

Dissertation/Tez Özeti

**QUALITY CONTROL FOR AUDITING FIRMS IN
TURKEY:
A RESEARCH ON DIFFICULTIES ENCOUNTERED
BY EXTERNAL AUDITORS IN COMPLIANCE WITH
QUALITY CONTROL STANDARDS^{1,2}**

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Submitted/Başvuru: 31.12.2020

Revised/Düzeltilme: 31.01.2021

Accepted/Kabul: 05.02.2021

Abstract

The main purpose of this study is to examine the difficulties encountered by external auditors in compliance with Quality Control Standard. This research is evaluating the impact of audit quality factors on audit companies in Turkey according to Quality Control Standard. Moreover, this study analyzes auditors' perception of audit quality in Turkey and determines the factors, which are influencing audit quality. It attempts to explore auditors' opinions on difficulties that auditors' experience and factors that influence audit quality. The research method of this study is to interview with auditors, who have experience on audit over 20 years and working at audit companies, which audited more than 95% of listed companies in 2015. Auditors have been chosen randomly. Interviews with auditors empirically examine Turkish auditors perceptions on the audit quality and their problems

1 This study is derived from the doctoral thesis prepared under the supervision of Prof.Dr. Cemal İbiş, at Marmara University, Institute of Social Sciences, Department of Accounting-Finance (in English).

2 Since the interviews in the research were conducted before the year 2020, there is no need for ethics committee approval.

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To cite this article: Batıbay Tünaydın, İ. (2020). Quality Control for Auditing Firms in Turkey: A Research on Difficulties Encountered by External Auditors in Compliance with Quality Control Standards. *TİDE Academia Research*, 2(2), 215-256

with application of standards. According to the findings of this research the factors influencing audit quality in Turkey have been identified and as a result, the aspects in regards to the audit quality in terms of legal regulations have been determined and suggestions have been provided.

Keywords: Auditing in Turkey, Quality, Audit Quality, ISQC 1

TÜRKİYE'DEKİ DENETİM FİRMALARI İÇİN KALİTE KONTROL: KALİTE KONTROL STANDARTLARINA UYGUN OLARAK DIŞ DENETÇİLERİN KARŞILAŞTIKLARI ZORLUKLAR ÜZERİNE BİR ARAŞTIRMA

Öz

Bu çalışmanın temel amacı, bağımsız denetçilerin Kalite Kontrol Standardını uygularken karşılaştığı zorlukları incelemektir. Bu araştırma, Kalite Kontrol Standardı'na göre denetim kalite faktörlerinin Türkiye'deki denetim şirketlerine etkisini değerlendirmektedir. Ayrıca bu çalışma, Türkiye'deki denetçilerin denetim kalitesi algısını analiz etmekte ve denetim kalitesini etkileyen faktörleri belirlemektedir. Bu araştırma, denetçilerin deneyimledikleri zorluklar ve denetim kalitesini etkileyen faktörler hakkındaki görüşlerini araştırmaya çalışır. Araştırma yöntemi olarak, 2015 yılında borsada işlem gören şirketlerin % 95'inden fazlasını denetleyen denetim şirketlerinde çalışan ve 20 yılı aşkın süredir denetim deneyimi olan denetçilerle görüşmek belirlenmiştir. Denetçiler rastgele seçilmiştir. Denetçilerle yapılan görüşmeler, Türkiye'de çalışan denetçilerinin denetim kalitesi hakkındaki algılarını ve standartların uygulanmasıyla ilgili sorunlarını deneysel olarak inceler. Bu araştırmanın bulgularına göre Türkiye'de denetim kalitesini etkileyen faktörler belirlenmiş ve bunun sonucunda yasal düzenlemeler açısından denetim kalitesi ile ilgili hususlar belirlenmiş ve öneriler sunulmuştur.

Anahtar Kelimeler: Türkiye'de Denetim, Kalite, Kalite Denetimi, KKS 1

1. Introduction

The companies have been in the development process along with the increasing competition environment. Associated with this development process there has been some changes occurred in the companies' accounting structure as well as in the audit structure which ensures accounting structure proceed accurately, and new regulations have been implemented. Due to the intensive technologic improvements and living in the information age, the enterprises should focus more on the definition of the quality in order to compete and survive. Each company, no matter a type of its business, is to build the quality in its structure in order to comply with changing conditions of the world. It is not possible to exclude audit firms out of these developments.

With the start of industrial revolution, companies have become larger and the segregation of duties on the owner and the director has become vital. The occurrence of modern accounting exists, when large businesses begun to have complex structure. The Industrial Revolution and the resulting explosion in growth of business activity led to widespread adoption of auditing methods. The demand for auditing occurs through the need for accountability when business owners hire others to manage their businesses in modern corporations. Specifically, firms became aware of the need for mechanisms of fraud detection and financial accountability, and investors increasingly relied upon financial reports as corporations began to participate in the stock market.

In the beginning of the 21st century, the global economy has faced with excessive accounting scandals and bankruptcy declarations. A chain reaction of scandals has been experienced worldwide. After these well-known scandals and bankruptcies such as Enron, Lehman Brothers, WorldCom and Parmalat, the credibility of top managers and auditors had been questioned. When number of accounting scandals rise day by day, the need of confidential financial market exists. This fact provokes a renewed discussion about the quality of financial reporting and auditing firms. After these occurrences, academic researchers, regulators and professional institutions (e.g. The SEC, the AICPA) have worked on new forms of accounting and auditing, for building a safe, realistic financial market. The question "who is able to find risks in an early stage?" has been raised and discussed plenty of times. The answer is "auditor". The auditor should review the valuation of financial assets

and he has to evaluate going concern issues. The global financial crises have highlighted the importance of audit once more.

Consecutive accounting scandals in the 2000s, it led to be the questioning of the audit value in changing business world. Associated with this change, studies on the measurement of audit quality had begun to initiate. Accounting scandals, which have been experienced all around the world in the recent years and once these scandals were investigated the reason behind has been determined that there have been mistakes and frauds during the audit process, have increased the need of audit related regulations. Loss of confidence became contagious and spread across capital markets. The problems experienced in the industry have affected other similar industries. As a result of increasing globalization of markets and companies, these concerns have overcome national borders. Therefore the necessity of public oversight on audit system has risen. So that public oversight boards have been founded in various countries and in some countries public oversight responsibilities have been given to the current institutions without board foundation. In Turkey, rather than giving this responsibility to the current institutions it has been preferred to establish public oversight board.

Entities are spending money on audit not just for law requires it, but also it is necessary as a guarantee for investors and information users. Auditing aims to provide stakeholders with a true and fair view of the veracity of a company's annual reports (Neri, L., and Russo, A., 2014). In today's environment of increasing stakeholder expectations and rapidly developing regulations, it is even more mandatory for auditing firms to implement the International Standard on Quality Control 1 (ISQC 1), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.

This study investigates auditors' perception of audit quality, key factors affecting audit quality and difficulties encountered by external auditors in compliance with quality control standard in Turkey. The results can be useful for researchers, regulators, financial statement users, and audit practitioners, who are dealing with quality control standards.

