

CAN TYPES OF WRONGDOINGS AND THE CORRUPTION PERCEPTION SCORES BE CRITERIA TO DEFINE AUDIT THRESHOLDS FOR NON-LISTED COMPANIES? THE CASES OF TURKEY, JAPAN AND ALBANIA*

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ABSTRACT

This study struggles to analyze if types of wrongdoings encountered in, and the corruption perception scores (CPS) of a country can be criteria to define the thresholds specifying size of non-listed companies (NLC) subject to independent audit in order to find out to what extent independent audit of NLC should be expanded in three countries, which are quite different from each other socially and economically: Japan, Turkey and Albania. The findings indicate that the types and intensity of wrongdoings differ from one country to another in some aspects; anyway wrongdoings are encountered in these three countries more or less. Thus, we conclude that the types and intensity of the wrongdoings and CPS should not be criteria to be considered when defining the said thresholds.

Keywords: Independent Audit, Wrongdoings, Corruption Perception, Threshold.

JEL Classification: M 42, M 12, M 14

HALKA AÇIK OLMAYAN ŞİRKETLERİN BAĞIMSIZ DENETİM EŞİĞİNİN BELİRLENMESİNDE HİLE TÜRLERİ VE YOLSUZLUK ALGI PUANI BELİRLEYİCİ OLABİLİR Mİ? TÜRKİYE, JAPONYA VE ARNAVUTLUK ÖRNEĞİ

ÖZ

Bu çalışma, Türkiye, Japonya ve Arnavutluk gibi sosyal ve ekonomik açıdan biri birinden farklı olan üç ülkede bağımsız denetimin ne ölçüde

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genişlemesi gerektiğini ortaya koymak amacıyla, bu ülkelerde bağımsız denetime tabi olan halka açık olmayan şirketlerin bağımsız denetime tabi olma eşiklerinin tespitinde, söz konusu ülkelerde karşılaşılan hileli işlem türleri ile bu ülkelerin yolsuzluk algı indekslerinin dikkate alınıp alınamayacağını analiz etmektedir. Bulgular hileli işlem türlerinin yoğunluk ve tür açısından ülkeden ülkeye farklılık gösterdiğini, yine de üç ülkede de az ya da çok bu eylemlerle karşılaşıldığını göstermektedir. Böylece hileli işlem türü ve yoğunluğunun bağımsız denetim eşiklerinin belirlenmesinde bir ölçüt olarak dikkate alınmaması gerektiği sonucuna ulaşılmıştır.

Anahtar Kelimeler: Bağımsız Denetim, Hile, Yolsuzluk Algısı, Denetim Eşiği

JEL Sınıflandırması: M42, M12, M14

1.INTRODUCTION

Today, in spite of existence of the Code of ethics in many countries, different types of wrongdoings* are still encountered in accounting and auditing professions. The term “wrongdoing” used herein refers to behavior that is illegal or immoral, and departure from what is ethically acceptable.

Independent audit can be accepted as one of the best ways to fight against corruption and wrongdoings encountered in not only listed companies but also non-listed companies (NLCs). In many countries, number of small and medium sized enterprises is high and they have important share and role in the economy of the country they operates. In this context we can say that small and medium sized enterprises has an economic effect on the economy of country and they have stakeholders such as creditors, workers, professionals in different areas, customers, consumers, providers, state, shareholders, prospective partners and investors. Stakeholders expect that independent (external) auditors find out wrongdoings and fraudulent transactions, if exist, and prevent misstating financial statements from being reached to them. Actually stakeholders want to know if company has a sustainable structure or not. In many countries, accounting and auditing related regulations, codes and laws are expected to make contribution to meeting the stakeholders’ need for institutionalization increasing

* Wrongdoing is behavior that is illegal or immoral

competitive power, establishing public confidence and transparency in commercial life of country.

The relevant authority of a country defines thresholds to specify size of NLC, which shall be subject to independent audit. However the thresholds should be logical and suitable to make contribution to meeting the stakeholders' need. If the said thresholds for NLCs are defined very high, it means very few entities shall be subject to independent audit. If the said thresholds are defined very low, we should ask ourselves whether or not there is a stakeholder who will benefit from result of this audit activity. The main aim of this study is to discuss "thresholds for NLCs" matter of countries which give importance to independent audit of entities.

2. THE AIM AND SCOPE OF THE STUDY

This study aims to discuss to what extent independent audit of NLCs should be expanded by focusing on thresholds specifying size of NLCs subject to independent audit in three countries, which are quite different from each other socially and economically: Japan, Turkey and Albania.

Different criteria can be considered to define the said thresholds. In this study, we analyze if types of wrongdoings encountered in, and the corruption perception scores (CPS) of a country can be criteria to define the thresholds specifying size of NLCs subject to independent audit in order to find out to what extent independent audit of NLCs should be expanded in three countries herein.

The study is organized as follows: Firstly, the findings of the research study we conducted in the years 2012 and 2013 by applying an in-depth-interview method to the relevant interviewees in the said three countries in order to obtain types of wrongdoings are explained.

Secondly, thresholds specifying size of NLCs subject to independent audit in the said countries are compared to each other by considering the CPS of, and the wrongdoing types encountered in the said countries. We also consider the 4th EU Company Law Directive.

