THE EVOLUTION OF THE AUDITING PROFESSION IN TURKEY: THE UNION OF CHAMBERS OF CPA'S AND SWORN-IN CPA'S (TURMOB) HISTORY AND BACKGROUND(*)

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Abstract

This paper focuses on the historical developments of independent auditing and the audit profession in Turkey. The study will also discuss the pros and cons of the currently expanding scope of the independent audit, under laws and regulations like the Turkish Commercial Code, amongst others. The first independent auditing activities to emerge in Turkey were around the 1960s and were for various reasons, such as the country benefiting from foreign credit sources. The first auditing company to open in Turkey was Arthur Andersen, in 1975. The first comprehensive regulations concerning auditing in capital markets entered into force in 1987 and were made by the

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Capital Markets Board (CMB) and the Regulations on External Auditing in the Capital Market. Moreover, the basic principles and rules related to auditing were arranged with Communiques and entered into force in 1987 and 1988. It is understood that the development of independent auditing activities occurred as a natural consequence of economic developments across various sectors.

Key words: Auditing profession in Turkey, union of professional chambers.

Jel Classification: M41, M42, L44

1. Introduction

In the 1920s, the first years of the Republican Era, Turkey's economic conditions were very weak and this situation continued for many years. On the other hand, the statist structure that dominated economic life in Turkey, negatively affected the development of the private sector for years. Due to the statist structure, it was not deemed necessary to provide the public with information about enterprises managed by the State. In public enterprises, accounting information was used to make economic plans and take limited managerial decisions. Also an independent external audit on accounting (hereafter referred to as independent audit) was not required and, the limited accounting systems of the companies that produced internal information were used in that period. In this context, we can assert that these factors were responsible for delaying the institutionalization of accountancy and the auditing profession in Turkey.

In Turkey, accounting books and recording procedures were first defined in the Turkish Commercial Code, passed in 1926. An audit of financial statements, which was actually a tax inspection, started as a tool of the

Ministry of Finance. The following two laws were brought into the modern taxation system set after the Republic revolution (1923): Income Tax Law (27 February 1926, Law # 755) and Processing Tax Law (the root of today's Value Added Tax) (1927, Law # 1039). With the introduction of the Income Tax Law the collection of taxes began, according to both financial statements and income tax declaration *(*Üçüncü*, 1943: 2),* but the law contained no reference to independent audits of financial statements.

The Processing Tax Law (or Sales Tax Law) can be considered as the foundation of today's Value Added Tax. According to this Law, the tax was collected in terms of the declaration of the amount sold by entities producing goods or services. Keeping specific books, such as a manufacturing book, sales book, and raw material inventory book, was required by law. Additionally, a system of sales invoices was introduced with this law. Accordingly, accounting books and records had more importance than financial statements. In this case, the accuracy of the records became very important: Article 62 of the law said, "*The manufacturing book, sales book, and raw material inventory book of manufacturing plants are audited by, if they exist, account experts, if not, by the taxman in order to control accuracy of the sales amount and quantity written into a declaration of the manufacturing plant."* This Article was the first independent audit-related regulation in the history of the Republic of Turkey. It is seen that the Article gave priority to an account expert, not a taxman. However, there were not enough account experts with the required professional qualifications. As a result, under these laws, heads of provincial treasuries, directors of tax offices and public accountants, known to be trustworthy in the marketplace, were authorized to perform audits in the years between 1926 and 1934 *(Türker, 2006: 5).*

It can also be seen that, subsequent to the above mentioned laws, associations of accounting practitioners made an effort to institutionalize the accounting profession and independent auditing in Turkey. The first initiative concerning this issue was a draft law prepared by the Ministry of Commerce in 1932; however, it was not passed. After ten years, in 1942, accountants established an association composed of accountants, academicians, tax inspectors, and business owners: *Türkiye Eksper Muhasipleri ve* İşletme *Organizatörleri Derneği* (Association of Accounting Experts and Entrepreneurs of Turkey). The Association still survives today under the name of Türkiye Muhasebe Uzmanları Derneği (Association of Accounting Experts of Turkey) and is one of two IFAC members of Turkey. The aims of the Association were defined as follows:

- To improve and disseminate accounting knowledge

- To improve the accounting profession, and to protect the interests of accountants and strengthen relations between them

- To contribute towards the protection of professional and ethical standards

- To help entities solve their accounting-related problems

Today's CPAs come from two different professional groups: tax experts and accountants. The association embraces CPAs from both groups.