The study begins with the significance and definitions of audit and audit quality, while

mentioning standards, global regulators and regulations directly related with audit quality. In later sections a review of relevant literature, placing the present study in the context of previous research on audit quality have been provided. The influencing factors have been mentioned through the literature review. The study's methodology and findings are described and the conclusion part consolidates the implications of these findings.

2. Significance of Audit And Standards Related With Audit Quality

It is vital to know the individual meanings of accounting, auditing and quality prior to know what the audit quality is. Accounting is an information system that measures, processes, and communicates financial information about an economic entity. Accountants must be well informed of the principles and the rules that build the set up of preparing the accounting information. During the audit of accounting data, auditors focus on the data booked whether it reflects the financial events, which occurred in the accounting period (Arens, Elder and Beasley 2012). As auditing is built on the questioning of correctness and appropriateness, it can be said that it plays a critical role in bringing about the "transparency" required to provide and maintain the environment of trust in markets. (Uçma, & Beycan, 2008) The purpose of the audit is to enhance the confidence level of financial statements for the beneficiary. Furthermore, audit is collecting and evaluating the evidence of the information in order to determine and report the level of the correspondence between the information and established criteria. Audit should be performed by an independent person (Arens, Elder and Beasley, 2012).

The objective of the auditing is to provide accurate and reliable information about the financial status of the business. So that investors, who want to invest in business or already invested in business will be able to make decision according to the audit report. Interest groups in relation to the business (stakeholders, banks, employees, suppliers, customers and various government agencies...) can have reliable information about the company and can review their relationship through this report. However, if there is no audit, the accuracy and reliability of information can get in hazard and that would bring information risk. The causes of information risk can be summarized as; remoteness of information, conflict of interest between the users and the providers of information, too many and complex information about business. Remoteness of information means, in today's economy it is hard

to get first-hand information about the business. When people get the information from others, the likelihood of misstatements increases. Conflict of interest between the users and information providers means, the goals of the decision maker and information provider are different. The reason can be the expectation from future events or intentional emphasis designed to influence users. Voluminous data can also cause information risk, because when organizations become larger, the transactions, that should be properly recorded, can unintentionally misstated (Arens, Elder and Beasley, 2012).

The term of “quality” is defined as the essential asset, distinctive nature and aspect. The quality is a level which a set of inherent characteristics of a product or service fulfillments to its requirements (International Organization for Standardization, 2013).

2.1. Perceived Service Quality Component / Determinants of Quality

Quality is the measurement of the customer’s attitude against products and services. But in this definition, it is not certain what the measurement is (as the customer may not be satisfied even though the service provided complies with specific standards). Deming (1998), tries to explain this feature of the quality by asking that metaphoric question without an answer given; “What is definition of a pair of shoes’ quality for a random person? Long-lasting? Shining? Comfort? Waterproof? The fee paid for whatever the understanding of quality is? What is the significant characteristic of the quality for a customer?” By this question it is emphasized that the quality is a multidimensional concept. A characteristic of the quality, without any other explanation, ensures to answer the question “which is more quality?” or eases to decide about the quality of the product. Therefore quality characteristics could be defined as significant features of a product or service from the customer point of view. The products and services have different quality characteristics.

2.2. Standards Related With Audit Quality

ISA 220 Quality Control for an Audit of Financial Statements and ISQC1 International Standard on Quality Control are two standards related directly with audit quality. Audit company should establish a quality control system, which is designed for providing appropriate assurance, ensuring compliance of its employee to the legal requirements and regulations and creating reliable statements. The person or people be appointed to conduct

quality standards should be have sufficient and appropriate experience and necessary skills and competence.

According to ISQC 1, audit firm is responsible to implement quality control system in order to provide appropriate assurance, to ensure that the firm and it's staff comply with the occupational standards, regulatory and legal conditions, and to ensure that the reports which are published by the audit firm and the contractors are consistent under these circumstances. On the other hand the person who is responsible to manage quality control system, is also required to have sufficient and appropriate experience, ability and authority.

ISA 220 determines the quality rules which are to be adapted throughout the audit study. The quality and control rules, which are expected to be adapted, are specified as; leadership responsibilities for quality on audits, relevant ethical requirements, acceptance and continuance of client relationships and audit engagements, assignment of engagement teams, engagement performance and monitoring. Above definitions have also been used in ISQC 1 which determines the quality control rules to be adapted by the audit firms. As these two standards explain similar subjects, scopes of the standards are defined as audit firm and audit practice, respectively.

3. Literature Review

Influencing factors of audit quality have been identified related to literature review. The present study extends this line of investigation by focusing on auditor independence, audit fee, mandatory rotation, employee turnover, auditor tenure, provision of non-audit services, size of audit firms, being knowledgeable, having experience and audit effort. On figure 2, list of audit quality indicators are shown.

Indicators of Audit Quality	Independence
	Audit Fee
	Rotation
	Employee Turnover
	Auditor Tenure
	Size of Audit Firms
	Provision of Non-Audit Services
	Being Knowledgeable
	Having Experience
	Audit Effort (Actual Hours Worked)
	Other

Figure 1: Indicators of Audit Quality

3.1. Independence and Audit Quality

Auditors are expected to act independent, impartial and honest during their professional activities, as it is the most fundamental element of audit profession. Reliability and accuracy of the audit report is in direct proportion to the independence, impartiality and honesty characteristics of the auditor.

Regulatory bodies set some rules to maintain independence of auditors. In Turkey, the new Commercial Code had brought rotation of audit companies on April 2014. According to this, after the same audit firm has been used for 7 years in a row, another has to be employed for at least 3 years.

Auditor independence has an important impact on audit quality. The most effective reason behind that is if the auditor does not remain independent, he or she will be less likely to report irregularities, also the quality of audit will be disrupted. Since the independence

of the auditor is a critical issue for auditing profession, many studies have been made in this area. Literature reviews on independence of auditors mostly cover the issues client importance on being economically dependent, non-audit services, and auditor tenure.

Lavin (1976) investigates the the concept of independence by examining particular client auditor relationships. The research verifies how an informed third party, such as present and prospective investors, creditors, employees and governmental agencies perceive the auditor's independence. Pany and Reckers (1980) investigates the perceptions of stockholders on the effect of relative client size, gifts, and purchase discount arrangements on auditor independence on their research. The findings indicate that gifts and discount arrangements of even a minimal amount (3\$) significantly affected users' perceptions of auditor independence. The effect of client size was not significant.

3.2. Provision of Non-Audit Services and Audit Quality

The impact of provision of additional non-audit services on audit quality is different among researches. Some researches find out that non-audit services strengthen auditor competence and also non-audit services allows auditors to less dependent on audit client (Grout, Jewitt, Pong, & Whittington, 1994). Beside that belief Barkess & Simnet studied out that auditors do not compromise their independence while they provide audit service and non-audit services to the same audit client (1994).

