

DEVELOPMENT OF AUDITING IN TURKEY (1963-2020) *

Samet ARSLAN ¹

ABSTRACT

This paper focuses on the historical development of auditing and the audit profession in Turkey. The first auditing activities to emerge in Turkey were around the 1960s and were for various reasons. The substantial development of auditing in Turkey has begun in the middle of the 1980s with the initiation of liberal economic policies by the Turkish government. This development was accelerated by the establishment of the Istanbul Stock Exchange and it has brought the biggest international audit firms into Turkey. Meanwhile, various public authorities had made regulations for the audit sector relevant to their regulatory scopes. It is understood that the development of auditing activities occurred as a natural consequence of economic developments across various sectors. This paper demonstrates how the audit sector in Turkey has grown and which authorities are actively involved in the regulation and supervision of audit activities in the period extant from the international audit firms' arrival in Turkey to the end of 2020. The laws and regulations that came into force in this period, the regulatory and supervisory institutions, and their contribution to auditing are examined. In light of these, an assessment is made about the development of the audit sector in Turkey.

Keywords: Accounting, auditing, public oversight.

Jel Code: M41, M42, M48

TÜRKİYE'DE BAĞIMSIZ DEĞİSİMİN GELİSİMİ (1963-2020)

ÖZ

Bu çalışma, Türkiye'de bağımsız denetimin ve bağımsız denetim mesleğinin tarihsel gelişimine odaklanmaktadır. Türkiye'deki ilk bağımsız denetim faaliyetleri, 1960'lı yıllarda çeşitli nedenlerle ortaya

* This is the improved version of the paper submitted to the 2nd International Congress on Accounting and Finance History, Trabzon, Turkey, 2021.

¹ CPA, Senior Expert, Public Oversight Authority of Turkey, samet.arslan@kgk.gov.tr, ORCID: 0000-0003-2933-404X

Atıf (Citation): Arslan, S. (2022). Development of Auditing in Turkey (1963-2020). *Muhasebe ve Finans Tarihi Arařtırmaları Dergisi*(22), 19-38.

çıkıştır. Devam eden süreçte Türkiye'de bağımsız denetimin gelişimi, Türk hükümetinin 1980'lerin ortalarında liberal ekonomi politikalarına geçmesiyle başlamıştır. Bu gelişme İstanbul Menkul Kıymetler Borsası'nın kurulmasıyla hızlanmış ve uluslararası denetim şirketlerini Türkiye'ye getirmiştir. Bu sırada, çeşitli kamu otoriteleri bağımsız denetim sektörüne yönelik düzenleyici kapsamda düzenlemeler yapmışlardır. Bağımsız denetim faaliyetlerinin gelişiminin, çeşitli sektörlerdeki ekonomik gelişmelerin doğal bir sonucu olarak gerçekleştiği anlaşılmaktadır. Bu çalışma, uluslararası denetim firmalarının Türkiye'ye gelişinden 2020 yılının sonuna kadar geçen süreçte, Türkiye'de bağımsız denetim sektörünün nasıl geliştiğini ve denetim faaliyetlerinin düzenlenmesi ve gözetiminde hangi mercilerin aktif olarak yer aldığını ortaya koymaktadır. Ayrıca, bu dönemdeki düzenleyici ve denetleyici kurumlar ile bunların bağımsız denetime katkıları incelenmektedir. Tüm bunların ışığında, Türkiye'de denetim sektörünün gelişimi hakkında bir değerlendirme yapılmıştır.

Anahtar Kelimeler: muhasebe, denetim, kamu gözetimi.

Jel Kodu: M41, M42, M48.

1. INTRODUCTION

Auditing was progressed by the acceleration of capital inflows to Turkey after the country initiated liberal economic policies by the request of the World Bank. In January 1980, a series of economic decisions imposed by the IMF were taken to reduce the inflation rate, increase production, and support import activities. During the reconstruction period starting in the early 1980s, Law No. 2499 was put into effect in 1981 to prepare the grounds for establishing capital markets. The Law of Istanbul Stock Exchange (ISE) enacted in 1984, the start-up of ISE in 1986, and the increase in foreign investments advanced the development of the accounting and auditing standards.

An increase in joint ventures and foreign trade led to the establishment of branches of the 'Big Eight' accounting firms in Turkey. As a result of these developments, large private enterprises started to report their financial statements in accordance with the International Accounting Standards and national reporting requirements. With the formation of the capital markets in Turkey in the 1980s, financial statements began to be audited and disclosed according to the International Accounting Standards although the commercial books were kept on a tax basis.

Several agencies and institutions, in particular, the Capital Markets Board (CMB), the Banking Regulation and Supervision Agency (BRSA), the Insurance Supervision Board (ISB), and the Energy Market Regulatory Authority (EMRA) had been regulating the audit sector, and the Union of Chambers of CPAs and Sworn-in CPAs of Turkey (TURMOB) had also given support to this process with its professional title. However, this situation led to a fragmented structure in the audit sector of Turkey.

With the issuance of the new Turkish Commercial Code (TCC) in 2011, auditing has gained a new dimension. The new TCC required the establishment of an audit oversight body, an institution with the relevant authority and responsibility, to create a holistic legal structure in the field of statutory audit in Turkey.

For this purpose, the Public Oversight, Accounting and Auditing Standards Authority (KGK) was established by Statutory Decree No. 660 and on 2 November 2011. The establishment of the KGK is an important achievement for Turkey, in particular, for the EU accession process and it has made great contributions to the effective implementation of the New Turkish Commercial Code (TCC).

