

IRAN AUDITING ORGANIZATION: INFORMATION AND CONTROL SOURCE FOR THE AUDITING PROFESSION

S. H. SAJJADI, Ph.D.
Shahid Chamran University
Ahvaz, I. R. of Iran
email: h_sajjadi2001@yahoo.com

S. M. MIRTOONI, M.S.
Shahid Chamran University
Ahvaz, I. R. of Iran

M. M. RAZZAGHI
Science Board of Accounting
Qom University
Qom, I. R. of Iran

Abstract - This paper examines the usefulness of the Auditing Organization for the auditing profession from the point of view of the Scientific Board Members of accounting groups of public universities, Master of Science courses and Ph.D. students of Accounting at public universities, financial managers of active companies in the Tehran Stock Exchange and the managers of private auditing institutes. The results of our investigation show that privatization of auditing services in Iran by the Auditing Organization was not suitable for the auditing profession, since it could cause an increase in auditing costs, prevent the development of audited and private auditing institutes and results in a decrease of institutional responsiveness to society. In addition, the Auditing Organization has had no effect on suitable usage of economic resources by audited companies and the recovery of their internal accounting control system.

Keywords - Auditing Organization, Standard Auditing Cost, Auditing Private Institutes, Internal Control System, Economic Resources.

INTRODUCTION

Most countries, do not allow the exclusiveness of writing, applying and supervising of auditing standards to a single organization. This is because exclusivity may cause non-compensating damage. Therefore, the written duties of auditing standards and the correct execution of such standards are separated from auditing operations itself, and there are other organizations for accepting the responsibility of writing and supervising the auditing standards. Private auditing institutes are therefore responsible for performing the auditing operations. However, since the Islamic Revolution of Iran, by establishing the Auditing Organization, three important and non-compatible duties were assigned as part of its responsibilities such as writing auditing standards, performing auditing standards and supervising the auditing profession.

INFORMATION

The Primary objective of Accounting, according to FASB, is to provide investors and others with information useful for decision making. Qualitative characteristics were defined

earlier as those properties of information necessary to make it useful. The Board suggested a number of different qualitative characteristics in the framework. Each of these characteristics is discussed below.

Relevance: The term has been variously defined. At its most basic, relevant information is information that has a bearing on the matter at hand. Information can have a bearing in at least three ways: by affecting goals, by affecting understanding, and by affecting decisions. Each way provides a definition of relevance. A decision-relevant concept was the primary standard in ASOBAT, where it was suggested that:

Relevance ... requires the information to bear upon or be usefully associated with actions it is designed to facilitate or results desired to be produced.[3] The FASB also put itself firmly on the side of decision relevance when it defined the term as the capacity of information "to make a difference" in a decision. [12]

Representational Faithfulness. If one is to depend on information, it is essential for the information to report faithfully the phenomenon that it purports to represent. For example, to use the FASB's own illustration a spelling test is administered orally to a group of students. The words are read aloud by the tester, and the students are required to write down the test words. Some students, though they can usually spell well, fail the test. The reason, it turns out, is that they have hearing problems. The test score purports to measure ability to spell, whereas it, in fact, is partly measuring aural acuity. The test score lacks true representational faithfulness. [13] In light of this illustration, the FASB defined representational faithfulness as correspondence or agreement between a measure or description and the phenomenon that it purports to represent (sometimes called validity).

Verifiability: The word verify derives from the Latin *verus*, meaning "truth." To verify something means to establish its truth. Truth seems to imply that the measurement has an existence separate from the person making the measurement. Thus, an absence of subjective valuation and personal bias is assumed. However, particularly in accounting, an important question is whether or not a measurement can exist independent of the measurer.

Neutrality: Bias, said the FASB, is "the tendency of a measure to fall more often on one side than the other of what it represents instead of being equally likely to fall on either side." [14] Freedom from bias then represents the ability of the measurement procedure to provide an accurate description of the attribute under consideration.

