. were major obstacles for advancement of accounting in our nation, and limited its usage. Amidst abundant difficulties, noteworthy efforts in teaching of accounting at the Dar-alfonoon school during management of Aliakbar Dehkhoda in 1921 led to creation of the field of accounting. After that, researchers & instructors gave it momentum during later decades. There was a comprehensive financial discipline in Iran during Achaemenid dynasty in Persia, where incomes of the empire and its expenses were recorded & saved in detail. A very advanced monetary system was established by Dariush I based on gold & silver with fixed trading, in which ratio of gold / silver trading was 13.1/3 (thirteen & one-third). A tablet excavated from a section of great Persepolis palace named "the treasury" which was the storage place for financial documents demonstrates the existence of a comprehensive monetary - financial system.

HISTORY OF ACCOUNTING IN IRAN

History of accounting in Iran can be studied from following periods: 1) Iran prior Islam, 2) Iran after Islam till Qajar period, 3) From Qajar period till Constitutional revolution, 4) From Constitutional revolution till beginning of 1960's, 5) From 1960's till present.

1) ACCOUNTING IN IRAN PRIOR ISLAM

History of accounting in Iran dates back to the first civilizations that were formed in this land, and accounting documents found from 25 centuries ago are testimony to advancement of this science in ancient Persia. During the course of history, numerous varieties of accounting methods were devised for economic governance, which went through revolutionary as well as evolutionary advancements. Auditing of property during Sassanid dynasty is an example of this. According to ancient data recovered in Shush and from under mount Acropole, which date back to 3000 to 3500 B.C. many counting objects shaped like cones (dib) & rods (shaft), were found (Mohammadifar, 2007). Mrs. Professor Heid Mary Kokh in her book titled "Quoting Dariush," based on findings in excavations of 1933 – 1934 (also, 1936 – 1938) at Persepolis, which produced some 30000 tablets in Illami language, has presented valuable information. These tablets belonged to "court documents of Dariush." Context of these tablets are mostly brief and contain information about costs. Persians were well-known all around the world for their expertise in financial, auditing, and accounting – such that the Byzantine Empire financial system in 7th century A.D. was an imitation of reforms in financial, accounting, and auditing system of Persia performed by Anowshiravan. Many of present day expressions used in banking, like "check," come from ancient Persia. The word "Divan" in French meaning "customs" comes from Persian root "Divaan" (court). The term "Karasseh" (fascicle) was used in ancient Persia for "Books & accounts." The first efforts in realm of finance, banking, and accounting in Iran, according to tablets recovered at "Babylon," are ascribed to King Fereydoon. During era when Babylon was capital of Persia, important financial & contract documents, hacked in clay, were place in a furnace and baked to be kept safe from destruction. Expenses of all royalty, even the king himself were audited with care without exception. The many tablets recovered from treasury of Persepolis palace make it clear that there was a there was a neat and tidy wide-spread government structure in place in Achamedian dynasty rule, which oversaw all economic & cultural affairs of the nation. The court documents were written in Illami writing. Xeroxes followed the same rule. There still remains Illami literature from Ardeshir era (Rajabi, 2000). Usage of financial methods was of much importance during Illami civilization. What has been proven by scientific excavations is that large lands were presented to Gods, and they were placed in the care of monks, and therefore, due to income, there was a need to sum up accounting information. Evidences well support this notion. During Achamenid dynasty, particularly rule of Dariush I, the economic structure was set up such that the government never met financial difficulties, and various classes were never under heavy burden either. Another noteworthy point in regulation of economical policies of Dariush era was allocation of "source of incomes" by the ruler, after conferring with heads of states. Dariush was the first person to ever have published expenditure books. He determined list of spending of all states, so they can all be informed of expenditures (Karimabadi, 2009).