2. THE BEGINNING OF AUDIT IN TURKEY

2.1. The Arrival of the International Audit Firms

The first audit activities in Turkey has emerged in the middle of the 1960s by the need of Turkish banks which engaged in international banking activities and had to meet the reliable financial information requirements of international funding and lending institutions (Selimoğlu et al, 2011: 34). This need arose from the necessity of providing reliable financial information in the international market in order to increase credibility and meet the financing need, but it was not met in those years.

The first step in audit in Turkey was the incident of Turkish companies mainly with foreign capital that faced with the obligation of audit to benefit from external credit resources. Auditing was progressed by the acceleration of capital inflows to Turkey, the need for the consolidated financial information for the headquarters of foreign capital companies, and the demand for consultancies such as for the international financing opportunities, tax laws, Turkish Commercial Code, application to the Foreign Capital Department, investment incentives and business partnerships (Uzay, 2009: 131).

The need for audit services in Turkey increased over time in parallel with the demand for reliable financial information arising from partnerships between directly investing multinational companies in Turkey and Turkish companies, developments in industrialization, ever-increasing international trade activities, and international banking transactions. That is to say, the requirement for the accounting of the relevant companies to be audited was a prerequisite for the reasons given above (Gücenme & Ersoy, 2006: 315), and the foreign companies operating internationally preferred to use foreign audit firms. Consequently, in 1967 the foreign audit firm Touche Ross established the MUHAS Joint Stock Company in Turkey along with Turkish partners. The other audit firm in Turkey was established in 1970 by a group of executives from the Association of Accounting Experts of Turkey: Aris Arastırma, Danışmanlık ve Gelistirme Anonim Sirketi (Aris Research, Consultancy and Development Joint Stock Company).

With the introduction of liberal economic policies, foreign capital inflows had increased and the Turkish economy had been developed. The more the Turkish economy developed, the more foreign auditing firms established branch offices in Turkey. In 1971-1972, Turkish citizens Burhan Karaçam, Alp Bayülken, Cevdet Suner and Turhan Yetkin started to work in the London office of Arthur Andersen and became the first experts of the office to be established in Istanbul. Arthur Andersen opened an office in 1975 and Arthur Young opened an office in Istanbul in 1983. In 1982, Güven Accounting and Tax Consultancy Office established “Güven

and Coopers and Lybrand A.Ş.” in partnership with the international “Coopers and Lybrand” firm. The Price Waterhouse has been operating in Turkey since 1981 (Güvemli at al, 2016: 5-6).

Table 1: Big 6 Audit Firms in the World and Their Affiliates in Turkey

Big 6 Audit Firms (World Ranking by Revenue)	Big 6 Audit Firms in Turkey (National Ranking by Revenue)		
	Audit Firm	Turkish Office	Establishment Date
PwC	PwC	PWC	1981
Deloitte&Touch	KPMG	KPMG	1982
KPMG	Deloitte&Touch	DRT	1986
E&Y	E&Y	Güney	2006
BDO International	Grant Thornton	Eren/Engin	1999
Grant Thornton	BDO International	BDO Denet	1981

Source: (www.kgk.gov.tr, 2021; Kandemir, 2016: 9)

International audit firms operating in Turkey negatively affected the development of local audit firms. This was particularly due to the fact that companies operating internationally preferred to use international audit firms and this preference shrank the market share of Turkey’s domestic auditing firms and auditors.

In Turkey, mandatory audit requirement was first introduced for the banks in 1987, but the principles and rules regarding auditing in Turkey were first defined under the Capital Markets Board’s regulations in the same year. On 3 November 1988, the Independent Audit Association was established by 33 individuals who were the founding partners of 19 Audit Firms that were authorized by the Capital Markets Board (Independent Audit Association, 2019).

2.2. Audit Commenced with the Capital Markets Board (CMB)

The Capital Markets Board (CMB) was established by Capital Market Law No. 2499 which dated 28 July 1981. CMB’s first regulation on auditing was the Independent Audit By-Law, which was entered into force in 1988. The main features of this By-Law were putting the audit in Turkey on a legal ground and being the first legislation in this regard. With this By-Law, companies registered in the stock exchange started to be audited by audit firms authorized by the CMB (Kepekçi, 2004:16).

Auditing in accordance with international accounting standards has started with the Communiqué Serial: 10 No: 1 issued by the CMB in 1989 upon the establishment of the Istanbul Stock Exchange, which started to operate in 1986, and in which 80 companies are listed in the same year. The CMB has used its regulations starting with Serial: 10 to regulate the audit activities and contributed to forming auditing standards in Turkey with said regulations. In 2005, the CMB issued the “Communiqué on the Independent Auditing Standards in the Capital Markets” (Serial: 10, No. 22) in order to determine the standards, principles and procedures

regarding the audit activities in the capital market for the audit firms and auditors to be authorized by the CMB to perform this activity.

The CMB has obtained its main authority regarding the audit from Law No. 6362 dated 6 December 2012. The aforementioned law granted the following authority to the CMB:

- The authority to determine additional requirements for the authorization of audit firms servicing to companies operating in the capital markets,
- The authority to separately declare the audit firms servicing to companies operating in the capital markets in the form of lists,
- The authority to remove audit firms from the list as an administrative sanction,
- The authority to conduct quality control reviews and inspections (Karataş, 2014: 128).

2.3. Regulations of Other Authorities Related to Audit

2.3.1. Audits of Insurance Companies

The Insurance Supervision Board (ISB) was established in 1963 and was responsible for the auditing of activities and transactions of insurance companies. The ISB was restructured in 1994 and started to operate as an audit unit under the Undersecretariat of the Treasury, in order to conduct audits of the insurance companies' transactions. The ISB was responsible for the qualifications, operations, registration and suspension of both the local insurance companies and the local branches of international insurance companies. The ISB was also responsible for regulating the procedures and principles regarding the contents of the audit contract and the obligations of the parties to the audit contract (Kaval, 2008:48). Upon the rapid growth of the insurance sector in Turkey and its weight in the financial system, the General Directorate of Insurance and the ISB were merged under the name of Insurance and Private Pension Regulation and Supervision Agency on 18 October 2019.