Uniformity: The term uniformity implies that like events are being accounted for identically. Accounting theorists Harry Wolk, Jere Francis, and Michael Tearney distinguish between finite uniformity and rigid uniformity. They define the latter as "prescribing one method for generally similar transactions, even though relevant circumstances may be present." [17] Accounting for research and development costs is an example of rigid uniformity in accounting. Finite uniformity permits relevant circumstances to be considered. Accounting for loss contingencies, which permits different treatment according to the

degree of probability, is offered as an example of finite uniformity in accounting.

Consistency: Consistency, as with many of the terms used in this paper, has been variously defined. It has been used to refer to the use of the same accounting procedures by a single firm or accounting entity from period to period, the use of similar measurement concepts and procedures for related items within the statements of a firm for single period, and the use of the same procedures by different firms. This latter meaning of the term was considered above in the discussion of uniformity and the term consistency will be applied to the first two meanings only. [1]

Materiality: This term is described by FASB as a pervasive characteristic, is very similar to the concept of relevance in many respects. As indicated above, the concept of relevance implies that all information that may aid in the prediction of the types of information required in the decision processes or that may aid directly in the making of decisions should be presented. But materiality has also been used in a positive sense to determine what should be disclosed for general, undefined uses. That is, information may be considered to be material (and thus disclosure is necessary) if the knowledge of this information is significant to the users of accounting reports. According to SFAC 2, the basic nature of materiality is that: "It is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item." [15]

The Auditors verify and test all of these characteristics as reported for users.

HYPOTHESES

In order to consider the usefulness of the Auditing Organization for the auditing profession, there are some written duties which the Auditing Organization may perform and would be classified (hypotheses) as follows:

- H1. Exclusivity of writing, performing and supervising the auditing standards by auditing organization, has diminished the responsibility of this organization towards the society at large.
- H2. Exclusivity of auditing by the Auditing Organization has prevented the development of private auditing institutes.
- H3. Exclusivity of auditing services by the Auditing Organization may cause an increase in auditing costs.
- H4. The Auditing Organization has no effect on suitable benefit of economic resources by those audited companies.
- H5. The Auditing Organization has no effect on the recovery of the internal control system of accounting in audited companies.

MODERATOR VARIABLES IN THE RESEARCH

The following theories have been written in order to recognize those moderator variables and their effect in relation to the dependent and independent variables:

1. There is no correlation between the educational level of the respondents and their understanding of the usefulness of the Auditing Organization vis-à-vis the auditing profession.
2. There is no correlation between the level of experience of the respondents and their understanding of the usefulness of the Auditing Organization vis-à-vis the auditing profession.

SOCIETY AND STATISTICAL SAMPLE

The statistical society of our study in this research includes totally 600 members of the Scientific Board of Accounting Groups at public universities, M.S. and Ph.D. students of Accounting at public universities, financial managers of active companies in the Tehran Stock Exchange and managers of Auditing Private Institutes.

A number of 82 persons were appointed randomly with estimated level as the statistical sample. Table 1 shows the distribution of society and the statistical sample among the relevant groups.

Table 1: Distribution of Statistical Sample

No	Description	Number of Society	Number of Samples	Percent
1	Members of Scientific Boards of Accounting Groups	130	18	21.67
2	M. S. and Ph.D. Students	200	27	33.33
3	Financial Managers of Active Companies in the Stock Exchange	200	27	33.33
4	Managers of Private Auditing Institutes	70	10	11.67
Total		600	82	100

RESEARCH METHOD

The present research is a qualitative and applicable one with the goal of considering the usefulness of Auditing Organization for the auditing profession through some theoretical descriptions in a real and live situation. In order to measure some of the research variables, we have benefited from Likert 5-selections measurement. In this research all selections have been presented to the respondent randomly. Then he/she is requested to explain his/her agreement with each selection on the basis of one range. Therefore, the respondent was given a 5-selection range in which each selection includes special words. After collecting the questionnaires and in order to analyze all responses to the said range, we

assigned scores ranging from “so little” up to “so high” and from 1 to 5.

METHOD APPLIED TO INFORMATION GATHERING

Initially a library research was conducted in order to review the existing literature. Then the questionnaire was distributed. In order to have a reasonable confidence about the validity of the questionnaire, we benefited from the pre-test methods in addition to the experience of the specialists (as the controlling group out of the statistical society). Therefore, we sent the primary questionnaire to 20 specialists and included their suggestions in the questionnaire.