Concerns about audit quality in the existence of non-audit services may cause possible conflicts of interest. The Securities and Exchange Commission and The International Federation of Accountants code of ethics have expressed serious concern about this issue. Researchers (e.g., Lindsay, 1989; Lowe & Pany, 1995; Canning & Gwilliam, 1999) argued that the provision of additional non-audit services to audit client and auditors' tend to lowball prospective clients and regain initial audit fee reduction by subsequent lucrative non-audit services to an audit client may compromise the independence of the audit firm (Pham, et.al., 2014, pp.76).

3.3. Audit Fee And Audit Quality

If the fee, which is offered by the client, exceeds the expected amount by the audit firm,

various behaviors of the auditor especially their effort and legal responsibility would be affected as well as independency and impartiality would be called in question. Because of the high amount of payments done by the client, auditor would be financially dependent to the client and it would be encouraging for the auditor to agree with the client on the reporting decisions. In some occasions auditor's financial dependency becomes too high that even though their reputation would be damaged and there would be lawsuit risk they would take these risks in order to earn more. Consequently this type of behaviors causes the decrease of the audit quality.

On the other hand if the fee paid below the expectation of the auditor, auditors would not risk anything and deny all of the client's requests related to reporting. And this could be an element that increases the audit quality. Low fee also could prevent the auditor to concentrate on audit work and decrease the effort during the audit field. This also could be a factor that decreases the audit quality.

Some of the researchs about the relationship between audit quality and fee; Simunic (1980), found out that there is a competition among auditors on audit fee and well-known audit firms are getting less fee than unknown audit firms. Piot (2001), study is about the effects of agency conflicts on audit quality at listed companies of France and the results show that there is not any conflict between owner and manager and there is not any corroborate between debt holders and high-Investment-Opportunity-Set companies. Asthana and Boone (2012) wrote a paper is about the relationship between abnormal audit fee and audit quality. The findings of the research shows that audit quality, proxied by absolute discretionary accruals and meeting or beating analysts' earnings forecasts, declines as negative abnormal audit fees increase in magnitude, with the effect amplified as proxies for client bargaining power increase.

3.4. Rotation And Audit Quality

Rotation of the auditor or the audit firm is one of the most important elements, which affects the audit quality and has been discussed for about 30 years. Rotation improves the audit quality by helping to ensure and protect the independency and impartiality in audit activities. Rotation is obligatory in terms of auditors in some countries and audit firms

in some other countries. According to the regulations applied by Capital Market Board, rotation is required based on the audit firms (exemption is applicable in some circumstances) within 7 years in Turkey. And 2 years have to pass in order for the audit firm to be reappointed for the same client.

Here are some studies about rotation and audit quality; Daugherty, Dickins, Hatfield and Higgs (2012) prepared a study on perceptions of audit partners on mandatory partner rotation and cooling off periods According to findings mandatory rotation increases partners' workloads and the likelihood of relocation. Additionally, results suggest that in response to accelerated rotation, partners would rather learn a new industry than relocate. Importantly, partners perceive audit quality suffers from retraining, but not from relocating. Thus these results suggest an indirect, negative impact, and unintended consequence, of accelerated rotation/extended cooling-off periods on audit quality. Litt, Sharma, Simpson and Tanyi (2014) examined the effect of mandatory rotation on financial reporting quality. The evidences on the study show that in U.S. lower financial reporting quality following an audit partner change. According to findings lower financial reporting quality during the first two years with a new audit partner relative to the final two years with the outgoing partner.

3.5. Employee Turnover And Audit Quality

There are not much research, which investigates the relationship between employee turnover and audit quality. Frequent changing in the position of professional staff can have a negative effect on audit quality. Chi, Hughen, Lin and Lisic (2013) have analyzed the turnover of entry-level auditors from the data of Big Four accounting firm in Taiwan. The results show that female auditors are more likely to depart the accounting firm.

3.6. Auditor Tenure And Audit Quality

There are two opposing arguments about the impact of auditor tenure with the firm on audit quality, and its dimensions: auditor competence and auditor independence. The auditor independence can be damaged by the long-term relationship with the audit client management. Prolonged continuity of an audit firm with its audit client can lead audit work become excessive routine and careless attitude by auditors, which would negatively

affect auditor competence (Pham, et.al., 2014, pp.78). However, Myers and Omer (2003) argued that longer auditor tenure constrains managerial discretion with accounting accruals, which suggests high quality audit. (Pham, et.al., 2014, pp.78)

3.7. Size of Audit Firms and Audit Quality

Prior studies (DeAngelo, 1981; Dopuch & Simunic, 1982; Deis & Giroux, 1992; Nichols & Smith, 1983; Wyer, White, & Janson, 1988) addressed mixed findings on the relationship between audit firm size, audit competence, and audit quality. These findings include actual quality difference, perceived quality difference, and no quality difference. DeAngelo (1981) theorized that large audit firms perform better audit because they have a greater reputation. Dopuch and Simunic (1982) indicated that audit quality is the function of the number and extent of audit procedures performed by auditors and audit firms that have more resources. It means audit quality pertains to large audit firms because they have more resources. Deis and Giroux (1992) found that larger audit firms had more efficient working papers than smaller audit firms did. (Pham, et.al., 2014, pp.76)

However, some studies have not supported the existence of audit quality difference by audit firm sizes. They contended that audit quality is not associated with audit firm size. Switch from a small audit firm to a Big Eight audit firm did not provide any stock return benefit to the audit client that switches auditor (Nichols & Smith, 1983). It is not likely that small audit firms would issue inappropriate audit opinion (Wyer, White, & Janson, 1988). (Pham, et.al., 2014, pp.76)

3.8. Being Knowledgeable and Audit Quality

From past to today, reputation has a great impact on influencing employee and customers. For that reason human resources management has an importance on success of audit firm. Another reason behind the success of audit firm is based on the satisfying of its professional staff (Belkaoui, 1989). Usually big audit firms have a good employee training programs, which can improve the knowledge of them (Wooten, 2003).

3.9. Having Experience and Audit Quality

Auditor's sectorial knowledge and experience is one of the most important factors of in-

dependent audit quality. According to the results of researches on this case, it is clear that auditor's sectorial knowledge and experience is directly related to independent audit quality (Kavut 2002). According to these researches (Titman and Trueman, 2002; Krishnan, 2001), as auditor's specialty level on the sector of client's firm increases, possibility of determining and discovering specific problems in the client's industry also increases thus this reflects to the financial statements clearly. Therefore quality audit service comes along. There are also researches which prove not only auditor's sectorial knowledge and experience but also auditor's knowledge about the customer company (especially operational business of the company, risks that the company would face, effects of changes in risks which linked to the business) is important for audit quality. According to the research performed in between 1987-1997, fraudulent financial statements preparation by publicly held companies in the U.S has mostly been seen during rotation period of audit companies. According to another research performed by AICPA, 400 audit failures have been investigated and it has been noticed that this type of failures have occurred three times more during the first and second-time audit compared to the other periods.

4. A Research On Difficulties Encountered By External Auditors In Compliance With Quality Control Standard

This study has been intended to show how an audit can intend in accordance with ISAs. It is expected the findings obtained in this study to provide guidance primarily to auditors and the relevant institutions and individuals.