Finally we evaluate all criteria and then discuss whether or not thresholds specifying size of NLCs subject to independent audit can be defined by taking account of the types of wrongdoings encountered in

accounting practices in, and corruption perception level, which is likely to indicate corruption/wrongdoing intensity in a country. Thus it can be possible to give an idea to the authorities about to what extent external auditing of NLCs due to the relevant laws and thresholds can make contribution to meeting the stakeholders' need for institutionalization and transparency in commercial life of the said countries in real sense.

3. WHY THESE THREE COUNTRIES ARE CHOSEN TO INVESTIGATE?

The reason why we chose the countries, Turkey, Japan and Albania, to investigate and compare is explained below.

As defined by Transparency International (TI), corruption generally comprises illegal activities, which are deliberately hidden and only come to light through scandals, investigations or prosecutions. There is no meaningful way to assess absolute levels of corruption in countries or territories on the basis of hard empirical data. Possible attempts to do so, such as by comparing bribes reported, the number of prosecutions brought or studying court cases directly linked to corruption, cannot be taken as definitive indicators of corruption levels. Rather they show how effective prosecutors, the courts or the media are in investigating and exposing corruption. Capturing perceptions of corruption of those in a position to offer assessments of public sector corruption is the most reliable method of comparing relative corruption levels across countries (http://cpi.transparency.org/cpi2012/in_detail/).

TI publishes the Corruption Perceptions Index (CPI) annually ranking countries "by their perceived levels of corruption, as determined by expert assessments and opinion surveys." The CPI generally defines corruption as "*the misuse of public power for private benefit*". As of 2013, the CPI ranks 177 countries "on a scale from 100 (very clean) to 0 (highly corrupt). The CPI ranks countries and territories based on how corrupt their public sector is perceived to be. It is a composite index – a combination of polls – drawing on corruption-related data collected by a variety of reputable institutions. The CPI reflects the views of observers from around the world, including experts living and working in the countries and territories evaluated (http://cpi.transparency.org/cpi2013/in_detail/).

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It is logically expected that there is a correlation between independent audit need of stakeholders, corruption perception level of, and type and intensity of wrongdoings (and corruption) committed by employees (officials). In this context, at first sight thresholds specifying size of NLCs subject to independent audit can be defined by considering intensity, type and probable consequence of wrongdoings, which each company is likely to encounter its business environment. Albania is a good case for this argument. Therefore, we conducted a research study in these countries which are different from each other in respect to the CPS as shown in the Table 1. These scores may be considered as an indicator of intensity of wrongdoings committed by people working for business life of country in question.

CPSs of the countries herein are shown in the Table 1 according to Worldwide Corruption Perceptions ranking of 177 countries published by TI for 2013 (www.transparency.org/cpi2013/results) and ranking of 175 countries published by TI for 2014 (www.transparency.org/cpi2014/results).

Table 1. Corruption Perception Scores of Three Countries Herein

Country	Ranked for 2013	Ranked for 2014
Japan	18 th (score 74)	15 th (score 76)
Turkey	53 th (score 50)	64 th (score 45)
Albania	116 th (score 31)	110 th (score 33)

On the other hand, Japan has much more orderly and prudent society and much more developed economy than Turkey. Hasegawa (2000, 470) asserts that in general, government employees, including officeholders, adhere to the Code of Ethics for Government Service. Bribery is not necessarily rampant as a social custom. On the other hand, Japan's social structure and the environment surrounding government employees contain many factors that could be seen as a hotbed for corruption. In Japan, investigating authorities are under great pressure to expose corrupt practices by government employees, especially by officeholders in the national government - high-ranking government officials and members of the Diet. (The Diet is the Japanese parliament).

As for Albania, beside Albania is quite less developed economy than Turkey, Albania has a lower CPS (31) than Turkey (53). In addition to definition of the CPI above, we considered the survey conducted by IDRA (the Institute for Development and Research Alternatives). IDRA conducted a survey in 2010 with the support of USAID (the United States Agency for International Development) - tracks the perceptions of ordinary citizens, public officials, and judges regarding corruption in Albania, as well as their experience with corruption.

The findings of the said survey show that according to the general public, corruption among public officials is common. 91.8% of the respondents think that corruption among public officials is either “Widespread” or “Somewhat widespread”. Especially custom officials, tax officials and doctors are perceived as the most corrupt institutions/groups evaluated. In addition to this, both the general public and public sector employees perceive that transparency in institutions is low overall (http://albania.usaid.gov/shfaqart/465/26/Corruption_in_Albania:_2010_Survey.htm).

It is seen that Turkey, as a rising economy, is approximately in between Japan and Albania in different periods, but closer to Japan in terms of its score and ranking especially in the year 2013 the study was conducted.

4. RESEARCH METHOD

An in-depth-interview method was applied to the relevant interviewees in the said three countries in order to obtain types of wrongdoings as explained below.