STATISTICAL METHODS USED

Considering the goals of the research and to understand the sample group under study, the authors analyzed the data by using simple statistical analysis and the standard variance. Taking into consideration that the volume of the sample was not sufficiently great, sample distribution is somehow normal. Since the violation of society standards is not specific,

has been estimated by S^* and instead of using the t distribution we have used from z one, one-side testing method and by benefiting from the related samples and also the probability of rejecting statistical theories by the help of the P-value (at least the probability of rejecting the hypothesis).

The statistics of the test and the statistical theories of H_0 and H_1 in meaningful levels as $\alpha = 5\%$ and average ($\mu = 3$) is as follows:

$$H_0 : \mu \geq 3$$

$$H_1 : \mu < 3$$

THE RESULTS

Generally we have classified this research with five major theories and two indirect ones. All theories were examined and confirmed with 95% confidence level. Table (6) shows the average and violation measurement for each one.

Table 6: A Summary of Statistical Index of the Total Sample

Hypothesis	Oty	Average	Measurement	Calculated Z	Test Result
One	82	3.4482	0.5727	7.047	Confirmed
Two	82	3.4685	0.7003	6.020	Confirmed
Three	82	3.5103	0.6143	7.482	Confirmed
Four	82	3.5772	0.5885	8.780	Confirmed
Five	82	3.0478	0.4884	0.880	Confirmed

Hypothesis (1): Exclusivity of writing, execution and supervision on applying the

auditing standards by Auditing Organization has reduced the replying responsibility of this organization.

First group: Members of the Scientific Boards of Accounting. As seen in Table 2, since calculated Z (4.53) would be placed in the rejection area H_i , therefore, the research hypothesis would be confirmed which from the point of view of members of scientific boards of sample accounting groups of public universities means that exclusivity of writing, execution and supervision by the Auditing Organization has reduced the responsibility of the said organization towards society.

Second group: All M.S. and Ph.D. students in Accounting. As seen in Table 3, since the calculated Z (6.729) is located in the rejection area of H_i , the research hypothesis is confirmed. This means that from the point of view of the M.S. and top Ph.D. students of Accounting at public universities, the said exclusivity of writing, execution and supervision on accounting standards by the Auditing Organization has reduced the responsiveness of the said organization.

Third group: Financial managers of active companies in the Tehran Stock Exchange. As seen in Table 4, since the calculated Z (2.378) would be placed in rejection H_i area, the research hypothesis is confirmed. This means that from the point of view of the top financial managers in the Tehran Stock Exchange, the replying responsibility of the Auditing Organization has been reduced.

Fourth group: Managers of private auditing institutes. As shown in Table 5, since the calculated z (1.539) would be placed in the rejection area H_i , therefore, this research hypothesis would be confirmed. This also means 8 managers of sample private auditing institutes believe that by exclusivity of writing, execution and supervision of the auditing standards, the replying responsibility of the auditing organization has been reduced.

Table 2: A Summary of the Statistical Index of the Scientific Board Members

Hypothesis	Oty	Average	Measurement Violation	Calculated Z
One	18	3.750	0.7019	4.53
Two	18	3.63334	0.9055	2.960
Three	18	3.5196	0.812	2.683
Four	18	3.7322	0.7807	3.920
Five	18	3.0684	0.5999	0.459

Table 3: A Summary of the Statistical Index of M.S. and Ph.D. Students

Hypothesis	QTY	Average	Measurement Violation	Calculated Z
One	27	3.50	0.3861	6.729
Two	27	3.5210	0.3490	7.750
Three	27	3.7531	0.4246	9.210
Four	27	3.5556	0.3494	8.270
Five	27	2.9630	0.4739	0.405

Table 4: A Summary of the Statistical Index of the Financial Managers of Active Companies in the Tehran Stock Exchange

Hypothesis	QTY	Average	Measurement Violation	Calculated Z
One	27	3.2685	0.5871	2.378
Two	27	3.2889	0.6548	2.290
Three	27	3.2901	0.5221	2.88
Four	27	3.6111	0.6480	4.890
Five	27	3.0556	0.3755	0.769

Table 5: A summary of the Statistical Index of Managers of Private Auditing Institutes

Hypothesis	QTY	Average	Measurement Violation	Calculated Z
One	10	0.250	0.5137	1.539
Two	10	3.795	0.7126	3.090
Three	10	3.433	0.7379	1.855
Four	10	3.250	0.4841	1.549
Five	10	3.2250	0.5945	1.197

Conclusion of the first research hypothesis: All mentioned fourth groups agree that exclusivity of writing, execution and supervision of auditing standards by the Auditing Organization may diminish the replying responsibilities of the said organization.