The main objective of this study is to highlight potential difficulties that auditors in Turkey encountered in compliance with quality control standard. This research is a descriptive study aimed to obtain information about those difficulties. The purpose of this descriptive research study was to determine potential difficulties that auditors can face in applying quality control standard. In this context, the following topics have tried to find answers to the challenges related to issues likely to be encountered: Auditor Independence, Provision of Non-Audit Services, Audit Fee, Employee Turnover, Auditor Tenure, Size of Audit Firms, Professional Judgment / Having Experience, Being Knowledgeable and Audit Effort. Due to those mentioned purposes of the research is intended to provide a realistic and descriptive picture. The data collected for validity and reliability of research results;

presented as much as possible detailed and surveyed the experts' views and experiences unchanged as possible and directly.

4.1. Methodology

The method of the research is qualitative. This method allows greater spontaneity and adaptation of the interaction between the researcher and the study participant. The strength of qualitative research is its ability to provide complex textual descriptions of how people experience a given research issue. It provides information about the “human” side of an issue – that is, the often-contradictory behaviors, beliefs, opinions, emotions, and relationships of individuals (Beattie and Fearnley 1998; Paulin et al. 2000).

In-depth interview is one of the most common qualitative methods. In depth interviews are optimal for collecting data on perspectives and experiences, when sensitive topics are being explored. The types of data that method generates are field notes, audio recordings and transcripts.

In this research 12 detailed questions have been asked to the interviewers. The questions have been prepared according to the indicators of ISQC 1, which should be in the firm's quality control policies and procedures. The answers to the questions should be considered as a whole, because it is not possible to separate sub-headings, due to the complete determination from each other.

4.1.1. Pilot Study

The pilot study was conducted in the following manner. 5 auditors, who have experience at least 5 years in auditing, were requested to respond to open-ended questions. The respondents were asked about their perceptions of audit quality and if they had any difficulty in answering the questions. The suggestions to questionnaire have been evaluated and added to questions. The feedbacks also made clear that respondents understood the questions and they believe that questions are accurate to evaluate respondent's thoughts on audit quality and difficulties on encountered in compliance with quality control standard.

4.1.2. Sample and Data Collection

Determining the appropriate participants for the study was carried out by criterion sampling method. According to the preferred qualitative research methods; identification of

experts to be interviewed, communicating, taking appointments, carrying out an effective meeting, preparation of meeting materials and writing the audio records are time-consuming and costly. For that reason interviews have been made with 6 auditors, who are specialized in quality audit and working in Istanbul. The participants, who were purposefully chosen, fit the criterion of full time professional financial audit employees at audit firms in Turkey. Participants were interviewed in their offices by appointment only. The auditors have at least 20 years experience in auditing. In purposeful sample, the goal is to select the participants that are likely to provide a deeper understanding of the phenomena being studied.

Interviewees were selected based on purposive sampling and six audit partners were chosen representing auditing firms in Istanbul, which represents the main business center in Turkey. Subsidiary companies of the 6 biggest groups in Turkey consists more than half of the Turkish Stock Exchange market value in which there are (in 2015) 569 companies listed to public. Big 4 audit firms have audited approximately 57 percent of these companies in 2015. In Turkey, there are 133 Audit firms, which have the qualification for independent audit but not all of them are active. Only 65 of them are working with listed companies. Due to the their technical as well as Professional capabilities the big audit firms offer the highest attainable audit services. Choosing the Big Audit Firms does not only help to answer targeted research questions, but also increases the reliability and validity of this research.

Audit revenue of 6 audit companies, which have been interviewed, also covers 79.3% of total market revenue. The type of interview used for data collecting was semi-structured interview. Open-ended questions have been asked to the interviewees. These types of questions allow the interpreter to ask more questions during the questioning part. Also, the interviewer usually has some latitude to ask further questions in response to what are seen as significant replies.

In order to ensure all relevant information is captured during the interview, when participant allow, a tape recorder is used to record the conversation throughout the interview sessions or if there was not any allowance to record the conversation, notes were taken by the researcher during the interview. A list sorted according to the date of the interviewed participants are presented below:

- Berkman Özata, DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of Deloitte)
- Murat Alsan, Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of KPMG)
- Celal Pamukçu, Kapital Karden Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. (a member firm of RSM)
- Ayşen Topay, Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of Ernst&Young Global Limited)
- Şükrü Şenalp, Ulusal Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş.
- Gökhan Yüksel, Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of PricewaterhouseCoopers)

The data obtained from the interviews reveal the views of practitioners and they revised to highlight the differences. The obtained results have been interpreted through the question forms, which have been prepared before. Descriptive analysis has been applied to the data collected for the study.

In this analysis, without including the researcher's interpretation, data obtained from interviews have been submitted in the words of the participants. In the analysis of data, this process has been followed:

- All discussions with the expression of the participants were decrypted.
- Each interview questions are written in the form of headings and each participant's responses to the questions were brought together under the corresponding headings.
- Data are grouped by theme revealed by the survey objectives, similar and repetitive responses to each question were eliminated. Thus, the different responses to the questions were obtained.
- Conclusions were reached from the responses into groups.

4.1.3. Constraints of Research

The primary purpose of the qualitative research is rather than measuring to determine the variables in the totality. Therefore detected difficulties are relative and these determinations reflect the views of participants only in terms of time and circumstances exploration is done. In assessing the results of interviews, generalization of detections and suggestions have been avoid. It should be noted that in different time and circumstances, different premises could exist.

4.2. Results and Evaluation of Research

The purpose of this part is to set out the results of the interviews that were conducted with auditors to expose their views concerning the meaning of audit quality, frameworks of audit quality and difficulties encountered by in compliance with audit quality standard.

In this part, the findings of the interviews have been addressed. In the evaluation of research findings, dialogues remained dependent to the privacy rules. The participants' decipher of audio recording have not being shared.

Table 1: Objectives and Questions of the Interview

OBJECTIVES	QUESTIONS
General View	Question 1: What do you expect from the ‘audit quality’? How can a qualified audit be done? Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included? What are the internal and external factors that affect the audit quality?
General View	Question 2: What are the benefits of compulsory independent audit for companies?
General View	Question 3: The most controversial periods that the value of audit spoken is the time that financial crisis exist. What is your opinion about the mission of audit on this point? Is it a legitimate expectation from audit to predict and prevent financial crisis?
Being Knowledgeable	Question 4: What do you think about reputation of auditing profession? Do you think that is it a global issue or not? What are the causes of loss of confidence in audit of financial reporting?
General View	Question 5: What do you think about the invention/installation of Turkish Public Oversight Board (KGG)? Do you think that audit quality has increased after the invention of KGG?
Rotation / Independence / Auditor Tenure	Question 6: What is your opinion about mandatory rotation? Do you support long-term audit engagements? Does long-term audit engagement have effects on the audit quality? Is the mandatory rotation the right answer against the damage of independence?

