International Accounting Standards Harmonisation: The Case of Iran Privatisation

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Abstract

Accounting standards harmonisation literature shows that from the beginning of the twenty first century IASs and IFRSs are receiving increasing attention from professional accounting bodies and stock market authorities of developed and developing countries more than ever before. Consequently number of countries chose to join the IAS users have increased dramatically in recent years. The objective of this paper is to explore how Iranian Accounting Standards Board achieves harmonisation with IASs and IFRSs while government using some efforts to develop local stock market as means of privatisation. Tehran Stock Exchange which is involved in the third wave of country privatisation required companies to prepare their financial reports using National Accounting Standards. These standards are in harmony with IASs and IFRs as they are developed based on the same procedure of IASB's "due process". In the same way, proposed projects of Iran Accounting Standards Boards aim to develop conceptual framework in order to establish a platform for standard setting. Due to recent development in privatisation in relation to internationally harmonised national accounting and auditing standards the standard setting in Iran is in the state of flex national and international wise.

Key words: International Standards Harmonisation, International Accounting Standards, Privatisation and accounting standards, Iran Accounting Standards

Introduction

Accounting standard setting literature has focused on the institutional approach in standards setting of developed countries of North America, Western Europe, South East Asia and Oceania. In this regard developing countries are neglected (Fritz and Lammle, 2003). While many developing countries such as Iran have started privatization as an approach for further economic development with the help of foreign investment, thus setting internationally harmonised accounting standard become an important issue for them. Because of this need, from 2000 and 2001 when IFAC and International Accounting Standard Committee (IASC) has been restructured respectively, some developing countries have adopted, substituted or took remedial steps in harmonization with the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs). In this regard Iran has a unique stand point. Unlike some developing countries Iran is not participating in standard setting committee while indirectly using IASs and IFRSs for preparing, reporting and auditing purposes.

This article focuses on the Iranian standards harmonisation with International Accounting Standards in relation to privatisation in the statuary context. It was in recent years that Iranian authorities take curative steps to regulate financial reporting in one hand and privatize government owned companies in the other hand. Among Middle East countries Iran has a matchless position. Regulatory environment of Iran has history of more than 50 years from the first Tax Law of 1955 and Commercial Codes of 1953. Based on these two laws few attempts have been made to develop domestic accounting profession and help to develop a set of national accounting standards, while other developing Middle East countries have not started regulatory in accounting as early as Iran. Moreover, Tehran Stock Exchange (TSE) which has been established in 1967 was mostly involved in equity market for more than a decade up to 1979 (Khodadoust, 1975). Traditionally, TSE has no influence on accounting standard setting in the country from the time of establishment to 1979 when it became inactive due to the Islamic Revolution. This trend seems continued when TSE's activities resumed in 1980s. Nonetheless, in the new privatisation wave of 2006 TSE is considered as the sole market for selling government owned shares while requiring listed companies to use accounting standards in financial reporting. This condition tends to increase demand for internationally harmonised accounting standards.

The reminder of this paper is organised as follows. Section one is a background of the international accounting standard harmonisation. The argument will continue under sub-heading of harmonisation argument to focus on how Iranian standard board achieve international harmonisation. To complete this discussion professional, statutory and privatisation needs of standard setting environment of Iran will be covered in sections three, four and five respectively. Conclusions and recommendations are presented at the end.

International Harmonisation Background

As early as 1960s international accounting standard harmonisation was topic of many accounting papers (Kraayenhof 1960, Stamp 1972, Gary 1984, Perera, 1989 and Gary 1988, Saudagran and Diga, 2000 and Chamisa, 2000). Some of accounting scholars believed that due to cultural and economic systems differences of developed and developing countries around the world, international harmonisation is not possible while these standards are basically western based (Perera, 1989, Hove 1989 and Saudagran and Diga, 2000). In the contrary, some other scholars such as Baydoun and Willett (1995) raise the questioned of what aspects of accounting system is related to cultural values that tend to resists international harmonisation. Many scholars advocated that international harmonisation will generate more disclosure and enhance international comparability in international stock market (Kirby, 2001, Barth, et al, 1999, Gigler, Hughes and Rayburn, 1994).

Relationship between using international accounting standards and economic development was topic of many researches in developing countries. In this regard, Larson (1993a) investigated the role of economic growth and usage of IASs in 35 African countries. His empirical research shows that statistically the rate of economic growth is significantly higher for those African countries that adopt and modify international accounting standards in comparing to others that do not adopt these standards (Larson 1993a). Similarly, in another empirical research Larson (1993b) shows that stock market development and economic growth of a sample of 30 developing countries positively react with adoption of IASs. He also concluded that developing countries that do not adopt the IASs usually had fairly sophisticated accounting systems (Larson, 1993b). In many cases these accounting systems are in the line of colonial or influential developed countries.