In addition, and as seen in Table 6, since the calculated Z (7.047) has been placed in rejection H_i area, therefore, the research hypothesis is confirmed. This means that from the point of view of all sample members, exclusivity of writing, execution and supervision on performing auditing standards by the Auditing Organization has reduced the replying responsibility of the said organization.

Hypothesis (2): Exclusivity of auditing services by the Auditing Organization may prevent the development of private auditing institutes.

First group: Members of the Scientific Board of Accounting. As seen in Table 2, since the calculated Z (2.960) has been placed in the rejection H_i area, the, research hypothesis is confirmed. This means that from the point of view of members of sample scientific board of accounting groups of public universities, exclusivity of auditing services by the Auditing Organization has prevented the development of private auditing institutes.

Second group: M.S. and Ph.D. students in accounting. As seen Table 3, since the calculated Z (7.750) has been placed in the rejection H_i area, therefore, the research hypothesis is confirmed. This means that from the point of view of sample M.S. and Ph.D. accounting students of governmental universities, exclusivity of auditing services by the Auditing Organization would prevent the development of private auditing institutes.

Third group: Financial managers of active companies in the Tehran Stock Exchange. As seen in Table 4, since calculated Z (2.290) has been placed in the rejection H_i area, the research hypothesis is confirmed. This means that from the point of view of financial

managers of sample active companies in the Stock Exchange, exclusivity of auditing service by the Auditing Organization may prevent the development of private auditing institutes.

Fourth group: Managers of Private Auditing Institutes. As shown in Table 5, since the calculated Z (3.090) has been placed in the H_1 rejection area, the research hypothesis is confirmed. This means that the managers of sample private auditing institutes believe that exclusivity of auditing services by the Auditing Organization may prevent the development of private auditing institutes.

Conclusion of the second research hypothesis: All mentioned fourth groups agree that exclusivity of writing, execution and supervision of auditing standards by Auditing Organization may cause a reduction of the replying responsibility of the said organization. In addition and as seen in Table 6, since the calculated Z (6.020) has been placed in the rejection H_1 area, the research hypothesis would be confirmed.

This means that from the point of view of all sample members, exclusivity of writing, execution and supervision on performing auditing standards by the Auditing Organization has reduced the replying responsibility of the said organization.

Hypothesis (3): Exclusivity of auditing by Auditing Organization may cause an increase in auditing costs.

First group: Members of the Scientific Board of Accounting. As shown in Table 2, since calculated Z (2.683) has been placed in the rejection H_1 area, the research hypothesis would be confirmed. This means that from the point of view of members of sample scientific board of accounting groups of governmental universities, exclusivity of auditing services by the Auditing Organization has caused an increase in auditing costs.

Second group: All M.S. and Ph.D. Students in Accounting. As displayed in Table 3, since the calculated Z (9.210) has been placed in the rejection H_1 area, the research hypothesis is confirmed. This means that from the point of view of sample M.S. and Ph.D. students of Accounting at public universities, exclusivity of auditing services by the Auditing Organization has caused an increase in auditing costs.

Third group: Financial managers of active companies in the Tehran Stock Exchange. As shown in Table 4, since calculated Z (2.889) has been placed in rejection H_1 area, the research hypothesis is confirmed. This means that from the point of view of financial managers of top active companies in the Stock Exchange, exclusivity of auditing service by the Auditing Organization has caused an increase of auditing costs.

Fourth group: Managers of private auditing institutes. As shown in Table 5, since the calculated Z (1.855) has been placed in the H_1 rejection area, the research hypothesis is thus confirmed. This means that the managers of sample private auditing institutes believe that exclusivity of auditing services by the Auditing Organization has caused an increase in auditing costs.