2.3.2. Audits of Banks and Other Financial Institutions

Banking Law No. 3182 issued in 1985, distributed the responsibility of banking supervision and oversight among the Central Bank, the Undersecretariat of Treasury and the Banks Association of Turkey. In 1994 an economic crisis happened in Turkey and the banking sector experienced a great shakeup; the government distrained 11 banks between 1994 and 1999. Then, a new law, banking law No. 4389 and dated 18 June 1999 was passed. With the passing of this law, only one autonomous regulatory and supervisory institution was left to deal with the banking sector: The Banking Regulation and Supervision Agency (BRSA).

After the crisis in the banking sector in the 2000s, banking legislation had been amended continuously. Amendments related to audit include detailed requirements about conducting audit, objective and scope of audit and sanctions for the audit firms. Moreover, the BRSA has the authority to carry out inspections over the audit firms.

The BRSA was founded in 1999 and played an effective role in both the 2001 and 2002 economic crises and subsequently towards the banking sector in Turkey. In 2001 and 2002

several banks were confiscated by the government. In this period, a short-term practice was also applied to the institutions that have the authority to conduct audits in the field of banking to examine each other's work under the name of "special audit", by referring to a method called peer review in the literature for the purpose of controlling the quality of operations of the audit firms (Okur, 2007: 11).

Due to the decisions taken and regulations enacted in the aforementioned years, Turkey has entered a transformation process for the first 20 years of the 21st century. With Banking Law No. 5411 dated 19 October 2005, which is the current banking law, the banking sector was revised. The authority of the BRSA regarding the audit as defined in the first paragraph of Article 33 of the Law No. 5411 can be summarized as follows:

- The authority to determine additional requirements for the authorization of audit firms servicing to companies operating in the banking sector,
- The authority to separately declare the audit firms servicing to companies operating in the banking sector in the form of lists,
- The authority to remove audit firms from the list as an administrative sanction,
- The authority to conduct quality control reviews and inspections (Karataş, 2014: 128).

As of December 2020; 55 banks operate in Turkey, which consist of 32 commercial banks, 15 development and investment banks, 6 participation banks and 2 banks under the Savings Deposit Insurance Fund. The number of audit firms authorized by the BRSA for the audits of these banks is 28, while the number of audit firms authorized for the information systems audits of these banks is 7 (Banking Regulation and Supervision Agency, 2021).

2.3.3. Audits of Energy Market Companies

According to the legislation of the Energy Market Regulatory Authority (EMRA), companies operating in the petroleum and electricity markets were in the scope of the mandatory audit. In the Electricity Market, entities that are required to be independently audited are power plants, automotive companies, wholesale companies, marketing companies, and companies in the retail industry. In the petroleum market, the entities that are required to be independently audited are storage companies, mineral oil companies, companies with free user authority, transmission companies, companies making petroleum spill, refining companies, companies with machining licenses, marketing companies, companies with an outlet license, and shipping companies. The EMRA had been regulating the audits in the energy market by "By-Law on Audits of Real People and Legal Entities". However, this By-law was abolished on 25.03.2015 and Public Oversight, Accounting and Auditing Standards Authority's (KGK) regulations regarding audit were accepted and EMRA's authority for audit was transferred to the KGK.

3. THE INSTITUTIONALISATION OF THE ACCOUNTING PROFESSION AND THE AUDIT IN TURKEY

3.1. Profession Law No. 3568

The development of the accounting profession in Turkey has gained momentum with the Law of Accountancy Profession No.3568 and dated 01.06.1989. The “Law of Accountancy, Certified Public Accountancy and Sworn-in Certified Public Accountancy” was a major reform law that has brought the profession to legal rules and organizations. It is stated in the Law’s preamble that “auditing is essential to provide the necessary resources and reliable information for economic development, thus, there is a need for an organization”. This law is one of the most important milestones in the institutionalization of the accountancy and audit professions in Turkey. The audit-related objectives are explained in the first article of the Law as follows:

- *To ensure the healthy and reliable functioning of operations and transactions in enterprises*
- *To audit and evaluate the results of the operations within the framework of the relevant legislation,*
- *To present the facts for the use of the concerned persons and authorities*

Under the provisions of this Law, persons authorized to perform the professions are identified as, Certified General Accountant (CGA) (abolished in 2008), Certified Public Accountant (CPA), and Sworn-in Certified Public Accountant (Sworn-in CPA). In Article 2 of the Law, members of the profession and their duties are explained as follows:

Table 2: Titles in the Profession Law and Their Main Duties

Titles	Duties
Certified General Accountant (CGA)	Bookkeeping
Certified Public Accountant (CPA)	Bookkeeping and auditing
Sworn-in Certified Public Accountant (Sworn-in CPA)	Certifying financial statements and auditing

Source: The “Law of Accountancy, Certified Public Accountancy and Sworn-in Certified Public Accountancy No.3568 and dated 01.06.1989

3.2. The Union of Chambers of CPAs and Sworn-in CPAs of Turkey (TURMOB)

A system for the accounting and audit profession was established by Law No. 3568. The objectives and fields of activity of the audit are determined and with Article 28 of the law, the Union of Chambers of CPAs and Sworn-in CPAs of Turkey (TURMOB) was established. With this Law, the TURMOB is a union established by the law on accounting and audit profession.

The TURMOB is a professional organization with a public institution status based in Ankara, Turkey. As of December 2020, there are a total of 120,035 members of the profession registered to 8 Sworn-in CPA and 77 CPA chambers affiliated to TURMOB, 7,267 of whom are CGAs, 107,932 of whom are CPAs, and 4,836 of whom are Sworn-in CPAs (TURMOB, 2021).