However, at the beginning of 21 century professional accounting world witnesses an incredible development in international harmonisation, while the argument of pro and against international standards harmonisation still is valid. The dramatically change in international accounting standards harmonisation take place when in 1973 the International Accounting Standards Committee (IASC) was established and the first four courtiers (i.e. UK, US, Canada and Australia) joined the ISAC. For twenty years (1970–1990) these four countries have attempted to develop new accounting standards in harmony with IASC (Street, et al, 1998). This trend was continued until 2001 when IASC is restructured as the International Accounting Standards Board (IASB) to produce more accounting standards that can be used by all nations around the world. Year 2001 was a remarkable year due to support that IASB received from national standard setting bodies of many countries around the world (Alferson, 2002). Up to the time of restructured, IASC was able to produce 41 accounting standards to the end its era (i.e. 2001). These standards were "more principle based rather than rules based" using general principle concepts such as recognition, measurement and reporting requirements (Alferson, et al, 2005). In the last decade of twentieth century, the global pressure was for more suitable accounting standards. Thus in 1990s the G7 Ministers called upon restructure of IASC to IASB (Alferson, et al, 2005). Accordingly, IASB was established as an independent worldwide standard setter gain support of governments, accounting professional associations, securities commissions and standard setting boards of many countries around the world (Radebaugh, et al, 2006). Nonetheless, two forces push the accounting standards setting boards of countries to adopt or harmonised with IASs and IFRSs. The global capital market expansion and growth of multinational companies was most motivation for international harmonisation (Saudagaran 1997, Choi and Mueller 1992 and Jahangir Ali, 2005).

To the end of 2006, the international standard harmonisation have a great achievement that, Australia and European Union, from 2005 have adopted and New Zealand from 2007 will adopt the IAS, while other countries such as Japan, Korea and Iran have developed some national accounting standards similar to IASs and IFRSs. Many countries around the world are in the process of providing conditions using the International Accounting Standards. Alfredson et all (2005) research reveal that up to 2005 about 127 countries were using IFRSs. In all of these countries an active stock market is existed except one. As they explained, sixty seven countries required IFRSs for all domestic listed companies and 20 other countries required some listed companies such as banks to use IFRSs for financial reporting. In the contrary, 37 countries did not permit IFRSs to be used by companies, although later some of these countries adopt national accounting standards in harmony with international accounting standards (Alfredson et all, 2005). Table (1) shows the status of international accounting standards harmonisation in some of these 37 countries. From listed countries in table (1) only China required some domestic listed companies to use IFRSs others did not permit IFRSs to be used since they have national accounting standards in force. Iran should be added to table (1) as a country not permitted domestic firms use IASs or IFRSs while a set of formal national accounting standards are in force. In the next section of this paper we will see how Iran joins international harmonisation in standards setting.

Table -1: International Harmonization Status of Some Countries with National Accounting Standards (not permit IFRSs to be used)

Country Name	International Harmonisation Status
India	Some efforts to use International Accounting Standards
Argentina	Many amendments have been made to eliminate differences with IFRSs.
Malaysia	From 32 national standards 26 are the same as corresponds IFRSs
Mexico	About 70% of national standards are in line of the International Standards
China	Adopt IFRSs from 2006
Indonesia	Working to harmonise national standards with IFRSs.
Thailand	21 of IASs are the same as Thai accounting standards.
European Union	From 2005 required country members to use IFRSs. So far Poland, The Netherlands, Sweden, Switzerland, France and Italy made IFRSs mandatory.
Philippine	After 1990 make some reference to IASs.
Singapore	Some IASs considered to be not relevant

Source: Radebauhg, 2006, IASB website, 2006, Alfredson, et all, and Soudagran and Diga. 2000.