Due to economic developments in Turkey in the second half of the 20th century, private sector enterprises as well as public enterprises began to flourish. However, in the first years of improvements made in the spirit of private enterprise, businesses were established as family companies and the financial information was prepared internally. In 1979, the number of joint stock companies, which prepared and presented readable, understandable and analysable financial reports was about a hundred. This number reflected the low rate of 1% out of the 10,300 joint stock companies registered in that year *(Aysan, 1980).*

It was not until the mid-1960s that the first independent audit activities in Turkey emerged and this was due to the need for audit services by internationally operating Turkish banks. They had to meet the reliable financial information requirements of international funding and lending institutions *(Selimoğlu et al, 2011: 34).* 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 independently 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 MUHAŞ Joint Stock Company in Turkey along with Turkish partners. The other independent audit firm in Turkey was established in 1970 by a group of executives from the Association of Accounting Experts of Turkey: *Aris Arastırma, Danısmanlık ve Gelistirme Anonim Sirketi* (Aris Research, Consultancy and Development Joint Stock Company). Some of the founders of Aris were academics, such as Prof. Mustafa Aysan, Esref Sümer, İsmail Otar, Bülent Çorapcı, Fikret Şevki Bulut, Çiğdem Solaş, and Masum Türker. Aris had 40 partners and performed the auditing of some banks and other organizations.

The more the Turkish economy developed, the more foreign auditing firms established branch offices in Turkey. In 1975, Arthur Andersen opened an office in Istanbul. Then, other international auditing firms such as Price Waterhouse (now PwC) in 1981, Güven, and Coopers and Lybrand Co. Inc. in 1982, and Arthur Young in 1983, all established offices in Istanbul *(SPK, 1985: 93-103)***.**

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

The principles of independent auditing in Turkey were first defined in 1987 under the Capital Markets Law (CML). Due to a legal framework concerning independent auditing in Turkey coming into being in 1987, this study focuses on the historical developments of the independent audit profession in Turkey from the year 1987 to beyond 2012, in terms of the audit choices listed below.

The study is organized as follows: Firstly, a literature review is prepared to reveal similar studies. Afterwards, explanations on the independent audit-related developments are made in the following order:

1. The audit required by the Ministry of Finance

   - Institutionalization of accountancy and audit professions in Turkey (1989)

   - Uniform chart of accounts (1992)

2. The audit required by the Capital Market Board (1987)

   - Turkish Accounting Standards Board (1999)

3. The Insurance Auditing Board and Independent Audit of Insurance Companies (1994)

4. Banking Regulation and Supervision Agency (1999)

5. Energy Market Regulatory Authority and Independent Audit in the Energy Market (2001)

6. The audit under the New TCC (passed in early 2011 and valid as of mid 2012)

This is followed by a general evaluation on the development process and the future of implementing independent audit applications.

This study does not benefit from archival sources. The relevant sources, such as old and current regulations, laws, and the research studies on auditing activities in Turkey proved the most beneficial. The findings obtained were written in chronological order. Through this methodology it has been possible to analyse how and to what extent the audit profession in Turkey has developed and expanded, and is in accordance with international developments and standards.

2. Literature Review

Accounting and auditing practices emerged for state accountancy purposes in the Ottoman Empire, the predecessor of the Republic of Turkey *(Güvemli et al, 2015)*. Similar papers examined the influence of statism among accounting practices and the development of accounting profession (Carnegie & Parker, 1999, Chua & Poullaos, 2002, Annisette, 2000,). These influencial papers in general demonstrate how the British Empire emerged as a critical resource for prestige and markets amongst UK professional bodies in the late 19th and early 20th centuries. Carnegie and Parker (1999) examine the growth of Australian bodies and their professionalization strategies within the framework of imperialism.

The relationship of between the development of accounting and the state has been attracting the attention of scholars from different geographic regions as well. Senarath Yapa (1999) has examined the role of a Muslim state in the establishment of professional accountancy association of Brunei. The accountancy body of Brunei was established in 1987, close to that of Turkey. Caramanis (1997) introduces the history of corporate auditing in Greece. His study reveals similarities between the Turkish and Greek experiences for the development of auditing. According to his paper, despite failed efforts, corporate auditing practices officially began in 1955 in order to ensure proper use of foreign funds. There is a law on encouraging foreign capital in 1954 in Turkey, and as a result Turkish Commercial Code numbered 6762 was enacted in 1957. This code included details for how auditing would be practiced in Turkey. Monfardini and Maravic (2012) make a crosscultural study regarding the evolution of auditing practices in a municipal level between Germany and Italy. They address that institutional, cultural and political conditions contribute to shaping the process and direction of change in auditing practices. Their study reveals that federalism plays an important role in Germany. It is important to mention that Turkish accounting culture has been influenced by the German accounting culture in the first half of the 20th century with their alliance during the First World War (Güvemli & Yıldız, 2010).