Turkey: The research study was conducted in seven big cities (Istanbul, Ankara, Adana, Gaziantep, Erzurum, İzmir and Hatay) from six different regions of Turkey in the years 2012 and 2013, and the types of wrongdoings encountered in accounting profession were obtained from the accounting academics and professionals (accountants, independent auditors and tax examiners). In addition, the chairs of the accounting profession chambers in these cities were interviewed and some discipline files in these chambers were examined to obtain types of wrongdoings.

73 participants from seven big cities in question were interviewed face to face. Each interview took about one or two hours depending on

the conversation. The participants were mostly selected from among familiar and experienced (wise) professionals. Interviews were ended when the types of wrongdoings recurred by the interviewees.

Japan: The research study was conducted in Tokyo region in 2012, and the types of wrongdoings encountered in accounting profession were obtained from the accounting academics and professionals (accountants, independent auditors and tax examiners). In addition, the officials of the JICPA (The Japanese Institute of Certified Public Accountants) were interviewed to obtain types of wrongdoings.

42 participants from Tokyo were interviewed face to face. Each interview took about one or two hours depending on the conversation. The participants were mostly selected from among familiar and experienced (wise) professionals. Interviews were ended when the types of wrongdoings recurred by the interviewees.

Albania: The research study was conducted in Tirana in 2013, and the types of wrongdoings encountered in accounting profession were obtained from the accounting academics and professionals (accountants, independent auditors and tax examiners).

45 participants from Tirana were interviewed face to face. Each interview took about one or two hours depending on the conversation. The participants were mostly selected from among familiar and experienced (wise) professionals. Interviews were ended when the types of wrongdoings recurred by the interviewees.

The reasons why this method was applied are as follows:

1) *The demand to obtain more detailed information:* Face to face interview with the participants provides more detailed information rather than the information obtained by means of questionnaire. In addition to this, participants tend to answer the open-end questions in questionnaire briefly (Kinnear and Taylor 1996:361).

2) *Sensitiveness of the ethics concept:* Participants are likely to answer the questions according to the social norms instead of actual events (Lehman 1989:315).

5. FINDINGS

The findings we obtained indicate that although accounting professionals are required to comply with ethics codes, the wrongdoings, which are not complied with ethics principles, have been encountered in accounting profession in the said countries. The types of the wrongdoings encountered in the said countries are listed in the **Table 1**. The relevant explanations for each country are as follows:

Albania:

Most of survey participants (about 92%) report that these wrongdoings have been widespread in Albania for years. As seen from Table 1, it is determined that **32 types** of wrongdoings were encountered in Albania. Reported 17 wrongdoings stemming from clients have a considerable weight in the 32 cases (%53.2 of 32 cases). The rest of wrongdoings stem from accountants (14 wrongdoings - $14/32 = 44\%$). Only one case was defined stemming from auditors (%2.8), but it is extremely crucial for stakeholders to obtain true financial information about a company in Albania, as well.

When we use 35 wrongdoings as base number in order to compare the countries to each other, it is seen that the percentage of wrongdoings stemming from clients is 48.6% (17/35) and the percentage of wrongdoings stemming from accountants is 40% (14/35).

Findings for Albania indicate that the most encountered types of wrongdoings stem from accountants' wishes for themselves and wishes and demands of their clients. Most of survey participants, especially accounting professionals, report that they have to accommodate demands of clients because of aggressive competition climate in the accounting market place. This reality is highly likely to affect independent audit activities of auditors performing audit in Albania negatively.

Turkey:

Most of survey participants (about 90%) report that these wrongdoings have been widespread in Turkey for years. They state that is why these wrongdoings are still encountered in today's Turkey. As seen from Table 1, it is determined that **35 types** of wrongdoings were encountered in Turkey. The wrongdoings stemming from clients have a considerable weight in accounting process (18 wrongdoings - $18/35 = 51.5\%$). The rest of wrongdoings stem from accountants (16

wrongdoings - $16/35 = 45.7\%$). Only one case defined stems from auditors (%2.8), but it is extremely crucial for stakeholders to obtain true financial information about a company.

Findings indicate that, in general, the wrongdoings stem from accountants' wishes for themselves and wishes and demands of their clients. Most of survey participants, especially accounting professionals, report that they have to accommodate demands of clients because of aggressive competition climate in the accounting market place. This reality is highly likely to affect independent audit activities of auditors in Turkey negatively.

Japan:

Most of survey participants (about 95%) state that it is likely to encounter some wrongdoings in accounting profession in spite of the fact that social rules and norms has effect on business life in Japan, but these wrongdoings are not widespread in Japan. As seen from Table 1, it is determined that **27 types** of wrongdoings were encountered in Japan.

Even though they are not widespread, the reported wrongdoings stemming from clients have a weight in the 27 cases (%55.5 of 27 cases). In order to compare the countries to each other 35 wrongdoings is used as base number. Thus it is seen that the percentage of wrongdoings stemming from clients is 42.8% (15 wrongdoings - $15/35$) and the percentage of wrongdoings stemming from accountants is 31.4% (11 wrongdoings - $11/35$). Only one case was defined stemming from auditors (%2.8), but it is extremely crucial for stakeholders to obtain true financial information about a company even in Japan.