Harmonisation Argument

In standard setting, Iran Auditing Organisation (IAO) uses the same procedure as the International accounting standard board. Eight steps of due process of the IASB are exactly following by the IAO. From 1994 to 1996 many accounting guidelines booklet have been published by this government organisation. These guidelines while were translation of International Accounting Standards, were not formal accounting standards approved by the IAO's board but used as a bases of developing National Accounting Standards (NASs). However, in 1999 the first draft of NASs was approved by the IAO standard committee board, recommended to be used for two years as trial period. Some of the NASs revised in 2000 to achieve more international harmonisation, then the trailed NASs announced as compulsory standards. To the end of 2006, 28 NASs gain approval from the IAO board. These standards can be classified into three groups of 1) similar to IASs, 2) similar but with differences from IASs and 3) with no IASs equivalent. The first group includes 18 national accounting standards (NASs) similar to IASs. These standards are presented along with date of effectives in table (2). The second group is eight NASs which are defined differently from IASs presented in table (3). The last two NASs (third group) which have no equivalent IASs are included in table (4). It is worth to say that one of the latest Discussion Paper of IASB is related to Insurance Contracts which is one the late 2006 approved NASs in Iran included in table (4).

Table -2: Similar Iranian National Accounting Standards (NASs) and IASs

NAS	Subject	IAS	Effective Date
1	Presentation of Financial Statements	1	2001
3	Revenue	18	2001
4	Accounting for Contingencies	10	2001
5	Accounting for Events After the Balance Sheet Date	10	2000 Revised 2006
6	Reporting Financial Performance	8	2001
7	Accounting for Research & Development Costs	38	2001
8	Accounting For Inventories	2	2001
9	Accounting for Long-term Contracts	11	2001
11	Accounting for Tangible Fixed Assets	16	2001
12	Related Party Disclosures	24	2001
13	Accounting for Borrowing Costs	23	2001
14	Presentation of Current Assets & Current Liabilities	1	2001
17	Accounting for Intangible Assets	38	2001
19	Business Combinations	22	2000 Revised 2006
21	Accounting for Leases	17	2001
22	Interim Financial Reporting	34	2001

23	Accounting for Joint Ventures	31	2002
27	Retirement Benefit Plans	26	2005

Source: IAO Website, 2006.

As it is appears from table (3), eight NASs are differently define from the equivalent IASs. Due to the socio-economic environment of Iran, in classification of cash and cash equivalent when preparing cash flow statement cash equivalent has been excluded from the definition of cash by NAS 2 in comparing to IAS 7. In this standard return on investment and servicing of finance and income tax activities have been separated from major classification in the cash flow statement. On the other hand, because of statutory requirements, NAS 10 set different requirements than IAS 20 in treatment of government grants. According to NAS 10 if a special condition is attached to government grant by regulation thus have to be followed. In evaluation of non-monetary assets received in a government grant, again statutory requirements should be followed if it does not result in reflecting the granted assets in more than its fair value at the time of transfer. These requirements are clearly differ from IAS 20.

NAS 15 set different requirements for investment. The IAO accounting standard board believes that the most popular financial instruments in Iran are shares and options while financial instruments such as future and forward is not in use, thus in Accounting for Investment Standard either fair value or cost measurement are permitted. NAS 16 have included many changes in comparing with IAS 21 due to huge fluctuation in foreign currency translation in Iran. The first difference is related to government entities, any differences in foreign currency assets and liabilities of these entities should be included in a reserve account. At the end of accounting period this account can be closed to Profit and Loss Summery Account and thus reported in the comprehensive income statement. The other differences are includes foreign currency exchange rate fluctuation related to a) monetary items b) liabilities arises in hedge transactions c) disposal of foreign entity. These items should be recognised as equity and presented at the comprehensive income statement until the disposal of the investment when the differences should be closed to accumulated Loss and Gain Account.

NAS 18 is the same as IAS 27 with the exception of the requirements related to treatment of debit balance of the minority interest account. According to IAS 27 such debit balance should be allocated against the majority interest except to the extend that it has any commercial or legal obligations to provide finance to cover the losses. This requirement is not considered relevant to the socio-economic of the country thus not recommended by NAS 18

According to NAS 20 (Accounting for Investments in Associates) when investor does not prepare consolidated financial statement, the equity method should be used for presentation of associate's interest. This can be done either by preparing a total financial statement or explanatory disclosure notes, these requirements are not followed exactly by NAS 20. NAS 25 has excluded the application of the primary and secondary format that recommended by IAS 14. Also NAS 25 is silent about segment revenue that should be included in associate's share of profits and losses under equity method recommended by IAS 14.

Standard board of Iran believes that since there is no active market for biological products assets thus recommendation of IAS 41 about measuring agricultural assets is not applicable in Iran and should be treated as tangible assets (NAS 11) and cost method should be used. According to NAS 26 government grants related to biological productive assets should be recognised at fair value less costs estimated on disposal which is the same as requirements of NAS 11 (Accounting for Tangible Fixed Assets). Nonetheless, at the time of gathering data for this paper, revised copies of two standards of Accounting for Tangible Fixed Assets (ANS 11) and Accounting for Intangible Assets (ANS 17) are out inviting professional comments until mid and late 2006 respectively.

