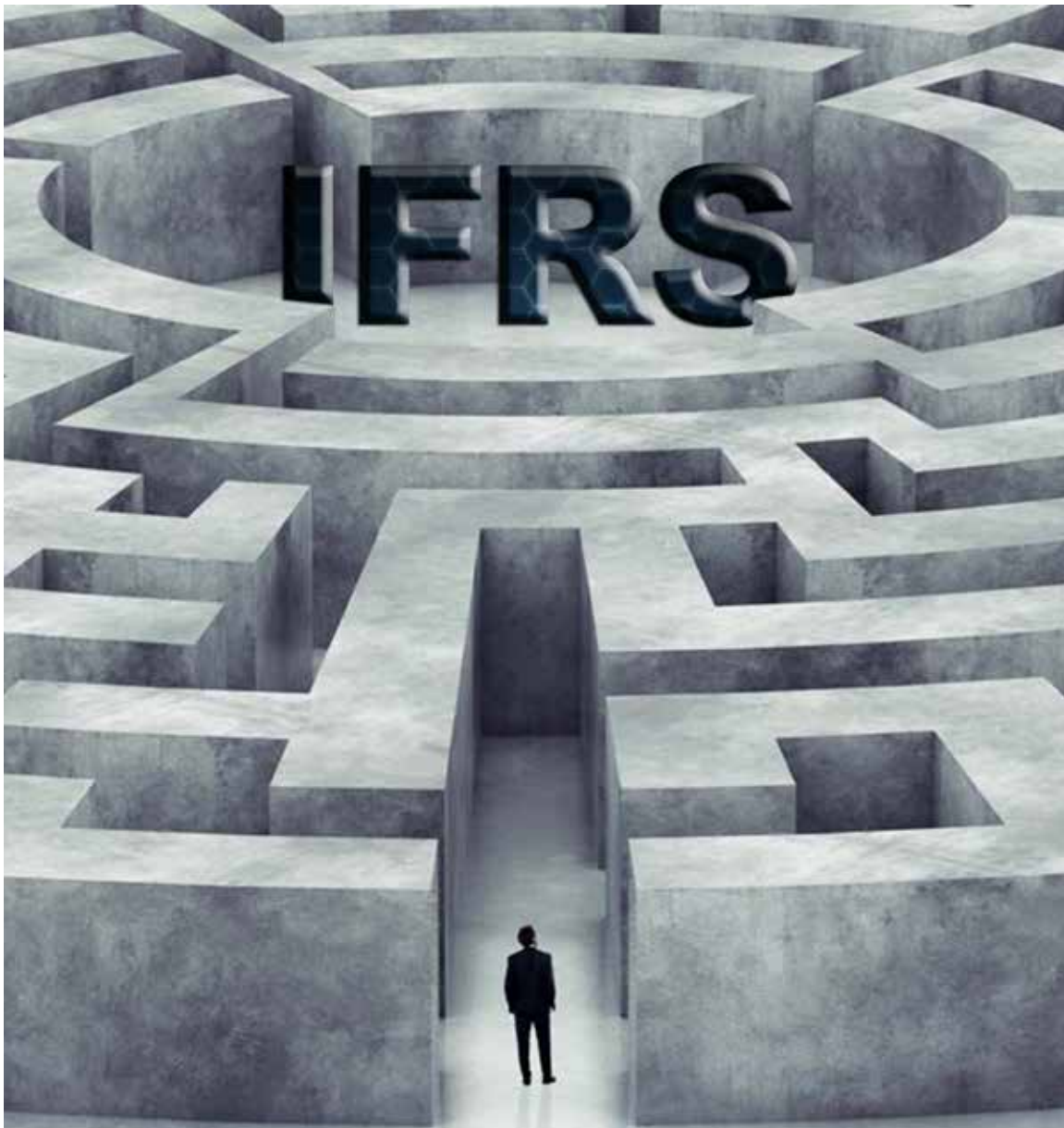


IACPA

Digest - No. 39



Why is it Inevitable to Move toward Merging Audit Firms?



Rahmatollah Sadeghian

Weaknesses and constraints of Iranian audit market stem from two classes of factors: Environmental and Endogenous factors. If we want to have a large and reliable audit market like developed and emerging economies, we need to develop a new organizational culture in audit firms, merging small firms and creating large audit and financial service firms.

Banks and Required Financial Statements



Kuosh Shayan, Mohammad Bagherabadi

Sample financial statements designed by the Central Bank of Iran (CBI) has main differences with financial statements provided in national accounting standard No. 1 and IFRSs.

Standard Setting Updates from PCAOB for 2017



Mohamadreza Mehrabanpour, Zohreh Ghayoumi

PCAOB seeks to develop and update high quality professional audit standards for auditors of listed companies, brokerages etc.

Importance of International Accounting Standards Considering Jurisprudence and Civic Law



Vahid Pourmoshrefi

Accounting standards are principles for professional judgments applied in preparing financial statements and auditing standards are principles for professional judgments applied in assessing and expressing opinion on financial statements.



IFRSs and What Internal Auditors Should Know about them

Ebrahim esfandiari, Mahboubeh Khanahmadi

In this article, authors reviewed IFRSs and the role of internal auditors in improving application of these standards and tried to provide an understanding about impacts of IFRSs on companies for interested auditors.