Findings indicate that frequency and the number of types of wrongdoings encountered in Japan are extremely less than the cases of Turkey and Albania. Still, the risks stemming from auditors seem to be constant. The findings also indicate that most encountered types of wrongdoings in Japan stem from wishes and demands of clients.

Table 2. Explanations For The Cases Encountered In Japan

The answers above are applicable to medium and small sized accountants and businesses.	
Notations:	
1	Japanese Accountant system is two-tier system. There are three titles in the profession: CPA, Tax Accountant, and Accountant. The old “Accountant” system was abolished in 1946, with implementation of CPA system, but those with license are still able to conduct business under old framework. Tax accountant can only prepare tax filing for the clients. With smaller accounting firm and independent accountant, old accountant and tax accountant may act as if they have CPA license
2	Under Japanese law, accountants may sell insurance
3	There is no many incident because of the fact tax Inspectors are under vigorous supervision by National Tax Agency)
4	Likely
5	It happens, but very rarely
6	Although it had been done in past, since tax auditing by National Tax Agency take place every few years, easily discoverable manipulations such as manipulating depreciation is probably no longer practiced. But more intricate ways of manipulation which is not easy to discover is being done by some accounting and business firms

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6. THE INDEPENDENT AUDIT APPLICATIONS IN THE SAID COUNTRIES

In order to evaluate what size of entities should be subject to independent audit, we look at independent auditing criteria and thresholds of NLCs in the said countries, Turkey, Japan and Albania, respectively which are different from each other in wrongdoings level aspect, as shown in the **Table 2** and **3**, and CPS aspect. We also investigate the 4th EU Company Law Directive (2006/43/EC) for EU members or candidates for comparison purpose, because of the fact that Turkey is a candidate country for EU membership.

6.1. The independent audit of NLCs in Turkey

In order to comply with European Union standards, a commission, called Commerce Code Commission, was established in 1999. The

Commission considering German and Swedish Codes prepared a new commerce code draft in 2007. The New Turkish Commerce Code (hereafter the new TCC) was adopted by the Turkish Parliament on 13 January 2011 and promulgated in the Official Gazette on 14 February 2011. The new TCC and the relevant Law on Enactment entered into force on 01 July 2012. Accounting standards and audit-related articles have entered into force on 01 January 2013. Below are explanations about significant changes the New TCC has brought. The new TCC envisages a system for the auditing of specified limited liability and joint stock companies. Through the new regulation, the audit currently included among the mandatory organs of the companies, and exercised through an auditor who does not necessarily have expertise in the subject matter, is replaced by the independent audit mechanism which should be conducted by certified public accountants (hereafter CPAs), sworn-in certified public accountants (hereafter SCPAs) or certified independent audit firms. The scope of audit includes the audit of financial statements and/or consolidated financial statements and the annual report. The audit is required to be performed in accordance with Turkish Auditing Standards which are identical with International Auditing Standards (IAS). Under this title, two main concepts should be mentioned because of their close relation each other: accounting standards and independent audit of compliance of accounting standards. The new TCC brings mandatory application of IAS.

On the other hand, subsequent to enactment of the new TCC, Public Oversight Accounting and Auditing Standards Authority (hereafter the POAASA) was established in order to provide effective auditing and public oversight system. The POAASA was authorized to define Turkish accounting and auditing standards, entering requirements and qualifications of independent audit profession. The POAASA also has the authority to monitor activities of independent auditors and audit firms. It is expected that the POAASA redefine Turkish Accounting Standards and then define Turkish Auditing Standards, being in comply with international standards.

In order to explain what the new TCC has brought to Turkish business life in audit activities aspect, some relevant provisions are given here.

(Provision 397)-The financial statements of company and annual

financial report prepared by board of directors are audited by auditors*.

(Provision 398)-The auditing of financial statements of company and annual financial report prepared by board of directors refer to auditing of inventory, accounting system, internal control system and activities of board of directors. Auditing also includes determining if financial statements are prepared in accordance with Turkish Accounting Standards and if situation of the entity audited is in danger or under risk. Course of actions of auditors are to be in accordance with professional ethics codes. Auditor submits his/her opinion (auditor report) to the general assembly.

(Provision 399)-The auditor is appointed by general assembly. The auditor may not be changed as long as a reasonable reason does not exist.

(Provision 400)-The independent auditors are selected from among those possessing the title of CPA or SCPA according to CPA and SCPA Law Nr. 3568. Those who are shareholder or a part of management of the audited company may not be auditor of the said company. The auditor that was assigned by the independent audit firm to audit a company must be replaced by another auditor for at least three years, if the auditor submitted audit reports for that company for seven consecutive years. Auditor may be tax consultant and tax auditor of the company at which he/she has performed audit.

Because of the fact that the new TCC brought mandatory application of international accounting standards and independent audit in all joint stock companies and limited liability companies regardless of their size as of 2013, especially audit-related articles of the said Code got reaction from actors of business world of Turkey. Especially owners of small and micro sized entities reacted to new audit requirements. On the other hand, because of new punishments, independent auditing activities and difficulties in applying international accounting standards, business world in Turkey was anxious that they would face high administration costs stemming from new applications the new TCC brings. Therefore business community demanded from government to soften some articles, which may increase administration costs. These applications,

* The POAASB specified qualifications for becoming independent auditor on 26 December 2012. CPAs and SCPAs who want to become independent auditor should have a 15-year-professional experience and should pass an examination on accounting and auditing related subjects hold by the POAASB.

which business community of Turkey does not get accustomed, raised the need for some changes in the new TCC. Because of pressure coming from business world of Turkey, a new Law numbered 6335 was passed in 26 June 2012 in order to soften some applications. The new Law says that independent auditors (or audit firms) are allowed to audit financial statements of all companies other than those being exempted by the Council of Ministers because of their size.