2) ACCOUNTING IN IRAN AFTER ISLAM

After accepting Islam, like all other cultural aspects, economic affairs became influenced by holy teachings of Islam. This evolvement however mostly showed itself in interpersonal interactions and commercial relations, and in latter Persian governments, with the exception of a couple (Saffavid, Afsharid), there appeared no noticeable deviation from Islamic laws. The reason for this maybe that the first Islamic governments like the Omavid, and Abbasid didn't believe much in ways and methods of teachings of the holy Quran and its great messenger. In any event, information remaining from this era show that Barmaki brothers (Yahyaa & Jafar) established an accurate financial system in the court of Haroon-al Rashid, which performed recording of government income and expenditures for him as an auditing office during Seljukid dynasty. "Notational accounting" is a method where the total sum and spending of each state gets recorded in its own book, and a main book is kept in the capital, in which summary of earning & spending of each state was entered, in notational writing.

3) ACCOUNTING IN IRAN FROM QAJAR TILL CONSTITUTIONAL REVOLUTION

In Qajar period, there was an initial evolvement in financial systems in Iran, the height of which was inviting American councilors like General Shwartzkoff in jandarmary affairs, and particularly Morgan Shuster in financial sect. This person began a series of activities in creating financial and tax disciplines. Later on however, following assassination of Gribaydoff and the Russian ultimatum to government of Iran, he left prematurely with his work unfinished. Later, an American man named Dr. Arthur Milesow gets invited to Iran. He creates systems in internal revenue ministry, and customs office, some of which still stand. Relinquishment of petroleum rights to William Knox Darcy, and founding of Anglo-Iranian oil company afterwards, and relinquishing rights to establish banks to foreigners around end of Qajar period paved the way for emergence of advanced financial and management methods into the country. These rights remained in control of these institutions for long times, and the remaining institutions don't find their way into private or public sectors for a long time. It is worth mentioning that the notational system was perfected during Qajar period and the quintuple books were kept for major expenditures. Keeping commercial activity records in notations is another distinct example.

4) ACCOUNTING FROM CONSTITUTIONAL REVOLUTION TILL BEGINING OF 1960'S

The seed of modern accounting and auditing was planted at the same time as triumph of constitutional revolution. The a/m revolution triumphed in the middle of severe economic conditions, deficit, and growing foreign debt, wasting of money by royal family, and growing interferences from local rulers & governments in the treasury. Emergence of modern accounting definitions and tools (mostly public) in Iran was influenced by affairs taking place at its beginning. The first financial and economic laws are achievements of the second congress. It is in this congress that the first national budget, first taxation law (vehicle tax law, passed 1910), the first trades law (law of acceptance & abstinence, passed 1910), and the first governmental accounting & auditing law (public audits law, passed 1911) were approved.

The idea of dispatching student abroad to learn accounting was first considered by the "Iran National bank" in the first decade of the 20th century. At first, a group was sent to foreign banks to learn and study in various banking fields namely accounting. Later, a group of 12 which were selected by the national exam were dispatched to England. Thanks to efforts of these graduates, the National Iranian Oil Company agreed with establishment of an Advanced Accounting school in 1953. This institution changed its title to College of Accounting & Financial Sciences, and offered degrees up to master's degree. Also, few other cultural institutions like The Institute of Banking Sciences, College of business, and College of organizational sciences of Tehran University, and The National University of Iran included various fields of accounting in their programs as well.