Table 3: Iranian National Accounting Standards (NAS) and IAS with Different Requirement

NAS	Subject	IAS	Effective Date
2	Cash Flow Statements	7	2001
10	Accounting for Government Grants	20	2001
15	Accounting for Investments	32,39	2001
16	Foreign Currency Translation	21	2001
18	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	27	2000 Revised 2006
20	Accounting for Investments in Associates	28	2001
25	Segment Reporting	14	2002
26	Agriculture	41	2005

Source: IAO Website, 2006.

Table 4: Iranian National Accounting Standards (NAS) With no IAS Equivalent

NAS	Subject	Effective Date
24	Financial Reporting by Development Stage Entities	2002
28	General Insurance Activities	2007

Source: IAO Website, 2006

IAO's development projects shows that accounting standards board is in the stage of developing fundamental rules for accounting and auditing standards while considering international harmonisation. Table (5) presents list of 9 proposed projects of Iran accounting standards board. Among proposed projects, amendments of NASs and financial reporting framework which are in accordance with IASs are considered as important. Proposed projects of table 5 are milestone in Iran accounting and auditing standards harmonisation internationally. IAO is considering to work on impairment assets, financial instruments and accounting for oil and gas. These projects will increase the level of international harmonisation to high standard.

Table 5: Accounting Standards Proposed Projects

	Proposed Project
1	Accounting for Life Insurance Activities
2	Amendments of Accounting Standards according to changes in International Accounting Standards
3	Standards Interpretation
4	Accounting for activities relating to Property Sales and Development
5	Impairment Assets
6	Financial Instruments
7	Accounting for Oil and Gas
8	Amendment of the Financial Reporting Framework
9	Entities going into Liquidation

Source: IAO Website, 2006

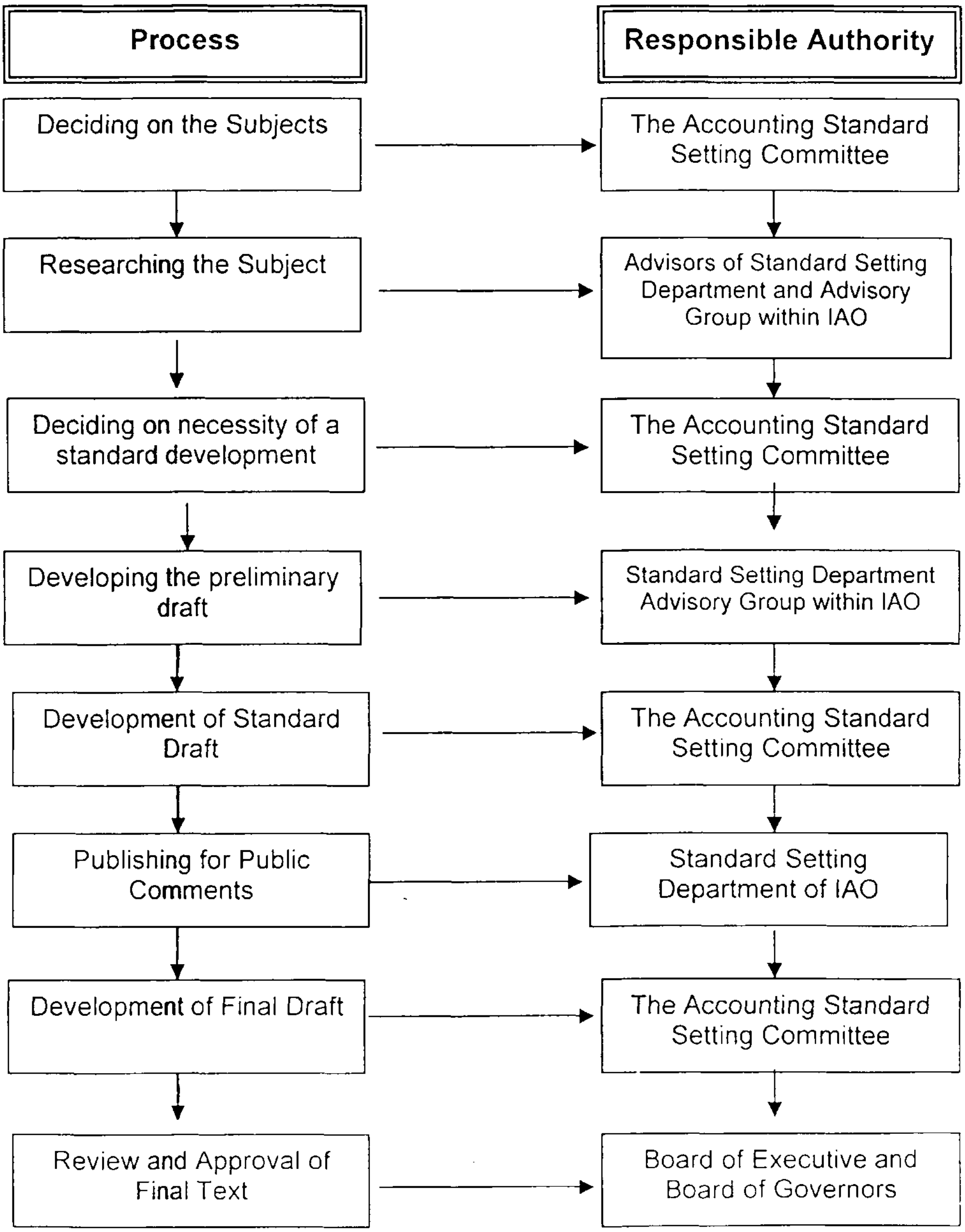
In developing National Auditing Standards, 22 out of 33 developed standards are the same as International Auditing Assurance Standards Board (IAASB) standards and 11 others include some differences due to cultural and socio-economic of the country. Auditing standards setting board of IAO anticipated developing new standards in harmony with international standards. Table (6) presents list of 6 proposed projects of Iran auditing standards board. Interestingly this is the first time that auditing standards board planned to work on conceptual framework, following its international compartment, IASB.