Finally the Council of Ministers has specified the size of NLCs subject to independent audit on 23 January 2013 (Official Gazette numbered 28537). According to the thresholds the Council of Ministers has defined, NLCs subject to external auditing are companies which, on their balance sheet dates, do not exceed the limits of two of the following three criteria (www.kgk.gov.tr/contents/files/tms_seti/TMS/BKK_Usul_ve_Esas.pdf):

Criteria	2013	2015 (Currently applied)
Balance sheet total	TL 75,000,000 (€ 25,000,000)	TL 50,000,000 (€ 15,380,000)
Net turnover	TL 100,000,000 (€ 33,000,000)	TL 100,000,000 (€ 30,770,000)
Number of employees	250	200

According to data obtained from Ministry of Customs and Trade, in 2013, number of all companies being subject to independent audit was 843,373 (98,250 joint stock company + 747,123 limited liability company). After the Council of Ministers has specified the size of entities subject to independent audit, this number was expected to be about 10,000. On the other hand, according to data obtained from the web page of the POAASA (www.kgk.gov.tr), the number of independent auditors having been certified by the POAASA was about 8,000 in 2013. Currently this number is 13,528 (http://kgk.gov.tr/bagimsiz_denetcler/Istatistik-BSD.aspx).

6.2. The independent audit of NLCs in Japan

In Japan, the main objectives of the accounting and disclosure system under the Companies Act are (JICPA, 2009):

- (a) To protect creditors and current shareholders;
- (b) To compute the distributable earnings of the company; and
- (c) To evaluate management's performance of its stewardship function.

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112 In Japan, in order to meet the objectives and maintain discipline in the business activities of companies, the Companies Act provides for an audit regime that varies with the size and corporate governance structure adopted by companies. Companies falling under any of the following categories are required to have an accounting audit: (¥ 1 = € 0.0093) (1 € = ¥ 107.7)

- Large companies: Capital stock of ¥500 million (approximately € 4,650,000) or more or total liabilities of ¥20 million (approximately € 186,000) or more, as of the latest fiscal year-end; (It means balance sheet total is approximately € 4,836,000)

- Companies which adopt a "Company with Committees" corporate governance system; and

- Other companies which appoint an accounting auditor on a voluntary basis

6.3. The independent audit of NLCs in Albania

In Albania, the Law no. 10091 specifically states the criteria that an enterprise should meet in order for its financial statements to undergo a legal audit. The following companies are required to audit their annual financial statements before their publication:

- All the companies, independently of their registration status (as limited liability companies, or public companies), if they have chosen to adopt and comply with the International Financial Reporting Standards (IFRS).

Table 3. The Types Of The Wrongdoings Encountered In Accounting-Related Practices Of Three Countries

The Types of the wrongdoings Encountered in Accounting-Related Practices of three Countries	Origin	Albania	Turkey	Japan
1-Some accountants rent out their professional license to anybody who is not related to accounting profession.	Acc	NA	X	X
2-Although it is not legal, some accountants establish branch (es) of their accounting firm.	Acc	NA	X	NA
3-Some accountants behave as if he/she were a superior professional to have more clients.	Acc	X	X	X
4-Some professionals use misleading titles. For example, some bookkeepers use the title “consultant” although he/she is not a consultant.	Acc	X	X	1
5-Although it is not legal, some accountants working for a company establish an accounting firm. All accounting procedures in these kinds of accounting firms are carried out by unauthorized persons such as trainees, their friends or their kin.	Acc	X	X	NA
6-Although it is not legal, some accountants deal with insurance selling at their accounting firm.	Acc	X	X	2
7-Taxpayers behaving with motive of tax fraud do not have difficulty in finding accounting professionals who can accommodate their wishes and demands. Consequently, bad clients are able to find bad professionals.	C	X	X	X
8-Some professionals don’t comply with fee tariff determined by profession chamber. Thus, some clients can easily hire an accountant or independent auditor by paying fee below the minimum fee determined by profession chamber. This is an unfair competition advantage.	Acc	X	X	X
9-The accounting and auditing markets in the country is under the impact of monopolistic competition of two groups:	Acc	X	X	X