Audit Fee	Question 7: What is the relationship between the quality and the fee in terms of audit? How could the audit quality be ensured in the environment in which the costs are increasing and the fees are decreasing?
General View	Question 8: How does your quality department work for audit projects?
Having Experience	Question 9: What kind of specialties should have the auditors? How skills of auditors change according to time?
Employee Turn-over	Question 10: What do you think about turnover levels? Is there a relationship between audit quality and employee turnover?
Having Experience	Question 11: What is your strategy on educating your employee? Can you evaluate the professional training that auditors take? What do you think about the education auditors take? Do you think it has a sufficient content for keep themselves constantly updated and continue to have skills required by the necessities of the time?
General View	Question 12: What else can be done to improve audit and audit quality? Are there any policies or procedures that you considered necessary to include in your system of quality control, outside of those required by ISQC 1?

Combination of Answers To Question 1: There are to many factors affecting audit quality. Although there is no single definition for audit quality and its indicators, when this question is asked to the interviewees, they gave almost the same answers. As a summary, they believe a quality audit means consistently:

- complying with auditing standards,
- applying a deep and broad understanding of our clients' businesses and financial environments in which they operate,

- using our expertise to raise and resolve issues early; and
- exercising professional skepticism in all aspects of our work.

According to interviews, all auditors argued that audit quality is their highest priority. Audit companies commonly inform that they communicate with their employees that audit quality is their most important responsibility and that everyone at the company is accountable for the quality of his or her work. They also add that quality is also a key element of how they evaluate and reward their leaders.

Analyze of Question 1: Although there are different definitions on audit quality, main similarities between those definitions show that indicators of audit quality should contain; Independence, Audit Fee, Rotation, Employee Turnover, Auditor Tenure, Size of Audit Firms, Provision of non-audit services, Being knowledgeable, Having experience and Audit Effort.

Combination of Answers To Question 2: Compulsory independent audit is an important issue, which contributes significantly to Turkey's integration process to European Union. In European Union and many countries in the world, this practice has known for many years. The limits for turnover, assets and employee numbers that Turkey uses for independent audit are much more higher than in some countries. The purpose of this application is to provide stability and transparency for the country's economy.

One of the interviewer said that their expectations from audit regulations in force are; all companies in Turkey should become auditable, financial statements of them should be clear and prepared according to international standards and all companies should become transparent. The benefit of these are, Turkish companies can work more with other countries, can acquire new customers and suppliers, can have an increase in companies capital flows, more foreign partners can exist, more companies can go public and borrowing costs can fall. Because these are the main contributions of auditing.

As a summary auditors believe that:

- Audit helps to protect each one of the partners' benefit, builds reliability and ensures to increase partners' profit.

- Audit is required for cash flow and loan management.
- Audit provides more transparent outlook to the investors, suppliers and financial institutions.
- Audit prevents the consideration in related to accounting and internal control system and unpredictable problems.
- There might be sibling rivalry or conflict of interest in family-owned businesses. Fraud and embezzling is prevented by being audited.
- Possibility of the tricks decreases. The company reached strong and controlled financial structure. Negligence, evil-minded behaviors and mistakes, deficiencies and frauds are prevented.
- Audited financial statements encourage the management and the employees to work prospectively in honesty. Audit helps responsible people to budget, estimate, analyze and decide better.

Analyze of Question 2: It is a fact that every company needs to have a corporate structure. In order for the companies to grow, accurate and reliable financial statements are vital. Compulsory audit can make companies achieve their targets. Compulsory audit can be useful for companies to regulate their financial statements and be helpful to have a corporate structure.

Combination of Answers To Question 3: According to interviewees lots of reasons can be counted as a cause of financial crisis. However, predicting or preventing a financial crisis cannot be even mentioned on auditors' duty. They do not have such a role. However this can be discussed: if an auditor can predict the financial crisis that the company, he audits may fall into? The auditor can have the adequate information enough for foreseeing the coming financial crisis. But at this point, the auditor does not have any duty on confirming the accuracy of the company's business model or confirming the quality of risk management of the company.

Auditors believe that business related people (managers, partners, investors, foreign sources providers, employees, people, who have commercial relationship, various government

agencies, consulting organizations, public), who decide on businesses for different reasons should expect from the company's managers reliable and adequate financial information, which causes reliable financial reporting.

Analyze of Question 3: Almost all of the failure of a company is formed as a result of the conjunction of financial reporting failures and the failure of management. Some many reasons can be count as failure of companies' management. One of the reasons behind bankruptcy of a company can be the benefit of managers. If managers have been asked to meet the market's profit expectations, they would meet expectations in order to protect their jobs. Another reason behind a financial crisis of a company can be poor internal control structure. Growth and stock price-oriented approach have led to ignore the most basic measures for internal discipline, including effective internal control.

Combination of Answers To Question 4: The audit firm minimizes the risk of the possibility to be sued by giving good quality audit service. It has always been a potential threat that the third parties as investors, banks, public enterprises etc. suing the audit firm due to the audit failure. In case of losing the lawsuit, the audit firm may be exposed to negative consequences such as falling in to disrepute, paying a lot of compensation, losing the clients and legal charges.

According to one of the interviewees, "It is a fact that there have been some cases, which brought audit proficiency in to discredit, since Enron. We think that these types of scandals should be considered as airplane crash. In my opinion, as the plane crash does not cause us to question the benefits of the aviation, accounting scandals should not set an example in terms of value of the audit proficiency. It should also be specified that there has been big process performed in order to increase audit quality since the audit scandals experienced in the beginning 2000s."

Reputation is a subject that discussed all over the world. 4 of the interviewees mentioned that there are cultural differences also in auditing sector. Some cultures are more open to understand the value of audit. But it is obvious that today we are using global auditing standards and are almost the same or very close to each other. Therefore, the discussion about the audit topics is same all over the world.

Some auditors think that adherence to the principles of independence and impartiality, collecting adequate and reliable evidence, choosing the customers and creating policies for promotion and increasing productivity are more important. Other auditors are agreed on those issues too but they also stated that the share of information between the audit team and the company play an important role on audit quality.

Analyze of Question 4: Audit firm reputation refers to the corporate image built over time by auditing firms. It may be as a result of the array of auditors the firm possesses, the brand name, the perceived audit quality resulting from little or no litigations, the fees charged etc.

From past to today, reputation has a great impact on influencing employee and customers. The most important factor that affects prestige and reputation of an audit firm is quality of services provided. However, different types of audit firms (global vs. local) pay more attention to some quality attributes of auditors.

Some researchers have argued that reputation is founded upon the technical and functional quality of audit firms and this reputation will only come over time. As a summary, auditors believe that it takes a long time to have good reputation for an audit company and it shouldn't be get lost easily due to one company's manager/managers failure.

Combination of Answers To Question 5: The participants consider that with the installation and authorization of PIOB (Public Interest Oversight Board) for financial reporting and for determination of Auditing Standards, multilateralism has been eliminated. However, all of the participants think that the process of adaptation to standards by professional users is not easy and the shape of professional judgment can be able to develop by trial and error method in years. However, it should be noted that every single company has its own easy and difficult unique auditing aspects.

Analyze of Question 5: Although adaptation to standards takes some time, the results can be useful for companies. The Public Oversight Board did not share their findings about how auditing companies are obey the rules of the standards with the public. To talk about transparency, the board should share the results of its investigation on audit companies with the public.