Insights from the Turkish perspective on the development of auditing and accounting have been featured in several papers (Öker et al, 2014, Aysan, 2010, Elitaş & Üç, 2009, Uzay et al, 2009). These papers focus on the development of auditing in a historical context but they lack examining the history of the most influential accounting body in Turkey in details. We therefore turn the spotlight to the development of auditing in Turkey by benefiting from the history of relevant institutions.

3. The Audit Required by the Ministry of Finance

The Law of Certified Public Accountancy and Certified Public Accountancy # 3568 passed on 13 June 1989[1] 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

1) Law of Accountancy Profession # 3568 promulgated in the Official Gazette # 20194 on 13 Jun 1989.

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 actual facts for the use of the concerned persons and authorities

Pursuant to the provisions of this Law, persons authorized to perform the professions are identified as, Certified General Accountant (CGA)[2] (abolished in 2008), Certified Public Accountant (CPA) and Sworn-in Certified Public Accountant (SCPA). In Article 2 of the Law, the scope of the CPAs is explained as follows:

a. To keep books; prepare the balance sheets, profit and loss statements, tax returns and other relevant documents in compliance with generally accepted accounting principles and the provisions of the relevant legislation.

b. To establish and improve accounting systems

c. Based on the relevant documents on issues specified in the aforementioned paragraph, to perform investigations, analyses and audit, to present written opinions regarding financial statements and tax returns, to prepare reports and similar documents, to perform arbitration, expertise, and similar services.

However, the scope of the SCPAs is explained in Article 12 as follows:

2) The title "CGA" was abolished by Law # 5018, passed on 10 Jul 2008.

"*SCPAs 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.*"

As can be understood from the articles above, the SCPAs perform audits, on behalf of the Government (the Ministry of Finance) for taxation and attestation purposes, in companies where their annual sales revenue exceeds the amount annually specified by the Ministry of Finance. The SCPAs may not keep accounting books, may not establish an accounting office, and cannot become partners in the accounting offices already established. On the other hand, the CPAs and the SCPAs can carry out auditing for publicly held companies on behalf of the Capital Market Board (CMB), if they possess a special license given by the CMB. They can also perform audits of organizations operating in the finance, insurance and energy markets, on behalf of the relevant institutions for independent auditing purposes, if they possess a special license given by the relevant institutions.

With Article 28 of the law, the Union of Chambers of CPAs and Sworn-in CPAs of Turkey (TURMOB in Turkish) was established. According to Article 15 of Law # 3568, a chamber can be established in a city or a town that has at least 250 accountancy professionals.

The increasing number of the chambers and the members over 21 years from 1990 to 2011 is shown in Table 1[3].

3) http://www.turmob.org.tr/TurmobWeb/Attachment.aspx?param=jGL4YtEdKTu-h2azZ6BNhZB75PuC0S6SsUynWTVBEh7YA/+GNJiBOOgjF3eEt1CkTtP6Be6VA7dJvTBwSKx8Gmw==: 23.10.2015

Table 1: The distribution of the Chambers and Members of the Accounting Profession from 1990 to present

Period	*Number of Chambers*	*Number of CGA and CPA (*)*			*Number of Chambers*	*Number of SCPA*
		CGA	*CPA*	*Total*		
1992-1994	60	*20,277*	*12,234*	*32,511*	5	*2,400*
1994-1995	65	*25,085*	*14,282*	*39,367*	6	*2,407*
2000-2001	69	*28,223*	*25,389*	*53,612*	6	*3,147*
2004-2005	70	*30,095*	*36,036*	*66,131*	8	*3,561*
2009-2010	73	*21,164*	*57,405*	*78,569*	8	*3,858*
2010-2011	75	*13,498*	*70,122*	*83.620*	8	*3,960*
2013-2014	77	*10,880*	*80,577*	*91,457*	8	*4,578*
(*)CGA: Certified General Accountant, CPA: Certified Public Accountant and Financial Advisor, CPA						