—Monopoly established by international auditing firms —Monopoly stemming from collaboration between auditors and accountants				
10-Some accounting professionals decry their colleagues to capture their clients	Acc	X	X	X
11-Some accountants don't update their professional knowledge like International accounting Standards etc. and follow changes.	Acc	X	X	X
12-Some accountants don't pay social security premiums of trainees. Trainees pay their own social security premiums and work as office boy without receiving wage.	Acc	X	X	X
13-Some accountants become engaged in the business affairs of their kin. Thus client (kin) is highly likely to expect that accountant will accommodate his/her wishes and demands, even if they are inappropriate.	Acc	X	X	X
14-Some clients receive fictitious underlying documents consisting of expenditures in order to cut profit and tax payable. Accounting professional may not become aware of false documents.	C	X	X	3
15-In order to cut tax payable, some clients receive invoices for their businesses, although they buy goods or service to meet their individual needs. For example, a client, buying a TV for his/her home, receives invoice of this TV in the name of his/her business. Similarly, some clients receive invoices for expenditures of their holidays with their families. These kinds of invoices are used by clients in order to be recorded into General and Administration Expense Account as business trip expenditure.	C	X	X	X
16-Most Clients (generally family companies) don't have internal control system to control procedures their employees perform and to prevent their assets from being stolen by employees and customers. These kinds of companies have the risk to lose their assets and	C	X	X	X

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to have high operational costs. They also have the risk to survive.				
17-Some manufacturing companies hide real production and sales amount of products by purchasing raw materials without invoices and by selling products without billing.	C	X	X	X
18-Some clients prepare sales invoice reflecting sales amount lower or higher than it actually is in order to cut or overstate sales revenues.	C	X	X	3
19-Some clients reflect wages lower than actually occurred. Thus, amount of social security premium and income tax regarding wages are cut. Because of the fact that personnel working under this condition are afraid of being fired, they don't inform this situation to the Social Security Institution.	C	X	X	X
20-Money in bank account of many family companies are drawn and spent by owners of the company to meet their individual and private needs by being recorded as if money was put into the safe of the company. Then, the said amount of money is transferred from cash account to owners' current accounts as if they owed company. Thus, irregular dividend distribution occurs and owners avoid of paying income tax due to dividend. This action is called "disguised dividend".	C	X	X	X
21-Although it is not legal, some clients use previous years' expense invoices in order to cut tax payable figure.	C	X	X	X
22-Some clients prepare documents reflecting exportation amount higher than actually occurred. Thus, client can receive refund of VAT (value added tax) unjustly according to high amount of exportation.	C	NA	X	NA
23-Although some clients (companies) collect notes receivables which were matter for the court before being collected, they carry on keeping allowance expenses in their records (allowance for doubtful accounting) as if these notes receivables were not collected. This	C	X	X	3

action enables to cut the amount of the profit and accordingly, income tax figure.				
24-Some importer clients make documents reflecting the amount of goods (especially those being difficult to be counted and controlled in customs such as cell phones, walkmans, toys etc.) imported lower than amount actually imported. For example, 30.000 items are actually imported, but 12.000 items are declared on document.	C	X	X	X
25-Some clients scheme to overstate their accounts receivable, sales and earnings during the related period by creating in advance billings and by booking great amounts of fictitious sales to various customers without contacting with the said customers.	C	X	X	X
26-Some accountants, keeping books of more than one company which belong to a holding or an owner, reduce VAT payable account of companies by making the said companies prepared fictitious invoices. For example, a fictitious sales invoice is prepared by a company of the group which its deductible VAT account is higher than VAT payable account. This fictitious invoice is prepared for other company of the group which its VAT payable account is higher than VAT deductible account. Thus, the amount of VAT payable account is reduced.	C	X	X	X
27-Some accountants, working for a client who does not know about accounting transactions, scheme to defraud his client by preparing or receiving invoices consisting of fictitious expenditures or false sales amounts. Thus, accounting professional embezzle these fictitious amounts of money.	Acc	X-few cases	X	X-4
28-Some accountants make record knowingly some invoices consisting of promotion expenses overstated. For example, a firm purchases 1.000 units of key holders for promotion purpose and receives an invoice as if it purchased 5.000 units. Then, accountant records this invoice in General and	C	X	X	X

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Administration Expenses Account knowingly in order to reduce tax base.				
29 Although it is not legal, some clients do not contract with accountant. In case the professional would not accommodate the wishes and demands of the client during accounting period, this unsatisfied client would like to work with another accounting professional who would accommodate his/her wishes and demands.	C	X	X	NA
30-Some clients demand from their accountants to make entries in firm's books and records reflecting depreciation allowances higher than actually occurred in order to reduce tax base of the firm.	C	X	X	X-5
31-Clients are believed that when a tax-related-problem occurs, the problem is solved by means of bribing the tax official or inspector.	C	X	X	NA-6
32-Some auditors require confirmation relating to considerable amount of documents and of balance of some accounts from the third parties via fax. Whereas, he/she should require more detailed knowledge and confirmation from the third parties, if possible, by going to their offices.	Acc	X	X	X
33-Some auditors fail to recognize a transaction as a "problem". This can be related to the lack of impartiality of the auditors in gathering evidence about a transaction they selected for review. For example, some auditors relied too heavily on hearsay evidence provided by accountant and management during the audit of the company. Thus, they fail to obtain sufficient evidence.	Acc	X	X	X
34-Some auditors do not have willingness to give management a "bad" audit opinion (i.e., a qualified or adverse opinion), even if he/she is aware of the misstatement in the financial statements.	Au	X	X	X
35-Some accountants are oriented towards client(s) when they use their personal	Acc	X	X	NA

judgment to assess some items (or assets) of client(s).				
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Notes: **X:** Wrongdoing (or case) is encountered in the country. **NA:** Not Applicable. **Acc:** Accountants. **C:** Clients. **Au:** Auditor

Origin: Accountant, auditor or client who is a source of the wrongdoing committed in accounting process

-All joint stock (public) companies that comply with the Albanian National Accounting Standards.