Combination of Answers To Question 6: All the auditors, who had been interviewed, are agree on 7 years is not enough to get know and auditing a company. They believe that there are so many complex structures on companies and getting used to company's operation is not an easy process. It takes time to get use to company's organizational structure and even takes more time to audit the whole system. The idea of either total fee obtained from audit contracts are in the area of one audit partner' responsibility or total turnover belongs to a single customer causes different opinions among auditors about its impact on the quality of audit and auditor independence.

One of the interviewer pointed out that in their belief mandatory audit firm rotation would reduce, not improve audit quality. In his view, the cost of mandatory rotation would outweigh the perceived benefits of a required periodic "fresh look" at the financial statements by a new audit firm. There are some academic studies confirm that belief. Key among of these studies is the loss of the current auditor's cumulative knowledge of the company's business, processes, systems, people, and risks. Increased risk of higher fraudulent reporting in changeover periods was also a concern. The studies suggest these disadvantages will lead to lower audit quality.

Analyze of Question 6: The purpose of rotation practice is defined as to improve audit quality by strengthening auditor independency. As there are various researches about this topic, there is no common conclusion reached. For instance according to some researches, there are results in related to the improvement on audit quality, as some others reach no direct relation with audit quality or even negative affect on audit quality.

Combination of Answers To Question 7: There are 2 different-counter-views which are dominant in related to the relation between the audit fee increase and audit quality. One of these 2 views is as the audit fee increases; the effort of the auditors' increases and audit quality increases accordingly. The counter view is as the audit fee increases, economic dependency to the clients increases thus the ability of being interrogator decreases due the concern of losing profitable client.

Analyze of Question 7: One of the basic assumptions of the regulatory authorities' concern in regard to answer this question is "decreasing the fees will result in decreasing the

audit quality”. In other words the auditors may tend to compensate the part of their loss in the contract, signed with the clients in lower fee, by making less effort during the audit work. There are some contradictory findings obtained, in related to previous researches based on monitoring, in the literacy of the fee-quality relationship.

The relationship between the cost and the quality is one of the subjects, which have been researched for many years. Conceptual general acceptance is that the quality increase brings the increase in cost. On the other hand it is conceptually accepted that there is a cost of not only the high quality but also the low quality. It is also alleged that the total cost, in the relationship of quality and cost, could be stated by the curve in the shape of U. (Figure 3) Accordingly, as preventive quality management techniques, which should be applied in case of the intention to exceed the certain level of the quality, begin increasing the total costs; the total cost also increases due to the mistakes occurred because of the low quality.

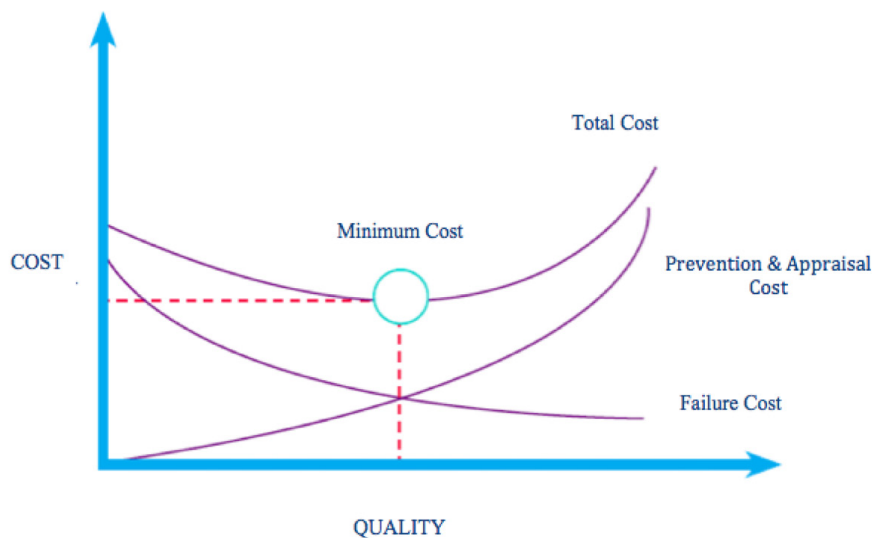


Figure 2: Relationship of Quality and Cost

When economic dependency to the client increases, it can be a problem about the independence of auditor. But this problem may only exist for small audit firms. On the other hand, there should be a base price for all audit services and this should be stated by law.

Combination of Answers To Question 8: In big audit firms, their quality departments are arranging which auditors should control which audit job. Their auditors believe that it is enough to choose some audit projects and control them. In small audit companies it is more difficult to arrange this schedule. Only one or two of their projects can be over-viewed by another auditor.

Auditors point out that the key components of audit companies' quality control system are;

- Code of Conduct, which defines the values and standards by which company does business;
- Documented risk management and quality control policies and procedures;
- Technical guidance and support on complex accounting and audit issues that cannot be resolved within the firm is available through resources which include access to the Department of Professional Practice within audit company international;
- The oversight of professional performance, including engagement quality control reviews;
- Independence policies supported by integrated, web-based systems that help professionals maintain and monitor their compliance with independence requirements;
- Developed methodologies, manuals and training courses to support the delivery of audit services;
- The appointment of the Head of Risk Management who is responsible for risk and regulatory matters and the appointment of a Risk
- Management Working Group that monitors developments and provides guidance to all staff with regard to risk management, ethics and independence, and professional policies and procedures;
- The appointment of the Head of Ethics and Independence who is responsible for ethics and independence matters. The appointment of an Audit Manager to assist in the monitoring of policies and procedures concerning ethics and independence; and

- The appointment of a Compliance Manager, who reports to the firm's Head of Risk Management and who tests the firm's compliance with its stated policies and procedures on an ongoing basis.

In big audit companies, controlling the audit quality is not just a duty of quality department. Each partner actually undertakes the task of audit quality. According to information and experience on industry, quality department determines who to appoint. Publicly listed companies have another type of audit quality process. Audit Quality Standards do not require controlling every single job. Some audit firms are selecting one or two files from each partner and people from abroad audit offices are coming and controlling every detail of those files. Afterwards, they give points to the partners (auditors). These applications are like giving feedbacks to auditors.

Second partner review is subjecting an engagement partner's work to review and is made for promoting independence. In big audit firms, their quality departments are arranging which auditors should control which audit job. Their auditors believe that it is enough to choose some audit projects and control them. In small audit companies it is more difficult to arrange this schedule. Only one or two of their projects can be overviewed by another auditor. Deloitte's annual audit quality monitoring process is described within the firm as its "practice review". Guidance from DTTL (the global firm) states that a reasonable number of reviewers should be drawn from other Deloitte member firms in the annual practice review, to ensure a suitable level of independence. The firm is planning to increase the number of reviewers from other Deloitte member firms in the future.

Analyze of Question 8: For providing the clients with independent, quality audit work, earning a reputation for independence, integrity, ethical behavior and objectivity, the large part of the duty belongs to system of quality controls. Standards do not give any obligation to audit companies about the functioning of their quality department. Some small firms can need some guidance on how quality department should work. Public Oversight Board can prepare that kind of guidance for small sized audit companies.