5) ACCOUNTING FROM BEGINNING OF 1960'S TILL PRESENT

Changes in the economic structure during 1961 and afterwards, and the expansion of the new economic discipline which was titled Depended Capitalism caused accounting be propounded as a technique that meets the information needs of organizations and newly established companies. This growing need of the work market for educated accountants caused accounting schools to become popular. One outcome of the aforementioned economic changes was emergence of great industrial groups. And due to flowing of foreign capital into Iran, number of multi-national industrial and pharmaceutical companies were formed in Iran, which due to the volume of their trading, there was no way to run them with traditional method, which led to growth of adaptation of modern management systems, patterned after foreign management systems. Employing foreign advisors for systematizing processes brought about serious changes in accounting systems of these companies, and led to creation of new systems in other organizations. Foreign companies opening up branches in Iran led to rise of interest of famous foreign auditing companies to open branches in Iran, among which Coopers & Lybrand, Winey Merry, Pete Marwick, and Price Water house can be named. The first Iranian organization & institution formed with the sole purpose of publicizing modern definitions of management and improvement of organizational methods and information systems was the "Industrial Management Organization" which began operation in 1962, by the approval of the government as an organization dependant on Ministry of Industries. The nationalization of industries and seizure of organizations belonging to the royal family, and the necessity of centralized controls by organizations like the "Foundation of the Vulnerable Classes," "Industries organization," "Expansion & renovations of Iranian industries organization," and other organizations that looked after public industries, led to formation of auditing subsidiary firms. This institution, after establishment, felt the necessity for creation of management services to meet the needs of managers of organizations it covered, and thus, by inviting experts, embarked on creating such unit. This organization, which later was dissolved after establishment of "Auditing organization of Islamic Republic of Iran" (approved, Jan. 1987), was successful designing & carrying out many industrial accounting & auditing tasks. In Iran today, accounting has, with its comprehensive reflection & definitions, found a suitable stand in financial & economic sect. This is well reflected in the particular attention managers pay to accounting and financial information when making strategic decisions and policy makings regarding firms and companies under their supervision. On a grand scale too we witness trust & reliance of financial discipline of the nation in attending audits, inspecting document of financial activities, and their final judgments, which gets published in the form of auditing reports.

THE FIRST DIRECT PUBLICATIONS TO ACCOUNTING & AUDITING IN IRAN

The first direct publication to accounting & auditing in Iran was in circular No.1935.4.13, which for the first time addressed reforms such as Balance sheet of debtor and creditor, which was itself a pace maker for tax laws of subsequent years. Also, "The income tax law" was passed in 1951 - though this law never went into effect - number of reforms was devised in it, such as cost & income. The new method of accounting in Iran was mostly attributed to foreign institutions that operated in Iran, and later on extended to the National Bank and other banks.

INTRODUCING FATHER OF ACCOUNTING OF IRAN

Dr. Fazl-allah Akbari, father of accounting of Iran, returned home from abroad after acquiring a PhD and began teaching at the "Organizational Accounting Sciences College" as the very first instructor of accounting in 1958 as an associate professor, and became a member of scientific committee of Tehran University School of law. He is the founder of "Management & Organizational sciences" college of Tehran University, and was a valuable polygraph in the fields of accounting & auditing. After the revolution, he retired in 1977 as a professor, but continued teaching until 1979. As beginning of 1980's The Audit Organization had the honor of his cooperation with "Center of Specialized Accounting & audit Researches" of this organization.

FORMATION OF "COMMITTEE OF PUBLIC ACCOUNTING STANDARDS CODIFICATION" IN IRAN

At present, there is no committee for codification of public accounting standards. And from the beginning the public accounting was under influence of laws & regulations. At present "The Public Computations Law" constitutes the most important public accounting regulations for the government. Aside from that, "The Planning & Budget Law" decides about construction plans, and "The General Computations Law" decides about governmental audits. According to the Computations Law, execution methods of accounting are recommended by the Treasury Department, and approved by "The Computations Bureau." These methods are carried out by an organization titled "Concentration & Assimilation of Accounting Accounts & Methods," which is within the charts of Internal Revenue service's ministry. "The Computations Bureau" is the independent auditor of the government. Independence of this bureau is kept safe by not being under jurisdiction of the government - it operates under the congress - it does not abide by "The National Employment Law," or any other laws. Their auditors get paid by the congress. All receipts & payments of government are through bank accounts and under supervision of "The Central Treasury Department," which is a subsidiary of Expenditures deputy. The "Management & Planning of Developments Organization" (ownership of capital assets) is in charge of supervision & execution. The development budget of the nation gets carried out upon approval of this yamen. Each of the three forces has an inspector in Iran - "Ministry of Economics" carries this out for The Executive force - "The Computations Bureau" for the Legislative, and "The Head Inspections Office" for Judicature.