Table 6: Auditing Standards Proposed Projects

	Proposed Project
1	Knowledge of the Business and Its Environment and Risk Assessments of Material Alternations
2	Consideration of Environmental Matters in the Audit of Financial Statements
3	Audit Considerations relating to Entities Using Service Organizations
4	Conceptual Framework
5	Objective and General Principles Governing an Audit of Financial Statements
6	Audit Procedures for Risks Estimated

From the organisational chart perspective, five out of 9 members of the board are IAO's Board of Executive and Board of Governors, two representatives from IACPA, one from Organisation of Stock Exchange Brokers and one industry representative. As it is explained earlier, standards board of IAO is using the same due process as IASB in developing accounting and auditing standards. Figure (1) shows standards setting process and the related responsible sub-committee or authority within IAO.

Figure 1: Iran Audit Organisation's Due Process Standards Setting and Related Authorities



Source: IAO Website, 2006.

Professional Needs

In many developing countries (DCs) accounting profession is under pressure of producing qualified financial reports in the absence of comprehensive set of accounting standards locally. In most cases the International Accounting Standards (IASs) are not legally recommended or professional accountants are reluctant to use them due to the fact that local user of financial information are not familiar with these standards. In these countries IASs should be somehow adjusted to local environment before gaining support from financial reports users including government before they can be used as standards for financial reporting preparation and auditing purposes.

Review of accounting standard setting literature shows that professional accountants of most DCs use the accounting standards of the country that they received their accounting education. Consequently, it is expected that within a country more than one set of standards utilize for a period of time. As an example Iran like some other developing countries, has experienced using the USA and the UK accounting standards for more than half a century (Roudaki, 2006). As the first UK educated accountants return to country by 1944 they continue to push for the idea of establishing a society in the direction of UK chartered accountants (Khodadoust 1975). Clearly they follow the UK accounting standards in their professional careers. Although the proposed society never comes to existence but they succeed to establish an accounting profession with the cooperation of US gradates in 1972. From this time Iran accounting profession witnesses Anglo-American accounting standards. Depend on the client and the auditor UK or US accounting standards were used to prepare financial reports or providing auditors' opinions. Likewise the Big 8 auditing companies were active in Iran for more than a decade in 1970s (Molkaraee, 2005). UP to 1979, the time of Islamic Revolution, all efforts for establishment of an accounting society have been failed except one which is still functioning (Roudaki, 2006). When the accounting profession fall into crises in the years after 1980 the Iranian legislators realise that they have no choice to pay more attention to standard setting process. In this regard establishment of Iran Audit Organisation (IAO) was the initial and significant step by government. Among many duties of the IAO was development of national accounting and auditing standards (IAO website, 2005). IAO do nothing, but translating the international accounting standards for more than a decade. During this time almost all of the International Accounting and Auditing Standards translated into Persian (Farsi) to be accessible for local accountants and auditors to use them on voluntary basis but not in formal commitments. At the beginning of each published translation IAO mentioned that, this is only translation and not the official opinion of the standard setting committee of the organisation. At least 18 and 19 translated pamphlet of accounting and auditing standards respectively was the product of the first 10 years of establishment of the IAO. In fact, IAO encouraged auditors' member to use translated standards as a guide for auditing financial reports of government and semi-government companies. We have to take into consideration that after the Islamic Revolution of 1979 about 95% of Iran's economy was run by government due to nationalisation of the Royal and related to Royal Family companies and institutes (Roudaki, 2006). It seems that auditors member of the IAO have no choice to use translated international accounting and auditing standards without referencing to them directly and formally. Accordingly, since there was no formal set of accounting standards accountant continue to use the standards recommended by related auditor in preparing financial statements. This trend was continued in the last decade of 20th century.