-All limited liability companies that comply with the Albanian National Accounting Standards and that in the end of their reporting period meet two out of following three thresholds: (Albanian Lek (ALL) 1 = € 0.0071)

1-Their total assets are 40 million ALL (approximately € 284,000) or exceed this amount.

2-Their turnover for the same reporting period is equal to 30 million ALL (approximately € 213,000) or more.

3-Have employed 30 persons in average or more during the same reporting period

According to the ROSC (2006) the exemption from an annual statutory audit of certain NLCs is compliant with the spirit of the 4th EU Company Law Directive. However, the said thresholds are extremely low. Compared to the maximum audit threshold limits set forth in the Directive it is seen that quite small entities are subject to the audit requirements. While Albania, like some small EU Member States, may wish to use lower thresholds, it should be recognized that these extremely low thresholds will impose an audit obligation on very small companies which may contribute to poor audit quality (Dhamo and Shkurti, 2011, p. 34). Dhamo and Shkurti (2011, pp.13, 14) also state that the above requirements specified in the law for carrying out an independent audit of the financial statements create a favorable environment for the auditors by enhancing their job market. As there are quite a lot of companies in Albania to meet these conditions, the need for certified auditors is really considerable and this has boosted the interest on the profession. Every year more than 50 individuals try to pass the examinations set by law and get the certification as auditors. The clarity of the rules specified in the law no. 10091 and the transparency of the procedures to be followed also contribute toward a

more regulated, supervised and qualitative audit profession.

However financial statement users place very little reliance, if any, on the audit opinion issued by local auditors and on the quality of accounting and financial information in general (Perri and Naqellari, 2010).

6.4. The independent audit of NLCs in EU Company Law Directive

The Directives provide for a system of auditing under which companies must have their annual accounts audited by one or more persons authorized by national law to audit accounts. Such a person or persons must also verify that the annual report is consistent with the annual accounts for the same financial year. Less strict rules are laid down for small and medium-sized companies. Member States may lighten their obligations in respect of the publication of annual accounts or dispense small companies from the requirement that the annual accounts be audited.

"Small" companies are companies which, on their balance sheet dates, do not exceed the limits of two of the following three criteria (http://europa.eu/legislation_summaries/internal_market/businesses/companylaw/126009_en.htm):

- *Balance sheet total: € 4,400,000*
- *Net turnover: € 8,800,000*
- *Number of employees: 50*

The corresponding figures for "medium-sized" companies are:

- *Balance sheet total: € 17,500,000*
- *Net turnover: € 35,000,000*
- *Number of employees: 250*

Table 4. Statutory Independent Auditing Criteria And/Or Thresholds For 2013

Country	Balance sheet total (€)	Net turnover (€)	Number of employees
Albania	213,000	284,000	30
EU (Small)	4,400,000	8,800,000	50
EU (Medium)	17,500,000	35,000,000	250
Turkey	25,000,000	33,000,000	250
Japan	4,836,000*	-	-
*4,836,000 = Capital stock 4,650,000 + liabilities 186,000			
According to Corruption Perceptions Index (CPI) ranked for the year 2013 among 177 countries, Japan 18th, Turkey 53th, Albania 116th and scores: 74, 50, 31 (n/100) (respectively)			

Source: www.transparency.org/cpi2013/results

7. DISCUSSION

According to findings obtained from our research studies and literature review, the countries should recognize the today's development and anticipate the needs of tomorrow in a suitable manner. If we throw a critical look to distinguish which are the perceived difficulties and some of the issues that the auditing profession may face in the near future, we may list followings for the said countries:

a- Considering the above mentioned countries' thresholds shown together in the Table 4, it is seen that the thresholds defined in Turkey are higher than thresholds defined in Japan and in the Fourth Directive. It means, comparing to EU standards, most companies in Turkey are not subject to auditing. Accordingly the new TCC prepared with a modern and reformist approach cannot be considered as a change in commercial life in Turkey for now.

However we have to admit that this period is the transition period and business market needs adequate number of audit professionals who can perform audit of companies. Despite the continuing efforts of the POAASA to provide trainings and qualifications, there are not adequate

numbers of auditors who have the professional knowledge and audit experience to conduct audits according to the auditing standards issued by the POAASA.

On the other hand, the exemption from an annual statutory audit of specified NLCs should be compliant with the spirit of the Fourth EU Company Law Directive. In other word, as a candidate country of EU membership, Turkey may dispense small companies from the requirement that the annual accounts be audited as specified in the Fourth EU Company Law Directive or smaller companies than those specified in the Directive. Thus "Small" companies may be companies which, on their balance sheet dates, do not exceed the limits of two of the following three criteria or less than these criteria:

	Suggested	Currently applied
Balance sheet total	TL 14,000,000 or less (€ 4,400,000)	€ 15,380,000
Net turnover	TL 28,000,000 or less (€ 8,800,000)	€ 30,770,000
Number of employees	50	200

As seen from the table above, there is a gap between the thresholds applied in Turkey and the EU. However it is expected that the gap between Turkey and the EU will be removed by the Turkish authorities.