The General Assembly of the TURMOB consists of representatives elected by the chambers affiliated with the union. The General Assembly convenes every 3 years in September. The Board of Directors of the TURMOB is elected from among the members who have at least 3 years of seniority in the professional chamber they are registered to. 9 permanent and 9 substitute members are elected to the Board of Directors for a period of 3 years. At least 5 of the permanent members must be Sworn-in CPAs. Those whose term of office has expired can be re-elected for at most one more term.

The Disciplinary Board of the TURMOB is elected among members who have at least 3 years of seniority in the profession chamber they are registered to and actively participating in the profession. 5 permanent and 5 substitute members are elected to the Disciplinary Board for a period of 3 years.

The Supervisory Board of the TURMOB is elected among members who have at least 3 years of seniority in the profession chamber they are registered to and actively participating in the profession. 3 permanent and 3 substitute members are elected to the Supervisory Board for a period of 3 years. At least 1 of the permanent members must be a Sworn-in CPA.

Founded in 1993, the TURMOB Basic Education and Training Center (TESMER) is a center that prepares safeguards for the renewal of internship programs every year, the regular and disciplined internships and the auditing of internships, and announces these to the chambers. It is managed by 5 members elected from among the members of the profession by the Board of Directors of the TURMOB.

Sworn-in CPA and CPA candidates are required to take and to be successful in written exams. Exams are held for general and special conditions and other qualifications required by professions for Sworn-in CPA and CPA candidates. Confidentiality is essential for written examinations. The issues related to the exams are determined by the Association. Sworn-in CPA and CPA exams are held 3 times a year.

A Sworn-in CPA or a CPA chamber that is affiliated to TURMOB can be established in a city or a town that has at least 250 accountancy professionals. The Istanbul Chamber of CPAs, which was established on 20 March 1990 is the largest of these chambers. The Istanbul Chamber of CPAs, which has been carrying on its activities intensively for thirty years since its inception, is one of the largest professional accounting chambers of the world with its management staff of 17 people, supporting boards, working committees, 80 employees and approximately 45,000 members and 10,000 interns.

It is envisaged to establish a center with the “Communiqué on the Establishment of an Independent Audit Centre” to improve the performance and quality of the audit profession, to contribute to the protection of the independence and impartiality of the accounting profession, to maintain trust in accounting auditors and professionals at national and international levels, and to ensure the approval, registration, follow-up and public disclosure of the audit firms and auditors formed by the members of the TURMOB.

In accordance with the abrogated Capital Market Law, TURMOB consulted with the Capital Markets Board on the information sharing of the disciplinary status of the members of

the profession working for the audit firms. Furthermore, TURMOB conducted joint operations with the Banking Regulation and Supervision Authority regarding the quality assurance systems of the audit firms (Sayar, 2013:55).

3.3. Auditing Conducted by Sworn-in CPAs

Sworn-in CPAs are responsible for ensuring appropriate and reliable functioning of the activities and transactions in the companies, auditing and evaluating the results of the activities within the framework of the relevant legislation, and presenting the real situation in an objective manner for the benefit of the related parties and the governmental institutions. The scope of the Sworn-in CPAs' work is explained in Article 12 of the Profession Law No. 3568 as:

“Sworn-in CPAs certify the compliance of the financial statements and tax returns prepared by individuals and entities and the enterprises thereof with the provisions specified in the legislations, accounting principles and the accounting standards, and further certify that the accounts have been inspected in accordance with the auditing standards”.

The Sworn-in CPA title is unique to Turkey. Sworn-in CPAs approve the financial statements of the audited entity. This approval is only for tax purposes and is addressed to the Ministry of Treasury and Finance. However, the approval does not make a definitive provision, as the state tax inspectors can also audit the audited entity and, if necessary, hold the Sworn-in CPA accountable.

In order to become a Sworn-in CPA, it is necessary to be highly educated, to work as a CPA for at least ten years and to succeed in the Sworn-in CPA exam. The tax reports prepared by Sworn-in CPAs at the end of each year and submitted to the Ministry of Treasury and Finance is called the Continuous Audit and Approval Reports. These reports are nearly a hundred pages with their attachments. These reports are in line with the needs of the Ministry of Finance because they are only given to the aforementioned Ministry. Almost all of the Continuous Audit and Approval Reports belong to corporate taxpayers.

As mentioned earlier, the regulations related to Sworn-in CPAs have been established by the profession law No. 3568 and its related legislation. However, in time, with the regulations of the Ministry of Finance, Sworn-in CPAs have become predominantly tax auditors. In this regard, it is possible to qualify the audits conducted by Sworn-in CPAs as a mixed type of auditing, containing both the tax audit of public nature and audit of a corporate nature. Thus, the practice in Turkey is comparable to Continental Europe practice.

4. THE BEGINNING OF THE CONTEMPORARY AUDIT IN TURKEY – PUBLIC OVERSIGHT AUTHORITY

4.1. Legal Basis of the Public Oversight Authority - Turkish Commercial Code No. 6102

Accounting and auditing scandals that took place in the United States (US) and the European Union (EU) in the early 2000s such as Enron and Parmalat have forced public authorities to take sound measures for financial information auditing. The most concrete

examples of these measures are the Directive 2006/43/EC of the EU and the Sarbanes and Oxley Act in the US, which provide for the establishment of quality assurance and public oversight systems in the EU member states and the United States respectively.

In Turkey, several agencies and institutions, in particular, the Capital Markets Board (CMB) and the Banking Regulation and Supervision Agency (BRSA), had been regulating the audit profession and activities since 1987, and this situation led to a fragmented structure in the field of auditing. In the “Reports on the Observance of Standards and Codes” (ROSC Report) prepared by the World Bank in 2005, similar findings were mentioned about the implementations in the field of accounting and auditing in Turkey (World Bank, 2007).