The Sole Article of 1993 authorised government to use auditing and accounting services of qualified professional individuals as official auditors of public and private companies. The implicit aim of this article was to speed up standard setting process and involve more qualified accountants to audit government and semi-government companies under umbrella of the IAO. Accordingly the 1993 Article provides legal support for establishment of a domestic powerful accounting society under indirect government control. However, it takes two years (up to 1995) that the Board of Ministers approved the Qualification and Requirement Codes of Choosing Certified Public Accountants to be member of "official accountant society". Subsequently after another two years the Ministry of Financial Affaires prepare the constitution of the Iranian Certified Public Accountants (IACPA) as the first government indirect controlled accounting body. Due to professional needs of accounting and auditing profession, IAO was reorganised in 2003 by law to be able to cooperate with AICPA in developing new accounting standards and allowed to use services of individual private auditors. By the end of 2005, number of approved National Accounting and Auditing Standards were 37 and 33 respectively. As the number of these standards are increasing financial reporting gaining creditable regulatory status while in harmony with International Accounting Standards which is explained in the previous section. This facilitated the stock market more freedom to interact with international finical market. In the same time government use some efforts through its financial instruments to encourage investment by international and local private investors with the hope of promoting economic development. In this regard, privatisation can be considered as an expected outcome of all of these efforts. Iranian government ambitions of involving private sector and foreign investors in providing public services utilised the development of national accounting and auditing standards in harmony with IASs and IFRSs.

Statutory Needs

Based on Article 44 of Islamic Republic of Iran Constitution, national economy has three sectors as state (government), cooperative (united production and distribution companies and enterprises in urban and rural areas), and private (Islamic republic of Iran Constitution, 1980). According to this article:

> "The state sector is to include all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation, dams and large-scale irrigation networks, radio and television, post, telegraph and telephone services, aviation, shipping, roads, railroads and the like; all these will be publicly owned and administered by the State" (IR Iran Constitution, 1980).

Traditionally the implicit suggestion of this article suggested that government could privatise large companies which are not directly involved in the above activities. In 1989 for the first time after the Islamic Revolution, privatization draws attention of Iranian law makers. The sub-article 32 of the First National Economic Development Plan was considering separation of the government's authoritative duties from its executive responsibilities, thus suggesting privatization of companies providing nonessential public services. The main objective of the sub-article was to create of an economic balance in government organizations and private sector after the revolutionary nationalisation made it heavy government economy. Thus based of this sub-article all government stocks should be transferred to individual private shareholders (Ettela'at-Afternoon Daily, Jan 27, 2001). This sub-article did not reach to its goals due to the inappropriate implementation by government and lack of stock market involvement.

Privatization has been among government's goals as early as beginning of 90s, due to criticism of inefficient and ineffective government managers. In an effort to create effective and efficient environment for attracting local stray capitals toward the manufacturing sector some efforts was made in 90s to promote privatisation. As a new development to the dilemma, at the begging of 1992 parliament established an organization to value, pricing and transfer 33 percent of government companies' stocks to blue-collar workers. In addition, according to 1998 and 1999 budget bills a committee headed by the President and including the Minister of Economy and Finance, the Governor of the Central Bank, the Head of the Plan and Budget Organization, three parliamentarians were formed to conclude privatization process to the end of 2000 (Ettela'at- Afternoon Daily, Jan 27, 2001). As the Third 5-years Economic and Development Plan started in 2001 privatization was not complete yet. This plan, under supervision of the same committee as above, developed guidelines for appointing organizations that would be charged with drawing up policies, procedure and implementation in selling government owned companies to related employee (Ettela'at- Afternoon Daily, Jan 27, 2001). To speed up privatization the organization in charge provides loans and funds for the employee of privatized industries. As a result, more than 648 billion Rials (equal to US$ 720 million) shares from 180 manufacturing units have been transferred to 359,270 workers in 300 workplaces including foodstuff, pharmaceutical, developing chemicals, textiles, home appliances, entertainment, vehicles and non-metallic mining (Ettela'at- Afternoon Daily, Jan 27, 2001). However, during 15 years from 1991 rate of growth in these companies was considerable high. They have been invested 39 times of sold capital in privatization process into the companies (Khabar, Morning Daily, July 6, 2006). Since only 30 percent of government owned companies have been privatized, this means that the government sector have been increased instead of decline.