Also there are some problems auditing firms face in Turkish commerce life as listed below (Dalkılıç et.al., 2012, p.13):

- Most companies are unwilling to comply with external auditing principles
 - Most Turkish companies view external audit only as a legal requirement (not transparency, auditability and so on)
 - Family owned entities are very difficult to audit (they are unwilling to be transparent and audited)
 - There is a high degree of shadow economy
 - External audit is generally used as a tool for credit analysis of creditors
 - There is lack of budget in entities for external auditing
 - Most companies are unwilling to comply with external auditing principles (because of habits and culture of the business world)

b- Albania should define thresholds higher than currently applied. In spite of the wrongdoings encountered and its low CPS, it is not good application to make very small entities be subject to audit. If the thresholds are very low, like Albania currently applies, compared to the maximum audit threshold limits set forth in the EU Directive, quite small (micro) entities are subject to the statutory audit. Consequently it is highly likely that extremely low thresholds imposes an audit obligation on very small companies which may result in poor audit quality. This audit obligation also increases administration costs of small companies arising from external audit service and provides no benefit to stakeholders who may not exist. In this sense, Albania should increase its thresholds in order to exempt very small entities from statutory audit. Thus administration costs of very small companies arising from poor quality external audit service will decrease.

c- On the other hand, considering audit standards, it does not look logical that an audit firm or auditor can cope with audit of more than one entities, if audit firm (or he/she) has no a well-qualified and experienced audit team. In this sense, certified audit firms (**especially big ones**), which have well qualified and experienced audit team, are highly likely to have competitive advantage in the audit market. This is crucial point for local audit firms performing in the said countries.

d- For Japan, which is 18th among 177 countries and has a score of 74/100 in corruption perception index, € 4,836,000 is quite close to EU Directive. According to the findings of our research study, there are some wrongdoing types not intensively encountered in accounting profession in Japan. Still, if wrongdoings exist in accounting profession, more or less than others, companies should be subject to independent audit. Especially in a country like Japan in which %90 of entities are small and medium sized, the threshold € 4,836,000 seems to be quite appropriate.

8. CONCLUSION

1. In the said Countries, it is crucial to define thresholds specifying size of companies subject to independent audit in order to reach the core aim of independent audit. For example in Turkey, the new TCC offers a very important opportunity and foundation for institutionalization, increasing competitive power, establishing public

confidence and transparency. The ethical and transparent structures this change is likely to bring can be established in Turkish commercial life, if the said thresholds are defined in a suitable manner. It may be the same for the other countries as well.

2. We can claim that independent audit of specified limited liability and joint stock companies are public-oriented and required extensive knowledge and ability in given subjects such as accounting applications on IAS, risk management, internal control system, using of technologic facilities and audit culture. In this sense, in order to increase efficacy of the independent audit activities which provides reasonable assurance for commercial life that can ensure a desired level of transparency, auditability, accountability and reliability as a natural consequence of the need for reliable financial information and transparency, specified companies should be those establishing an internal control system and those having an audit culture and economic power to meet cost of such an audit service.

3. It is highly likely that there is a correlation between independent audit need of stakeholders, corruption perception level and frequency/type/intensity of wrongdoings (and corruption) committed by employees (officials). Even if the findings indicate that the types and intensity of wrongdoing in the said countries differ from one to another in some respects; wrongdoings, more or less but as a reality, exist in the accounting practices of the said three countries. Especially internal control system is seen as a crucial shortcoming of many entities in the said countries.

In this context, we suggest that the types and intensity of the wrongdoings encountered in, and CPSs of the said countries should not be criteria to be considered when defining thresholds specifying size of NLCs subject to independent audit. We also suggest that the thresholds should be suitable to make contribution to meeting stakeholders' need. If the said thresholds for NLCs are defined very high, it means even very few entities shall be subject to independent audit. If the said thresholds are defined very low, it is highly likely that this audit obligation increases administration costs of very small companies arising from external audit service. Also it is likely that extremely low thresholds imposes an audit obligation on very small companies which may result in poor audit quality, as seen from Albania case.

4. As known, due to Regulations and interest of entity itself, each company should establish internal control system to protect its assets. However, if internal control system exists, also corruption perception level of employees is extremely important for stakeholders to benefit from internal control system of company, which can prevent wrongdoings from being occurred. As seen from many high profile company scandals occurred in the US and the EU, if employees have low corruption perception level, they can disable even extremely complex internal control system of the company they are working for.

In this sense, thresholds specifying size of NLCs subject to independent audit should be defined by considering economic affect of the company on the stakeholders' interests. Additionally, as being in the Japan case, threshold can depend on even one criteria such as sales revenue, owner's equity or number of employee, regardless of exceeding second criteria.

We conclude that thresholds are best set by considering business structure, and demand and supply factors that can provide contribution to stakeholders of business life.

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