This fragmented structure caused the implementation of different methods and techniques while conducting the audit and also resulted in more than one audit report for the same accounting period for the same entity. Moreover, the lack of a competent authority to oversee the audit activities restrained the effective implementation of regulations and prevented to provide reasonable assurance to the public in this regard.

Former commercial codes issued in 1850, 1926 and 1956 are known to be the integration laws with Western Europe. The new TCC, which was drafted in 2005 but issued on 13 January 2011, is seen as a door to globalization. In the preamble of this code, it is stated that:

“Turkey, which will initiate full membership negotiations with the EU in October 2005, must be a part of the international markets, likewise Turkish companies must be competitive, effective and reliable actors of the international markets. The primary requirement for this is to present Turkish companies’ financial statements in accordance with International Financial Reporting Standards (IFRSs) and audit those statements in accordance with international standards on auditing (ISAs). As well as providing an international reputation, said standards will allow Turkey to compare its economic scale to counterpart countries, and accordingly will also enable the determination of sustainable and strategic policies. The Turkish Commercial Code is the only instrument in achieving these objectives.”

It is clear from this statement that the New TCC is an integration law with both the EU and the World.

With the issuance of the new TCC, auditing has gained a new dimension. Turkey has been in the EU harmonization process and the new TCC is prepared in accordance with the EU company law. With this code, the audit, which was formerly conducted by the compulsory bodies of the companies and can be carried out by an auditor who does not have the necessary expertise in the audit, has been replaced by an audit mechanism that should be performed by the audit firms or by auditors.

Article 88 (amended on 26 June 2012) of the new TCC includes the authority of the Public Oversight Authority, Articles 397 to 406 include the requirements about the audit, and Articles 514 to 517 include the obligations of joint-stock companies relating to financial statements. The companies that will be subject to audit are determined in accordance with Article 397 of the new TCC. The procedures and principles for the implementation of this determination are issued by the Public Oversight Authority. Pursuant to the latest decree published in the Official Gazette on 26 March 2018, public interest entities and entities providing at least two of the following criteria at the two consecutive accounting periods are subject to mandatory audit:

- Total assets: 35 million Turkish Liras or more,
- Annual net revenue: 70 million Turkish Liras or more,
- Employee headcount: 175 or more,

(As of December 2020, the above amounts are approximately €3.85 million for total assets and €7.7 million for annual net revenue.)

At the end of 2020, nearly 12,000 companies are subject to mandatory audit in Turkey. In addition to this, approximately 5,000 companies are having audits voluntarily due to the reasons such as the request of their foreign shareholders or taking out loans. (KGK, 2021)

4.2. Establishment Period of Public Oversight Authority

The passing of the New Turkish Commercial Code (TCC) required the establishment of an institution with the relevant authority and responsibility, in order to create a holistic legal structure in the field of statutory audit in Turkey. For this purpose, the Public Oversight, Accounting and Auditing Standards Authority (KGK) was established by the Statutory Decree No. 660 and on 2 November 2011. Establishment of the KGK is an important achievement for Turkey, in particular, for the EU negotiation process and it will make great contributions to the effective implementation of the New TCC.

The KGK is a public legal entity with administrative autonomy, related to the Ministry of Treasury and Finance, and is independent while carrying out its duties. No body, office, authority and person may give any orders and instructions with the aim of affecting the Board decisions.

The KGK is composed of a Chairmanship and a Board. The Chairmanship is responsible for implementing the Board decisions and assisting the Board in other issues. The Chairmanship includes the Chairman, Vice-Chairmen and service departments. The Board of the Authority is composed of nine members and appointed by the President of Turkey (KGK, 2021)

For a better understanding of the reason for the establishment of the KGK, one should check the preamble of the Statutory Decree No. 660. To summarize:

- To remove the fragmented structure in the audit regulations and to form a single authority,
- To comply with the Company Law Chapter of the EU,
- To ensure effective public oversight, quality and reliability,
- To form uniform financial statements and to set auditing standards,
- To set national standards in line with international standards and developments,
- To support transparent capital markets.

A supreme board with regulatory and supervisory authorities was formed with the Statutory Decree No.660, which was prepared in the same direction as its preamble. Pursuant to the aforesaid Decree, the Board has the following duties and responsibilities:

- To set and issue Turkish accounting standards in compliance with international standards. In order to ensure the global integration of Turkish companies, these

standards are prepared in accordance with international accounting standards (IFRSs) published by the International Accounting Standards Board (IASB).

- To set and issue national auditing standards. These standards are prepared in accordance with audit standards issued by the International Federation of Accountants (IFAC) affiliated boards for compliance with globalization.
- To determine the working principles and qualifications of the statutory auditors and audit firms, register and declare them in the KGK's and monitor their activities within the frame of quality assurance in order to ensure wholesome implementation of Turkish accounting and auditing standards,
- To monitor and supervise the operations and auditing activities of the statutory auditors and audit firms in order to ensure whether they are in compliance with the standards and regulations issued by the Authority,
- To conduct disciplinary and investigative procedures and in case of breaches, suspend or cancel the license of the statutory auditors or audit firms,
- To determine the rules of exams, authorization and registration, professional ethics and continuing education standards for the auditors by evaluating the global practices and nature of the profession in Turkey together.

Parallel to the system envisaged in the TCC regarding accounting and auditing, the KGK aims to set financial reporting and auditing standards in compliance with international standards, to provide uniformity in the implementation by approving auditors and audit firms and to ensure auditors and audit firms to provide audit service at international quality standards by making public oversight within the frame of the Statutory Decree No. 660.