As it is explained earlier TSE was not involved in this wave of privatisation, thus government criticized of conspiracy and corruption in selling the shares. Undoubtedly due to the absence of national accounting standards in financial reporting and not involvement of TSE individual investors have no bases for evaluation while have not incentive or access to privatised government shares. Thus this wave of privatisation was concluded without any sensitive results for government in decreasing size or speed up economic development. This forced government to refer to the legislators to help with providing a solid base for privatisation. The Sole Article of 1993 which required government to use auditing and accounting services of qualified professional individuals was a the most important move from legislators' side.

After development of considerable accounting and auditing standards, in July 2006 the Supreme Leader announced a new privatization policy to be implemented. Unlike the first wave of privatization in the new wave TSE assigned to take main part in selling the government stocks. Government should sell off 80 percent of its shares in banking, mining, industrial, and transport companies through TSE (IRNA, Iran Daily, July 3, 2006).

Government ambitions for swift economic development and increasing criticise that describe government as an ineffective and inefficient manager of nationalised companies are basic reasons that built a solid foundation for statutory needs of privatisation thus international harmonisation in accounting standards. The external and internal economic forces and financial market requirements make it clear for the authorities that country needs a set accounting standards in harmony with IASs and IFRSs.

Privatisation Needs

Three waves of privatization has been stormed the economy which only the third one is underway within an accounting standard environment. Before Islamic Revolution of 1979, government starts to sell its shares in companies to employee of the same company. In this privatization process TSE was not involved while no national accounting standards was in place. In this wave all stocks transferred directly from government to eligible employee in one contract. However, not all government stocks have been soled this way or in many cases the process never been completed. Due to rapid expansion of such companies transferred stocks of employee became a small portion of the total capital of the companies, while the Royal Family and related parties shares became dominant.

The second wave was in mid 1980s when government realized that it has to reduce the size of the government. In fact almost 90% of country economy has nationalised when in 1979 revolutionary government nationalized all banks, insurance and most of manufacturing companies belong to the Royal or related to Royal families. As a result revolutionary government face huge task of controlling many companies and institutions. The criticism of inefficient and ineffective government management became wide spread in the country afterwards. Thus the idea of reducing the size of government became an issue in Iran. Privatization process has continued until late 1990s. The second wave of privatization which was announced by the government was unsuccessful to reduce heavy government involvement in directing and financing firms. Once again, while there were no national accounting standards in place TSE was not able to take sensible leading role in this privatization process thus most of privatised shares traded outside TSE official market. In addition, as CEO of IAO explained during last 15 years government new investment in state owned companies was 43 times of amount of shares that privatised (Hesabras, Feb 2007).

The third wave of privatisation which was announced in July 2006 is different from two others. TSE is assumed to be active in the third wave of privatization while a number of internationally harmonised accounting standards are in place. TSE requires all listed companies to present audited financial reports to the TSE's trusted auditors. These auditors are obligated to use National Accounting Standards (NASs) in presenting professional opinion about financial reports of their clients. Thus government owned firms have no way to be listed and then allowed to sell their shares through TSE's official market. Consequently. July 2006 privatization is different from 1980s privatization, because 1) at least 37 and 33 accounting and auditing standards respectively are in use and 2) TSE while a full member of International Federation of Stock exchange (FIBV) and founding member of Federation of Euro-Asian Stock Exchanges (FEAS), has 109 trusted auditors member of Iranian Association of Certified Public Accountants. Consequently auditor reports have to be presented in the format suggested by Iranian National Auditing Standards number 70 which is the same as International Standard on Auditing 700 (The Independent Auditor's Report). In the same way all national accounting standards must be examine by auditors reporting to TSE. They must use national auditing standards which are similar to IFRS.