Conclusion of the third research hypothesis: All mentioned fourth groups agree that

exclusivity of writing, execution and supervision of auditing standards by the Auditing Organization may cause a reduction of the degree of responsiveness of the said organization. In addition, as Table 6 shows, since the calculated Z (7.482) has been placed in the rejection H_1 area, the research hypothesis is confirmed. This means that from the point of view of all sample members, exclusivity of writing, execution and supervision of performing auditing standards by the auditing organization has caused an increase in auditing costs.

Hypothesis (4): The Auditing Organization has no effect on suitable benefit of economic resources by audited companies.

First group: Members of Scientific Board of Accounting. As seen in Table 2, since calculated Z (3.920) has been placed in the rejection H_1 area, the research hypothesis is confirmed. This means that from the point of view of sample members of the scientific board of accounting groups at public universities, the Auditing Organization has had no impact on the appropriate utilization of economic resources by the audited companies.

Second group: All M.S. and Ph.D. Students in Accounting. As shown in Table 3 since the calculated Z (8.270) has been placed in the rejection H_1 area, the research hypothesis is confirmed. This means that from the point of view of top M.S. and Ph.D. students in accounting at public universities, Auditing Organization has no effect on suitable benefit from economic resources by the audited companies.

Third group: Financial managers of active companies in the Tehran Stock Exchange. As you may see in Table 4, since the calculated Z (4.890) has been placed in rejection H_1 area, the research hypothesis is confirmed. This means that from the point of view of financial managers of Active companies in the Tehran Stock Exchange, the Auditing Organization has no effect on suitable benefit from economic resources by the audited companies.

Fourth group: Managers of private auditing institutes. As Table 5 displays, since calculated Z (1.549) has been placed in the rejection H_1 area, the research hypothesis is confirmed. This means that from the point of view of Managers of private auditing, the Auditing Organization has no effect on suitable benefit from economic resources by audited companies.

Conclusion of the fourth research theory: All mentioned fourth group agree that exclusivity of writing, execution and supervision of auditing standards by the auditing organization may cause a reduction in the responsiveness of the said organization. In addition, and as seen in Table 6, since the calculated Z (8.780) has been placed in the rejection H_1 area, the research hypothesis is confirmed. This means that from the point of view of all sample members, the Auditing Organization has no effect on suitable benefit of economic resources by the audited companies.

Hypothesis (5): The Auditing Organization has no effect on the betterment of the internal accounting control systems of audited companies.

First group: Members of Scientific Board of Accounting. As can be seen, the research hypothesis is confirmed. This means that from the point of view of the members of the sample scientific board of accounting at governmental universities, the Auditing Organization has no effect on the betterment of the internal accounting control system of audited companies.

Second group: All M.S. and Ph.D. Students in Accounting. As shown in Table 3, since the calculated Z (0.405) has been placed in the rejection H_0 area, the research hypothesis is confirmed. This means that from the point of view of sample M.S. and Ph.D. accounting students at governmental universities, the Auditing Organization has no effect on the betterment of internal accounting control system of audited companies.

Third group: Financial managers of active companies in the Tehran Stock Exchange. As shown in Table 4, since calculated Z (0.790) has been placed in rejection H_0 area, the research hypothesis is confirmed. This means that from the point of view of financial managers of sample active companies in the Stock Exchange, the Auditing Organization has no effect on the improvement of internal accounting control system of audited companies.

Fourth group: Managers of private auditing institutes. As shown in Table 5, since the calculated Z (1.197) has been placed in the H_0 rejection area, the research hypothesis is confirmed. This means that the managers of top private auditing institutes believe that the Auditing Organization has no effect on the betterment of the internal accounting control system of the audited companies.

Conclusion of the third research hypothesis: All mentioned fourth groups agree that exclusivity of writing, execution and supervision of auditing standards by the Auditing Organization may cause the reduction of replying responsibility of the said organization. In addition, as seen in Table 6, since the calculated Z (0.880) has been placed in the rejection H_0 area, the research hypothesis is also confirmed. This means that from the point of view of all sample members, the Auditing Organization has no effect on the betterment of the internal accounting control system of audited companies.