Thus, companies in Turkey will become competitive, efficient and reliable actors of international capital markets with their financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs) and audited in compliance with the International Standards on Auditing (ISAs).

4.3. Development Period of the Public Oversight Authority (2012-2020)

The KGK has been operating since its establishment for accurate and reliable financial information to be used in the decision making processes of financial statement users by improving the quality of financial reporting and auditing, in order to support economic growth by increasing confidence in capital markets.

4.3.1. Operations Related to Accounting Standards

Turkey has entered a process of harmonization with international practice in the early 2000s in line with the developments in accounting and financial reporting practices in the world. Turkey has adopted IFRSs for the financial statements of all public interest entities. Companies whose securities are traded in a regulated market, intermediary institutions, and portfolio management companies were permitted to use IFRSs as of 2003 voluntarily and have been required to use IFRSs since 2005. Banks have been required to use IFRSs since 2006. Financial lease companies, factoring companies and financing companies have been required to use IFRSs since 2007. Insurance, reinsurance and pension companies have been required to use IFRSs since 2008 (IFRS Foundation, 2021).

IFRSs are accounting standards issued by the International Accounting Standards Board (IASB) under the IFRS Foundation to ensure that business accounts are understandable and comparable across international boundaries and to provide a common global language for business transactions. The IASB is the independent standard-setting body of the IFRS Foundation. The IASB was established on 1 April 2001 as the successor of the International Accounting Standards Committee (IASC) and is responsible for the development of IFRSs and the implementation and use of these standards around the world.

The new TCC defines the KGK as the sole supreme authority to set and issue accounting standards in Turkey. Thus, one of the most important tasks of the KGK is to set and issue Turkish Accounting Standards and to determine the application scope of those standards. In addition, the KGK may set special or exceptional standards for different types of entities and sectors and it has the authority to make secondary regulations and take necessary decisions for the implementation of Turkish Accounting Standards. The KGK strategically has the objective of setting accounting standards in full compliance with the IFRSs.

IFRSs are incorporated into laws and regulations as Turkish Accounting Standards (TASs) and Turkish Financial Reporting Standards (TFRSs) for sustainable compliance with international practices. TASs and TFRSs are fully compliant with the IFRSs issued by the IASB, and they are published in the Official Gazette of Turkey. As of December 2020, 1 Conceptual Framework for Financial Reporting, 42 Turkish Accounting/Financial Reporting Standards (TASs/TFRSs) and 19 TAS/TFRS Interpretations are in force. Those standards are continuously updated in accordance with the amendments made by the IASB with the effective dates as originally pronounced by the IASB preserved. As a result of these regulations, Turkish Accounting Standards are kept alive and compliance with the IFRSs is maintained.

Currently, Turkish Accounting Standards are used by public interest entities. In this context, in accordance with the Board Decision dated 13/09/2018 on "Determination of Scope of Turkish Accounting Standards Implementation", 2,107 companies are required to apply Turkish Financial Reporting Standards in their consolidated and standalone financial statements in the financial year 2020. (KGK, 2021)

The KGK developed the Financial Reporting Standard for Large and Medium-Sized Entities (BOBI FRS) for entities, which are not required to apply Turkish Accounting Standards but are within the scope of the mandatory audit. BOBI FRS is based on the requirements in the EU Accounting Directive, the IFRS for SMEs Standard, FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and local Turkish GAAP and published it in the Official Gazette on 29 July 2017. BOBI FRS has been effective from the reporting periods beginning on or after 1 January 2018.

BOBI FRS was designed to meet the financial reporting needs of large and medium-sized entities and is a standalone standard with 27 sections and less than 240 pages. It provides a cost-effective way of financial reporting for medium-sized entities and additional obligations were introduced for large-sized entities in line with the "think small first" approach in the EU Accounting Directive.

4.3.2. Operations Related to Auditing

The Statutory Decree No. 660 and the new TCC define the KGK as the sole authority to oversee the audit profession in Turkey and to issue national auditing standards in compliance

with the international standards. Thus, another important task of the KGK is to set Turkish Standards on Auditing in compliance with international standards. According to Article 9 of Statutory Decree No. 660, Turkish Standards on Auditing comprise a broad range of standards including quality control, auditing, review, other assurance and continuing education standards, professional ethic rules and information system auditing standards.

In order to ensure the audits to be qualified in Turkey, the KGK signed a copyright agreement with the International Federation of Accountants (IFAC) in 2013. The auditing standard-setting process has been conducted on the basis of IFAC's Policy for Translating Reproducing Standards and consultation commissions and a review committee have been composed for the adaption of the standards. The KGK has translated and implemented as Turkish Standards on Auditing substantially all of the suite of international auditing and audit-related standards as issued by the International Auditing and Assurance Standards Board (IAASB). The KGK has also translated and issued for publication the Code of Ethics as issued by the International Ethics Standards Board for Accountants (IESBA). The projects for the revisions of standards carried by the independent boards within IFAC are closely followed and TSAs are also being revised on a timely basis.

Table 3: Auditing Standards Issued

	Number of IFAC Standards	Number of Turkish Standards
Standards on Auditing	37	37
Quality Control Standard	1	1
Standards on Review Engagements	2	2
Assurance Standards	5	4
Standards on Related Services	2	2
Code of Ethics	1	1

Source: Annual Report of the KGK, 2020

Registration with the KGK is a fundamental requirement for auditors and audit firms. An audit shall be carried out only by auditors or audit firms authorized by the KGK. As of 31 December 2020, 18,879 members of the profession (CPAs and Sworn-in CPAs) had been approved and 16,934 of them were registered as auditors.