FREE TRIBUNE



10 Effective Commands of Audit Committees

Translated by: Seyyed Mostafa Alavi

Although there are many factors affecting effectiveness of audit committees, there are 10 more important factors which can improve performance of audit committees.

INSIGHT



50 Factors of Change in the Public Sector

Translated by: Amirhadi Manavi Moghadam, Afshin Fallahnokhbeh

Public sector is always changing around the world. Demand for transparency and accountability is also increasing specially about public budgets. This will dramatically change public sector companies and their finance experts.

INSIGHT



Assessing the Relationship between Investors' Behavior against Risks and Performance Measures

Mahdi Beyranvand

There are different factors affecting performance of companies. Investor sensitivity is a new topic recently discussed in finance researches around the world. Previous researches show that Investor sensitivity can impact on market performance and companies as a result.

EXPLORATION



Assessing Fraud Risk

Atena Khazen, Seyyed Javad Mirabbasi

Nowadays, organizations are facing new challenges as a result changes in of environment, business, operations, technologies, competition, emerging events, globalization of markets, complexity of regulations and requirements, customers' expectations and fraud. In this situation, organizations need to establish effective corporate governance mechanism, risk management and internal controls to achieve objectives including effectiveness and efficiency of operations, reliable reporting, and compliance with laws and regulations.

EXPLORATION



Emotional Intelligence and Auditing

Shahrokh Bozorgmehrian, Meysam Pourbasirat

Intelligence is an assumption which has been used in job success and efficiency since introduced. The main purpose of reporting is to affect the audience. If the auditor does not know clearly how audit report affect the audience, the issued report will not be effective.

EXPLORATION



Translated and developed by Mojdeh Kadkhodae

AROUND THE WORLD



Holding Commemorates of the 11th Ceremony of Accountants' Day

List of Audit Firms which are Members of the IACPA (January, 21, 2018)

NEWS AND VIEWS

Why is it Inevitable to Move toward Merging Audit Firms?

Rahmatollah Sadeghian

In recent weeks, news said that the KPMG's revenue from audit and consulting services achieved to \$ 26.4 billion for the year ending Sep, 30, 2017. Comparing revenue of the above international audit firm with our audit market provides a view on the state of auditing in our country. Total revenue of audit firms in Iran (including Audit Organization) for the last year is estimated about IRR. 6100 billion which is equal to \$ 170 billion considering the exchange rate as 3500 Tomans. Although KPMG is an international enterprise, comparing these figures, that's mean the revenue of only one international audit firm with total revenues of Iranian audit firms, provides a clear basis for identifying problems of Iranian audit market.

We know that weaknesses and constraints of Iranian audit market stem from two classes of factors: Environmental and Endogenous factors. Therefore, we can classify existing problems in above categories.

Environmental factors are factors relating to low degrees of audit expansion due to laws and regulations governing Iran economy. Last year, number of companies audited by Iranian audit firms was 32,000, while number of companies filling tax returns was 550.000. In other words, only 6 percent of Iranian economic community are audited by audit firms.

However, considering efforts performed to enhance transparency and accountability in large scales in recent years, expectations from auditors have increased and new legal requirements have been set for auditors. As a result, we can see a continuous improvement in audit market since the creation of IACPA one and half a decade ago. Requiring regulations about enhancing transparency, anti-money laundering, development of internal controls, improvements in reporting systems of listed companies and financial institutions show an increase in expectations from audit community by monitoring bodies such as large monitoring bodies and money and capital market monitoring bodies. Therefore, although current figures are tiny for Iranian audit market, existing visions show a potential ability of Iranian audit market and relative increase in audit expansion for mid-term and large expansion of audit services for long-term as a result of increasing expectations of monitoring bodies and new regulations from auditors.

It should be noted that environmental constraints are only a part of all weaknesses in audit market of our country. The other part includes internal constraints arising from governance and culture at audit firms level.

In the above example of KPMG, of \$ 26.4 billion revenue, amount of \$ 10.39 billion was for audit services. Revenue from tax services was \$ 5.83 billion and \$ 10.18 billion for consulting services as well. In other words, 40 percent of the firm's revenues was related to assurance services, another 40 percent was related to consulting services and the rest 20 percent was for tax services.

However, the extension of audit services to non-assuring areas has been achieved as a result of regulatory environment, understanding audit services by monitoring bodies and policy makers, improvements in culture of using professional services by stakeholders and finally attracting support of government and governing bodies.

On the other hand, knowledge and expertise existed in each audit firm determines services that can be provided in different areas. So it is necessary to improve audit firms' expertise as well as introducing different audit services to regulatory and monitoring bodies.

Enhancing expertise of audit firms needs an organized cooperation with professional and academic bodies both domestic and international as well as applying new audit technologies. As we need to monitor continuously the effectiveness of operations performed by members of IACPA and decrease the expectations interval of stakeholders, we also need to comply with professional principles and standards and ethical codes. We need to improve firm governance culture too. It is also possible to meet changing needs of the country only through merging small firms creating large audit firms with appropriate organizational structure.

Remember that if we want to have a large and reliable audit market like developed and emerging economies, we need to develop a new organizational culture in audit firms, merging small firms creating large audit and financial service firms.