TESTING THE SUB-HYPOTHESES

As shown in Table 7, all variables such as academic records and resumes have had no impact on the understanding of the usefulness of the Auditing Organization vis-à-vis the auditing profession.

Table 7: The Results of the Sub-Hypothesis

Hypothesis	Variety	X amount K - Sq	Kramer Coefficient	D.F Freedom Degree	Meaningful contractual Level	Meaningful Level	Test result
Indirect 1	Academic records	5.7673	0.38	2	0.05	0.06	Rejected
Indirect 2	Job resume	1.1291	0.19	2	0.05	0.057	Rejected

RESEARCH LIMITATIONS

The present research is faced with the following limitations:

1. Natural limitation of the written questionnaire.
2. Data measurement limitations and the Likret range.
3. The research results are applicable only to similar groups like sample groups of the research.

CONCLUSION AND RECOMMENDATIONS

The results of the research shows that exclusivity of auditing services by the Auditing Organization in Iran is not useful since it may cause an increase in auditing costs, prevent the development of private auditing institutes and reduce the responsiveness of the organization as well.

In addition, the Auditing Organization has no effect on the beneficial usage of economic resouces by those companies under the auditing processes and/or recovery of their internal accounting control system. Therefore, it:

1. It is necessary to establish a special resource for drafting auditing standards and supervising and execution of such standards without the right to perform auditing services.
2. In order to provide correct competing standards and reduce auditing costs, it is necessary to support the establishment of private auditing institutes and assign the auditing of governmental and private companies to such institutes.
3. Some provisions must be provided for audited reports to be properly assessed in order to insure the appropriate use of economic resources by the audited companies.

REFERENCES

- [1] APB Opinion No. 20 "Accounting Changes," *AICPA*, 1971.
- [2] Carello, Joseph V. and Neal Terry L., "Audit Committee Composition and Auditor Reporting," *Accounting Review*, 75 (4), 2000.
- [3] Committee to Prepare a Statement of Basic Accounting Theory, *A Statement of Basic Accounting Theory*, AAA, 7, 1966.
- [4] Earley, Chrisine E. "The Association between Auditor Litigation and Abnormal Accruals," *Accounting Review*, 76 (1), 2001.
- [5] Edge, Willim R. and Farley, Alan A. "External Auditor Evaluation of the Internal Audit Function," *Accounting and Finance*, 31, May 1991.
- [6] Hyatt, Tory A. and Prawitt, Dougals F. "Does Congruence Between Audit

- Structure and Auditors Locus of Control Affect Job Performance?" *Accounting Review*, 76(2), 2001.
- [7] Johnson, Ronald V; Stokes, Donald J. and Watts, David G. "Auditor Preferences for Liability Limitation, *Accounting and Finance*," 35(2) 1995.
- [8] Kadous, Kathrun. "The Effects of Audit Quality and Consequence Severity on Juror Evaluations of Auditor Responsibility for Plaintiff Losses," *Accounting Review*, 75(3), 2000.
- [9] King, Ronald R. and Schwartz Rachel, "An Experimental Investigation of Auditor Liability," *Accounting Review*, 75(4), 2000.
- [10] Libby, Robert and Kinney, Jr., William R. "Does Mandated Audit Communication Reduce Opportunistic Corrections to Manage Earning to Forecasts?" *Accounting Review*, 75(4), 2000.
- [11] Newman, D. Paul; Patterson, Evelyn and Smith, Reed. "The Influence of Potentially Fraudulent Reports on Audit Risk Assessment and Planning," *Accounting Review*, 76(1), 2001.
- [12] SFAC 2, par. 46.
- [13] SFAC 2, par. 69.
- [14] SFAC 2, par. 77.
- [15] SFAC2, par.132.
- [16] Tan, Hun-Tong; and Karim Jamal, "Do Auditors Objectively Evaluate Their Subordinates Work," *Accounting Review*, 76(1), 2001.
- [17] Wolk, Harry I.; Franci, Jere R. and Tearney, Micheal G. *Accounting Theory*, 2nd ed., Boston, 237, 1989.