Table 4: Total Number of Auditors

Professional Title	Approved	Registered	Not registered
Sworn-in CPA	3,085	2,968	117
CPA	15,794	13,966	1,828
Total	18,879	16,934	1,945

Source: Annual Report of the KGK, 2020

Table 5: Auditors Authorized by KGK over the Years

Years	Professional Title			Scope of Audit			
	CPA	Sworn-in CPA	Total	Basic Scope	Basic Scope+ Banking+ Capital Markets	Full Scope	Total
2013	4,124	1,376	5,500	49	1,069	4,382	5,500
2014	4,430	1,070	5,500	82	546	4,872	5,500
2015	3,383	443	3,826	58	376	3,392	3,826
2016	1,505	85	1,590	13	45	1,532	1,590
2017	1,146	44	1,190	50	90	1,050	1,190
2018	479	27	506	68	73	365	506
2019	486	24	510	94	82	334	510
2020	241	16	257	70	39	148	257
Total	15,794	3,085	18,879	484	2,320	16,074	18,879

Source: Annual Report of the KGK, 2020

As of 31 December 2020, 341 audit firms have been authorized and registered by the KGK. 69 of those firms have been approved to conduct the full scope audits (audits of public interest entities and non-public interest entities including entities operating in capital markets, banking and insurance sectors), 79 of those firms have been approved to conduct full-scope audits excluding the insurance sector audits, and 193 of them have been approved to conduct the audits of non-public interest entities.

As of the end of 2020, a total of 3,915 auditors are employed in 341 auditing companies, 1,690 of which are lead auditors. In this context, when the number of auditors employed in the audit firms is compared to the total number of auditors, which is 18,879, it is understood that the auditors operate mostly individually.

The KGK has established a Public Register in which auditors and audit firms are identified by an individual number. Registration information is stored in the register in electronic form and is electronically accessible to the public. Registration information of the auditors approved by the KGK is disclosed to the public at KGK's webpage.

Statutory Decree No. 660, which is the law of establishment of the KGK requires that all auditors demonstrate their commitment to Continuous Professional Development (CPD), which is an essential attribute for professionals. Auditing standards and other best practices are continuously evolving and developing, new and amended ISAs and IFRSs are issued every year; audit quality relies on audit professionals continually updating their knowledge and skills. The CPD scheme is based on a three-year cycle; auditors would be required to demonstrate that they had undertaken sufficient appropriate and relevant CPD activities over the three-year period or be required to undertake a training and education course leading to a confirmatory test or examination. The KGK issues lists of such relevant activities with scoring for each activity, and also accredits providers of training, relevant conferences and similar hosts of CPD activities.

With the enactment of the New TCC and the establishment of the KGK, the number of companies that fall in the scope of audit and the number of auditors and audit firms that are subject to oversight have been increased. The KGK has developed an Audit Engagement Portal, an online IT platform where auditors are required to enter details of all of their audit engagements. Auditors are required to upload a copy of all Audit Engagement Letters once signed. They are also required to upload the final audit opinion, thus making available to the audit regulator the key documents at the start and end of the audit process. This portal and the information which is entered into it by all auditors in relation to all audits enable the KGK to perform continuous off-site audit oversight.

The KGK inspects registered audit firms and auditors to assess their compliance with the Turkish Commercial Code, the Statutory Decree No. 660, the rules and regulations of the KGK and professional standards, in connection with the performance of audits, issuance of audit reports, and related matters involving Turkish companies. The Authority inspects audit firms and auditors in the context of a sufficient number of selected audit files, notices and documents, and other information within the scope of its Quality Assurance System. Inspections are carried out in the scope of the annual inspection plan prepared by the Board every year by receiving opinions of relevant authorities. Results of inspections shall be announced to the public opinion every year with a report. Inspections of the audit firms cover:

- Review of audit work performed within the scope of relevant legislation,
- Regulatory compliance of audit firms' activities,
- Quality and quantity of resources spent in audits,
- The audit fees charged,
- Internal control system of the audit firms.

Audit firms that audit Public Interest Entities should be inspected at least once every 3 years and other firms should be inspected at least once every 6 years. Inspections of auditors are carried out when deemed necessary by the KGK. However, the KGK reserves the right of performing or causing others to perform an inspection in case of a warning, complaint, notification and other cases considered necessary in addition to the planned inspections.

Enforcements are applied in accordance with the principles and procedures set by the KGK. The KGK has the authority to investigate and discipline audit firms and auditors for noncompliance with the relevant legislation. When violations are found, in addition to fines the KGK can impose appropriate sanctions that compose of:

- Warning.
- Suspension of the approval for up to two years,
- Withdrawal of the approval.

In case of repeated violations, aggravated sanctions shall be imposed by the KGK. As a result of the inspections and investigations carried out by the KGK and where it is possible to remedy, the KGK may grant a separate period suitable for remedying the violations and deficiencies detected prior to taking a decision for sanction. Where it is detected that the violations and deficiencies are not remedied by the end of the period so granted, the corresponding administrative sanctions shall apply (KGK, 2021).

4.3.3. Organizational Structure of the Public Oversight Authority

In order to fulfil its duties effectively and in a quality manner, the KGK aims to be a leading and innovative institution by reviewing its organizational structure, quality and quantity of human resources and operational business processes. In this context, the required infrastructure and processes have been established in order to create the most appropriate organizational structure in line with the strategic objectives determined by taking into consideration the legal regulations to which the KGK is subject to, the best practices of other countries, the status of the national and international institutions to cooperate, and the experience of counterpart authorities of the related countries.

As of 31 December 2020, the total number of employees of the KGK was 217, while the total number of experts was 79. Audit oversight and standard-setting activities of the KGK are carried out by the KGK experts in accordance with the principles, procedures and essentials of which are determined by the KGK. In addition, a sufficient number of IT experts are employed to conduct IT inspections of the audit firms.