Combination of Answers To Question 9: All the interviewees point out that the skills of auditors lie at the heart of an audit firm's ability to undertake a high quality audit. These

include technical skills, business knowledge and experience, combined with innate judgment skills. The skills of an auditor develop over time and the most effective individuals are likely to be those with extensive professional experience.

In an audit team there is a huge need for people, who have skills on different fields like actuary, statistics, tax and law. In addition to all of them no matter what area of expertise they have, they suppose to have a well knowledge on information technology. Day by day technology is playing an important role in our life. Auditors need to have skillset for using technology in auditing. For example when analyzing larger amounts of data or when detecting expected and unexpected accounting transactions, auditors should know how to have benefit from technology.

Critical thinking and business acumen are skills that senior auditors should have. It is important for auditor's career to have those skills as early as it can be. One of the interviewee put emphasis on one new coming skill that auditors should have. He points out that with the beginning of mandatory rotation task, auditors should learn how to sale/market too. He added that when they are hiring new employees, they also check if the applicant is sales-oriented or not.

Analyze of Question 9: Strong technical and ethical characteristics are fundamental to audit success. Good auditors also possess the following additional characteristics; Vision and instinct, able to see the big picture, decision-making ability, leadership and superior communication skills. As summary of literature review and interviewees opinion, following are the essential qualities of an auditor:

- **Professionally Competent:** It is a basic quality of an auditor. The auditor must have a complete and thorough knowledge of the accountancy.
- **Auditing Knowledge:** An auditor's knowledge of auditing must be up to date.
- He/she must know the techniques of auditing.
- **Knowledge Of Business Law:** An auditor must possess a considerable knowledge of business law. He/she must be aware about his/her duties and rights given by law.

- **Knowledge Of Taxation Law:** Various types taxes are imposed by the government on the business.
- **Computer Expert:** The auditor must be able to operate the computer. If auditor does not know to use computer well, he/she cannot work efficiently.
- **Knowledge Of management System:** The auditor must have the knowledge of management information system. It helps him/her to understand the internal set up of the business concern and its operation.
- **Qualification:** For a professional auditor it is necessary that he should be chartered accountant. According to companies ordinance it is essential qualification for auditor.
- **Maintain Secrecy:** The auditors nature of work is confidential. He/she should maintain secrecy from others about the affairs of his/her client.
- **Critical Attitude:** It is also very essential quality of the auditor. He should examine the statements critically. He should ask the various questions from the client and try to find contradictions.
- **Bold And Courageous:** Auditor should be bold and courageous person. He should not be influenced by any authority. He/She should possess the courage to face the difference of opinion between him and client on any issue.
- **Courteous:** It is an important quality, which the auditor should possess. His/Her attitude towards the staff of client should be very humble and polite.
- **Independent:** The auditor should be impartial. He/She should not have such relations with the organization, which may affect his independence.
- **Common Sense:** The auditor must have the quality of common sense and judgment. He/She may be able to assess the value of depreciation and bad debts.

Combination of Answers To Question 10: High turnover at auditing firms has long been a critical issue facing the profession. Although, the reality of high turnover is known by market, audit companies try to deal with this problem and some of the interviewers point-

ed out that their turnover rates are at limit of their expectance. High turnover is a costly issue for audit firms. Hiring and training employee are costly processes. It is not possible to lower turnover rate to zero. But it is possible to make the rate of turnover decrease.

Auditing is the first profession for most of the people. Although at the beginning, they are very keen to start in the profession, at some time point they realize that the job is not suitable for them or the job is not meeting their expectations. So they quit the job. Big audit firms are working with employees of his own educate. When turnover is high, it becomes difficult to find someone, who works at senior level.

In fact, audit firms seem to be a school, after bachelor degree. At the beginning when new bachelors get into the audit company, they do not care that much about the wages. Because they believe that they are going to learn much things about auditing. Employee's perception of career development is an underlying factor that influences job satisfaction. A career in audit offers challenging work and various opportunities to develop their skills and grow to their full potential. But as time pass on and employees begin to work really hard, they begin to think that this job is not suitable for them. And for a next step, they begin to change their job. High turnover introduces challenges for public accounting firms because hiring and training new employees is costly.

Some of the auditors take attention to nowadays, there is a recent trend not only to hire graduates with accounting knowledge but also to hire more non-accounting majors. Employees are able to successfully develop different perspectives on the business unit through this approach, they provide added value to the corporate vision.

The shape of organizational chart of audit firms is pyramid. This model reflects a hierarchical model. Executives are at the top of the chart; middle management follows; and lower – ranking employees are at the bottom. Pyramid organizational structure shows to whom all employees report. As a normal process of the pyramid structure, it gradually decreases. But decreasing should have a limit. When percentage of decrease is more or less than expected, it can be inconvenient. If the turnover at staff level becomes less than expected, than there will be problem of promoting employees. The number of senior auditors and managers are determined according to audit projects. Frequent changing in the position of professional staff can have a negative effect on audit quality.

Analyze of Question 10: Hiring and training new employees is a costly issue for audit companies. Although new graduates at first see working at audit firms as a opportunity, after they get in the work, because of long working hours and low fee, they begin to search another job. There is only one audit firm, which prevents their employees work after 10 pm. If this spread among audit firms, auditors can work more efficiently and higher audit quality can be possible.

Combination of Answers To Question 11: In Turkey Union of Chambers of Certified Public Accountants Turkey (TURMOB) and Turkish Public Oversight Board (KGK) have training and licensing process. Auditors are having 3 years internship when they pass the entrance examination for internship. After the internship program, auditor should take and pass the competency exam to become a certified public accountant. These exams contain infrastructure courses like general accounting, tax and law. Afterwards, auditors can be an independent auditor, if they can pass the exam of KGK successfully. This process is enough for entering to profession, but it has nothing to with updating the knowledge of the auditors. Auditors should obtain specialization-oriented trainings. That means, if an auditor will audit a bank, insurance company, technological company or any other special type of business, he should have specialization on that issue. One of the interviewer pointed that there should be questions on IFRS at the competency exam of CPA's. The exam for being an independent auditor contains the topic of IFRS.

Due to offering unique development opportunities to the youth who are at the beginning of their career path, the audit sector is defined as “school” by many experts. All interviewees agree this point. The quality of the service given by the audit firms is mainly related to the qualification of the auditors. Therefore, resource allocated to the training in the audit firms, which determine quality as their mission, has always been considered competitive reference by the pioneer companies in different sectors.

Analyze of Question 11: The profession endeavors to ensure that auditors have the necessary technical skills through admission exams and practical training. However, professional exams in our country are designed also for qualification as an ‘accountant’ and there is a perception that the exams may have become progressively less focused on audit.

Combination of Answers To Question 12: Technology is affecting every industry, and the auditing profession is no different. Improvements in technology and developing markets are driving dramatic changes in business, which means audit, too, must evolve. Also technology is changing very fast and shaping the world of work. Auditors are also agree on the need to keep pace. Simplifying audit through innovation is the motto of most audit firms. Innovation is imperative to managing the complexities of a business and being successful in any given environment. Through continuous technology, project managements can be improved and transparency can be more effective.