Accounting standards setting which has gone through a long history of development now is in the state of flex. As a first consequence of third wave of privatization quality of NASs will be enhanced to embrace the international harmonisation and quantity of NASs will be increased to be responsive to ever growing TSE share market. Nonetheless, this is a golden opportunity for National Accounting Standards to increase it coverage within socio-economic environment of the country.

As Chamisa (2000) explained capital market plays an important role in the economic development of the developing countries. It has been said that qualified financial reports prepared based on accounting and auditing standards are essential for capital market decision makers (Mahon, 1965 Scott, 1968, and Chamisa, 2000). Iran capital market is a typical weak form of capital market. Chamisa (2000) advocated that weak form of capital market of developing countries would be benefited from accounting and auditing standards in many ways. In the case of Iran quality and quantity of NASs are increasing to include all areas of financial accounting and auditing. In the Harmonisation Argument section of this paper we see how Iranian standard board achieved international harmonisation.

New evidence from the last wave of privatisation is appearing in the business news as early as February 2007. As it is described by business news, Sherkat Melli Sanaye Mess Iran (Middle East largest copper mining company) has started to sell its share through TSE as the first government owned company. At the first days of sales due to lack of cash of small private brokers and individual investors, 90% of shares were purchased by insurance companies and pension plan (superannuation) foundation which are affiliated to government. Thus invite the criticism from private sector. They claimed that, while the shares are offered in the wrong time of economic and political condition and this is not privatising but changing the title of share from one branch to another branch of government (BBC Persian, 9th Feb 2007). Actually, it takes three weeks for TSE and company managers to arrive at an agreement for "base share price" to this large government owned mining company. However, the exchange prices were between 3.5 to 4 times of the agreed base price as BBC Persian reported.

As a respond to the criticism of selling privatised shares by TSE, Board of Ministers decided to pass the bill of Implementing Article 44 of constitution under the title of Privatisation and Government Companies Activities to stop shares transferring from one pocket to another pocket of government (Hesabras, Feb 2007). This bill yet to be implemented by stock market authorities and privatising companies. Nonetheless, in the latest wave of privatisation government plans retain 20 % of the state owned companies and sell 40% through a special programme to low-income people and the other 40% would offer to foreign and domestic private investors. Banks, media, telecommunication, transportation and mining industries are included in this privatisation process (AME Info, July 4, 2007). These companies as TSE announced will be about 711 companies with total of value of US$ 125 billion assets will be privatised. Iranian National Aviation Organisation announced that Iran Air will join privatisation and the National Petrochemical Company will privatise 17 companies owned companies (AME Info, June 3, 2007).

Conclusions

This paper reviews the development of international harmonization in standard setting in Iran from professional, statutory and privatisation needs of standard setting environment in the recent years. The paper shows how professionalism persuades harmonisation in respond to privatisation needs in the statutory environment of the country. In addition to the formal authority of the IAO in standards setting, the Sole Article of 1993 which produce sanction for government to be able to use auditing and accounting services of individual qualified professionals open a new era in standard setting in Iran. The newly reorganised standards setting board make use of the provided opportunity to set internationally harmonised accounting standards while making allowance for local socio-economic environment. Moreover, government ambitions for swift economic development persuading foreign and local private investors tended to continue the pressure on high authorities to begin the third wave of privatising which produces new challenges for international harmonisation in accounting standards setting. This paper demonstrated that to the end of 2006, from total of 28 NASs, 18 of them are similar to IASs while 8 others include some differences in comparing to IASs and the last two have no IASs equivalent. The paper also illustrated that 22 out of 33 Iran Auditing Standards are exactly the same as IFRSs while 11 others include some differences.

It is shown that privatisation have benefited from a strong statutory position. Based on implicit constitutional recommendation, the third wave of privatization was introduced in 2006. In this wave of privatisation, TSE assumed to play an important role in marketing government shares while it required listed companies to use accounting and auditing standards in preparing financial reports. Trusted auditors of TSE have to provide professional opinion on the bases of auditing standards. At the present stipulation of accounting standard setting, privatisation provide a millstone in international accounting standard harmonisation due to the level of accounting professionalism and government desires of foreign investment for economic development.

Recommendations:

As national harmonised in accounting standards setting is coming to the point to cover all aspects of accounting and auditing profession, a comparison survey of financial reporting quality and disclosure of privatised companies before and after privatisation is essential. In the same way as the accounting profession shifting from Anglo-American standards to internationally harmonised NASs results of comparative study of financial reporting and disclosure by companies shifting to new standards would be useful for standard setting board in developing new internationally harmonised accounting standards.

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