At present, certified accountants have no part in government auditing - the municipalities however may choose auditors from among them.

AN INTRODUCTION TO AUDITING IN IRAN

Using services of expert accountants in internal revenues auditing was first considered in "Income Tax Law" of 1949. Regardless of this decree, no noteworthy steps were taken in establishment & creation of a professional accounting authority. This decree was repeated frankly in "The Tax Law" of 1955, and in carrying it out, the regulation of 1961 was approved. With passage of "Direct Taxes Law" of 1965, the "Society of Sworn Auditors" was formally abolished, and this law called for creation of "The Center of Certified Accountants," for the purpose of determining & referring certified accountants. The regulation for the method of selection of certified accountants was approved in 1964, and the statute of the center in 1969. They began handling Losses & Gains books & tax issues in referring cases. Alongside taking steps regarding establishing professional regulation for employment of certified accountants in tax auditing tasks, the reform act of the trades law regarding joint stock companies passed 1966, made mandatory for companies to include reports of certified accountants in bill of losses & gains, and balance sheets too. Between 1966 to 1977, in accordance with regulations of Tehran Stock Market, stock of companies was accepted in the market whose accounts had been audited by approved auditing firms.

THE FORMATION OF "AUDIT INSTITUTE"

Creation of National Industries & Planning Organization, The Audit firm of the vulnerable Classes foundation, and Shaahed Audit firm in 1977 to 1980 was due to this need. In 1982 subject of merger of public sector auditing firms was propounded and "Law of Establishment of Audit Institute" was passed. With approval of legal statute, the "Audit Institute" in 1985, all audit firms in public sect were merged and "The Audit Institute" was formed. Approval of the organizational statute in 1985 was a great opportunity for approving laws & regulations in the field of Auditing in Iran - and this attracted attention of legislators to codification of standards. It brought forth this notion that in view of lack of professional authorities in the country, in present conditions when statute of one Audit Institute is being processed, it would be wise to include tasks regarding codification of national standards in it. And thus, the task of codification & universalization of accounting principles & criteria was assigned to this organization. The Audit Institute has taken notable steps in this regard so far. At present, set of national standards of auditing has been codified by this organization, which consists of more than 32 accounting standards.

THE "SOCIETY OF CERTIFIED ACCOUNTANTS OF IRAN"

The Society of Certified Accountants of Iran has gained recognition in Financial over-seeing of production facilities, trading & service facilities, and certifying reliability of financial documents of these establishments, in the interest of public, based on regulation passed Jan.10th, 1993 & revision of Feb.16th, 1993 by Congress of Islamic Republic of Iran (Law of using expert & professional services of certified accountants as official accountants) and began operation in second half of 2002.

FORMATION OF STOCK MARKET IRAN

Operating period of the Stock Market can be divided to four periods:

First period (1967 - 1977)

The stock market began its operation in January 1967, by few trading on stocks of "Bank of Mine & Industries Expansion." In this period, expansion of the activities of the market is much owed to government laws & regulations, among which following can be pointed out:

1. Passage of the "Law of expansion of ownership of shares of production facilities" in April, 1974, by which public & private organizations were required to relinquish respectively 49% and 94% of their stock to the public.
2. Passage of the "Law of tax exemptions for firms accepted in the stock market" in 1974. During its 11 year operation prior to the Islamic Revolution, number of companies, banks, insurance firms saw an increase from 6 economic establishments with 2.6 billion Rial capital in 1966, to 105 establishments with more than 230 billion Rial capital in 1977. Also, volume of trading in the market increased from 15 million Rial in 1966 to more than 34 billion Rial in 1977.