Analyze of Question 12: For enhancing audit quality these issues can be useful:

- A robust framework for auditor independence: Strong, independent audit committees.
- Additional reporting to audit committees and shareholders: Improved reporting by auditors to audit committees should include items such as: the auditor's key risk assessments, areas of focus for the audit and approach thereto, views on management's key judgments and estimates, assessment of the quality of financial reporting by the entity and the auditor's assessment of the entity as a going concern. This will help to improve the awareness of audit committee members by focusing on key audit issues and avoiding unnecessary detail.
- Partner rotation: Familiarity threats as exist are between individuals rather than institutions. Rather than audit firm rotation, partner rotation can be done.
- Information technology: Technological change is occurring at a rapid pace, ushering in the capability to capture and communicate data digitally, on an unprecedented scale and on almost instantaneous timescales. This has resulted in increasing focus on "big data," whether structured or unstructured. Comprehensive and powerful digital information systems are increasingly capable of handling, analyzing, communicating and responding to these data related changes.

Conclusion

Independent audit, audit quality and quality standards have primarily been included in

this research. Explanations of related standards followed by mentioning the audit quality related national and international institutions and the criteria determined in order to evaluate audit quality. In the final section the difficulties, which were encountered during the auditors' compliance to the quality control standards, have been investigated by using qualitative research method. Even though there are various researches how to perform a quality audit in general, there is no research held in neither Turkey nor abroad regarding the difficulties encountered during the compliance of the quality control standards. Therefore the importance of this topic rises.

It is aimed in this research that to determine significant factors and issues in related to the audit quality by identifying how the audit quality is perceived by the beneficiaries.

Audit firms should;

- Perform the audit in accordance with the occupational standards, laws, legislations and regulations,
- Establish an efficient and sustainable quality control system,
- Appoint quality control auditor/s who reviews the audit quality control.
- And this auditor/s should evaluate the audit results objectively during the preparation of audit report, in order to provide quality audit service.
- As a result of quality audit activity;
- A company, which is audited, will be more careful during the preparation of financial statements.
- Investors and other beneficiaries, who act according to the audit report, will reach accurate information.
- Consequently audit firm, audited company and other related individuals will be profitable.
- The standards, which have been constituted in order to ensure the quality control in audit, have focused on

- The full audit procedures process efficiently,
- Ensuring to minimize the information risk by fulfilling the assurance of the financial statements' accuracy and reliability.

In case of the practices ensured by transforming these standards in to legislative regulations, which is mandatory for audit firms by the national authorities and members of the profession, reasonable service quality will also be ensured Independent audit's public service feature, which may influence whole society, will realize once establishing a reasonable quality control system in order to fulfill the responsibilities imputed by the market. Either national or international authorities assist audit firms in related to the establishment of quality control system by constituting standards and rules. There are standards in relation to ensure quality control, among the standards constituted. As primary responsibility in regards to ensure the establishment and sustainability of quality control system, belongs to the audit firms, which perform independent audit procedures, professional organizations also carry big responsibilities in regards to improve the profession and protect its members' interests due to the feature of public service as well as public oversight board. As regulatory authorities and professional organizations fulfill their responsibilities by constituting quality standard and regulation and ensuring the compliance to these regulations, audit firms fulfill their responsibilities by developing policies and procedures in order to comply with the regulations and enhance the operation efficiency.

The findings of the research are:

- Especially small-scale audit firms, because each form they filled in or procedure they followed were performed by the idea of "by the book" even though there was no infrastructure built in advance, have expected the training session would be given by public oversight board right after this standard was constituted.
- According to A1 of the ISQC 1 does not call for compliance with requirements that are not relevant, for example, in the circumstances of a sole practitioner with no staff. Requirements in this ISQC such as those for policies and procedures for the assignment of appropriate personnel to the engagement team, for review responsibilities and for the annual communication of the results of monitoring to engagement partners

within the firm are not relevant in the absence of staff. These procedures are also hard to follow for small audit firms, which have up to 3 experienced auditors.

- Although there are different definitions on audit quality, main similarities between those definitions show that indicators of audit quality should contain; Independence, Audit Fee, Rotation, Employee Turnover, Auditor Tenure, Size of Audit Firms, Provision of non-audit services, Being knowledgeable, Having experience and Audit Effort (Actual Hours Worked).
- Compulsory audit can be useful for companies to regulate their financial statements and be helpful to have a corporate structure. It is a fact that every company needs to have a corporate structure. In order for the companies to grow, accurate and reliable financial statements are vital. Compulsory audit can make companies achieve these targets.
- Almost all of the failure of a company is formed as a result of the conjunction of financial reporting failures and the failure of management. Some many reasons can be count as failure of companies' management. One of the reasons behind bankruptcy of a company can be the benefit of managers. If managers have been asked to meet the market's profit expectations, they would meet expectations in order to protect their jobs. Another reason behind a financial crisis of a company can be poor internal control structure. Growth and stock price-oriented approach have led to ignore the most basic measures for internal discipline, including effective internal control.
- From past to today, reputation has a great impact on influencing employee and customers. The most important factor that affects prestige and reputation of an audit firm is quality of services provided. However, different types of audit firms (global vs. local) pay more attention to some quality attributes of auditors (employees). Relying on the auditor and the audit work is one of the most important elements of audit proficiency. Trusting the audit work depends on the auditor acting according to specific standards during the audit work. Acceptability of an audit work is measured by the level of compliance to these standards. If the audit work has been completed in line with the standards, the audit report including the opinion of the auditor earns the status of reliable

document and the expectation from the audit is achieved. In case of the audit work qualifications do not comply with these standards, it is agreed that the audit work is not adequate and reliable.

- With the installation and authorization of PIOB for financial reporting and for determination of Auditing Standards, multilateralism has been eliminated. However, all of the participants think that the process of adaptation to standards by professional users is not easy and the shape of professional judgment can be able to develop by trial and error method in years. However, it should be noted that every single company has its own easy and difficult unique auditing aspects. Although adaptation to standards takes some time, the results can be useful for companies. The Public Oversight Board did not share their findings with the public. To talk about transparency, the board should share the results of its investigation on audit companies with the public.
- All the auditors, who had been interviewed, are agree on 7 years is not enough to get know and auditing a company. They believe that there are so many complex structures on companies and getting used to company's operation is not an easy process. It takes time to get use to company's organizational structure and even takes more time to audit the whole system. The purpose of rotation practice is defined as to improve audit quality by strengthening auditor independency. As there are various researches about this topic, there is no common conclusion reached. For instance according to some researches, there are results in related to the improvement on audit quality, as some others reach no direct relation with audit quality or even negative affect on audit quality.
- When economic dependency to the client increases, it can be a problem about the independence of auditor. But this problem may only exist for small audit firms. On the other hand, there should be a base price for all audit services and this should be stated by law.

For the next researches on audit quality, it should be considered that the most critical element of audit quality is "human". Also the measurements should absolutely be taken in consideration of audit team. Auditors' professional attitudes and behaviors, which are the main factors that determine the audit quality, should be the focus of these measurements.

Financial Support

This research did not receive any specific grant.

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Resume

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