The KGK interprets institutional capacity as the process of enhancing its abilities to perform specific activities. KGK's institutional capacity approach is to develop internally so that the KGK can better fulfil its mission. Special consideration is given to improve the competence and capabilities of the experts of the Authority. All experts are required to perform specific requirements such as education, professional training and independence.

5. CONCLUSION

The audit sector has grown rapidly in Turkey since its first years when international audit firms arrived in the country. Auditing was progressed by the acceleration of capital inflows to Turkey after the country initiated liberal economic policies and the request of the World Bank. Several agencies and institutions, in particular, the Capital Market Board (CMB), the Banking Regulation and Supervision Agency (BRSA), the Insurance Supervision Board (ISB) and the Energy Market Regulatory Authority (EMRA) had been regulating the audit sector, and the Union of Chambers of CPAs and Sworn-in CPAs of Turkey (TURMOB) had also given support to this process with its professional title. However, this situation led to a fragmented structure in the audit sector in Turkey.

This fragmented structure caused the implementation of different methods and techniques while conducting the audit and also resulted in more than one audit report for the same accounting period for the same entity. Moreover, the lack of a competent authority to oversee the audit activities restrained the effective implementation of regulations and prevented to provide reasonable assurance to the public in this regard.

With the issuance of the new Turkish Commercial Code (TCC), auditing has gained a new dimension. The new TCC required the establishment of the Public Oversight, Accounting and Auditing Standards Authority (KGK), an institution with the relevant authority and responsibility, in order to create a holistic legal structure in the field of statutory audit in Turkey.

The establishment of the KGK is an important achievement for Turkey, in particular, for the EU negotiation process and it has made great contributions to the effective implementation of the new TCC. By the transfer of the responsibilities regarding audit to an independent administrative authority, the KGK, the approval, registration and oversight of the auditors and audit firms operating in Turkey have been made more effective, efficient and compatible. Moreover, setting and issuing Turkish Accounting and Auditing Standards contributed to the establishment of high quality and reliable financial reporting environment.

The KGK has made incredible progress in the short time since it has been established; the Board, management and staff are committed to carry out KGK's functions so effectively. In many areas such as standard setting, registration of auditors and audit firms, and audit inspection; the KGK already has operations that are comparable to best international practice. Now, the KGK has appropriate plans to further develop its activities and capabilities across the full range of its responsibilities in order to fulfil its mission as specified both in national legislation and also in international standards.

REFERENCES

- Gücenme Ü. and Ersoy, A.P. (2006). "Accounting Education in the History of Turkish Republic" *Journal of Financial Analysis* Special Issue Published by Istanbul Chamber of Certified Public Accountants for 17th World Congress of Accountants, 13-16 November 2006
- Güvemli B. et al, (2016). "The Evolution of the Auditing Profession in Turkey: The Union of Chambers of CPA's and Sworn-In CPA's (TURMOB) History and Background", *14th Congress of World Accounting Historians*, Pescara, Italy, 25-27 June 2016
- Kandemir, Kubra H. (2015). External Auditing in Turkey: Acritical and Comparative Analysis of the New Law. *European Business Organization Law Review*, 16(4), 711-734.
- Karataş, M. (2014). Şirket Denetçiliğinden Bağımsız Denetçiliğe, *Muhasebe ve Denetime Bakış Dergisi*, (43), 123-142, Ankara: TÜRMOB
- Kaval, Hasan (2008). *Muhasebe Denetimi*, 3.Baskı, Ankara: Gazi Kitabevi.
- Kepekçi, Celal (2004). *Bağımsız Denetim*, Beşinci Baskı, İstanbul: Avcı Ofset Matbaacılık.
- Okur, Mahmut (2007). *Bağımsız Denetimin Denetimi*, Ankara: SPK Yayınları.
- Sayar, D. D. (2013). *Bağımsız Denetimin Kamu Gözetiminde Dünya Uygulamaları ve Türkiye Örneği*, Ankara: TÜRMOB.
- Selimoğlu, S. ve Diğerleri (2011). *Muhasebe Denetimi (Auditing)*, 3rd Ed., Ankara: Gazi Publications.
- Uzay, Ş., Tanç, A. ve Erciyes M. (2009). Türkiye'de Muhasebe Denetimi Geçmişten Geleceğe, *Mali Çözüm* (95), 125-140.
- <http://bdd.org.tr/default.asp?PG=TRANA> (Accessed on: 17.08.2021)
- <https://www.bddk.org.tr/Kuruluslar-Kategori/Bagimsiz-Denetim-Kuruluslari/10> (Accessed on: 17.09.2021)
- <https://turmob.org.tr/istatistikler/bf9036e1-06f1-40e7-bb89-0b29f0dbe15a/meslek-mensubu-yas-gruplari-dagilim-tablosu> (Accessed on: 17.09.2021)
- <http://documents.worldbank.org/curated/en/546971467995640189/T%3BCrkiye- Standartlara-ve-kanunlara-uyum-raporu-ROSC-muhasebe-ve-denetim> ((Accessed on: 15.08.2021)

- <http://www.kgk.gov.tr/Portalv2Uploads/files/Duyurular/v2/Diger/Booklet%20-%20Ocak%202018.pdf> (Accessed on 27.08.2021) 2
- <https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/turkey-ifrs-profile.pdf> (Accessed on 29.08.2021) .pdf
- http://www.kgk.gov.tr/Portalv2Uploads/files/DynamicContentFiles/YillikFaaliyetRaporlari/KGK_Faaliyet_Raporu_2018.pdf (Accessed on 25.08.2021)
- <https://kgk.gov.tr/Portalv2Uploads/files/Duyurular/v2/Diger/YILLIK%20%C4%B0NCELEME%20RAPORU%202019.pdf> (Accessed on 27.08.2021).