Second period (1977 - 1988)

During years following the Islamic revolution until beginning the first 5year expansion plan, many events took place in the national economy which encompassed Tehran Stock Market as well. The first event was passing the "Law of managing affairs of banks" in 1977 by the revolutionary transition government, according to which commercial & specialized banks of the country were all merged into 9 banks, including 6 commercial banks and 3 specialized banks, and were nationalized. A while later, insurance companies were merged and came under ownership of the government as well. Also, passage of the "Law of protection & expansion of industries of Iran" in July, 1977 caused many of these economic firms that were accepted into the stock market to drop out - such that their number dwindled from 105 firms in 1977 to 56 at end of 1988. Trades volume dropped from 34.2 billion Rial in 1977, to 9.9 billion Rial in 1988. The mean of ratio of stock trading volume to GPD reached its all-time low, the main reason for which was the war situation and lack of general guidelines in national economy. Thus, Tehran stock market began a depressing period which lasted until end of 1989.

Third period (1988 - 2004)

At the end of the war, within frame work of the first 5year economic, social, & cultural expansion plan of Islamic Republic, restoration of Tehran Stock Market as foundations for privatization policies came to attention. On this basis, policymakers hope that the stock market, by transferring part of duties of government to the private sector, will attract capital and savings sources and use it in investment purposes to equip economic expansion sources and effectively motivate the private sector for active participation in economic activities, and take major and pivotal parts. In any event, lenience attitude of grand economic policy-makings towards employing the Stock Market resulted in significant increase in number of firms accepted and increased volume of activity - such that volume of trade reached 104202 billion Rial at end of 2005, from 9.9 billion Rial in 1988. And the number of economic firms accepted into the Market increased from 56 to 422 firms. During this period, the government passed a set of laws & regulations in hopes of expanding the Stock Market, which played major role in increasing the volume of trades, namely -

1. Waver 35 to the budget law of 1999, in which responsibility of government in specifying the duties of private sector firms through mergers, relinquishment & sale of stocks to private & cooperative sectors is pointed out.
2. Clause 94 of the Third Expansion Plan Law (1998 - 2002) on basis of which the Stock Market Union was made responsible for performing whatever is needed to create a computer network of the Capital Market of Iran to perform E-trading of stocks and providing information services on a national & international levels. Also, on basis of clause 95 of this law, the Stock Market union was permitted to establish divisional stock markets in localities, and devise necessary solutions to make other financial tools tradable at the Markets. Calculation of stock indexes at Tehran Stock Market began in 1989, level of which reached 12113 units in 2004, from 472 units in 1990.

The fourth period (from 2004 - present)

In 2004, various indexes of Stock Market activities, in continuation of the dynamic of second half of 2003, while still under influence of various domestic & foreign events and irregular increase of indexes in previous years, experienced a decline. This process was significant until year-end, except for a short while in December. Number of firms accepted into the Stock Market rose from 396 firms in end of 2004, to 487 firms in end of 2011. Fundamental events of this period include ; passage of the "Law of Stock Market of Islamic Republic of Iran" ; establishment of Advanced committee of Tehran Stock Market ; establishment of Tehran Stock Market Co. (Joint stock) ; establishment of Organization of Stock Market ; establishment of Tehran Stock Market Co. (public company) ; establishment of Stock Market Savings Co. ; establishment of Stock Market Co. of Tehran (joint stock), in accordance with the "Law of Stock Market of Islamic Republic of Iran," passed December, 2008.

ASSIGNING "ACCOUNTANT DAY" IN CALENDAR OF IRAN

The International Federation of Accountants (IFAC) has chosen the 2nd week of December of every year as "Universal Accounting Week" at its 30th anniversary in 2007, and recommended to its members to introduce the profession of accounting and the role of professional accountants in economic & cultural activities to the public. The "Society of Certified Accountants" and the "Society of Expert Accountants of Iran" honor that day as members of IFAC.

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