Source: *Distribution of the members of profession*

From this table it can be seen that in the first five years over 40,000 professionals joined the chambers. In the early years, the number of the CGAs was more than the CPAs. Even so, the year 2000 was a turning point, and the number of the CPAs showed a sharp increase. Currently the CPAs have reached 84% of the total of the professionals. The main reason why the number of the CPAs is much more than the CGAs is that becoming a CGA was abolished as of 2008. That is, in Turkey, the lowest entry requirement for the profession was redefined with Article 5/a of Law # 5786 passed on 26 July

2008 as follows:

> *a) To graduate from academies and faculties that give education in law, economics, finance, business, accounting, banking, public administration, and political sciences or to graduate from foreign universities being certified to that equivalency by the Council of Higher Education at least in undergraduate degree and as stated in this article, to be in postgraduate study from these disciplines.*

Table 2 shows the changing education levels of the CPAs over the years. As is seen from Table 2, the CPAs comprised 98% undergraduates and 2% graduates in the period 1992-1994. In the years following 1994, this allocation subsequently became 97% and 3%, and 96% and 4%. Even though the ever-increasing number of the CPAs possessing certificates reached 80,577, for 2015 the number of CPAs actually working is 44,290. The main reason for this situation is the presence of academics among the members of the accounting profession.

Table 2: Education Levels of CPAs

Years	Undergraduate	Graduate
	#	#

1992-1994	12,065	309
1994-1996	14,507	440
1996-1997	15,428	485
1997-1998	16,393	533
1998-1999	19,380	533
1999-2000	22,052	421
2000-2001	24,883	506
2003-2004	29,690	1,267
2005-2006	34,579	1,457
2006-2007	38,171	1,608
2007-2008	42,067	1,753
2008-2009	45,719	2,010
2010-2011	57,336	2,470
2013-2014	69,038	3,485

Source: TURMOB Performance Reports

As shown in Table 3, 85.68% of the 80,577 CPAs had a bachelor degree by the year 2014. The CPAs graduating from secondary school, high school and associate degree were actually CGAs prior to Law # 5786 and they passed the promotion exam to possess CPA certificate under Law # 5786. In this context, it can be said that Law # 5786 has contributed to the profession by raising the education level of the accountancy profession.

Table 3: Education Levels of CPAs (2014)

Elementary School		Vocational High School		Associate Degree		Undergraduate (Bachelor Degree)		Graduate (Master+ PhD)		Total	
#	%	#	%	#	%	#	%	#	%	#	%
388	0.4	8,057	10	2,834	3.5	65,870	81.75	3,428	4.25	80,577	100

Table 4: Education Levels of SCPAs (2014)

Years	Undergraduate (Bachelor Degree)		Graduate (Master+PhD)		Total
	#	%	#	%	
1992-94	1,825	76	575	24	2,400
1994-96	1,819	75	588	25	2,407
1996-97	1,959	76	594	24	2,553
1997-98	2,143	77	633	23	2,776
1998-99	2,349	79	633	21	2,982
1999-00	2,502	79	680	21	3,183
2000-01	2,688	85	459	15	3,147
2003-04	2,725	78	749	22	3,474
2005-06	2,766	78	795	22	3,561
2006-07	2,808	77	831	23	3,639
2007-08	2,957	77	883	23	3,840
2008-09	2,974	77	879	23	3,855
2010-11	3,017	77	943	23	3,960
2013-14	3,577	78	1,001	22	4,578

Source: TURMOB Performance Reports

As for the education levels of the SCPAs throughout the years (Table 4), approximately three quarters of them have bachelor degrees, and a quarter are post-graduates, so it hasn't changed in proportional terms over the years. However, the number of the SCPAs possessing a certificate has reached 4,578 (TURMOB Performance Report-2011).

Uniform chart of accounts

The legal regulations applying to the Uniform Chart of Accounts was passed in 1992 by the Ministry of Finance and entered into force in 1994 (General Communiqué on Accounting Practices, promulgated in the Official Gazette # 21447 issued on 26 December 1992). With this legal regulation, the basic concepts of accounting, an explanation of accounting policies, the principles of financial statements, and the framework of the uniform chart of accounts were determined. Thus, the accounting profession started to use the uniform chart of accounts and standardized financial statements. This regulation should be considered as an important milestone for accounting and auditing practices in Turkey because the uniform accounting chart enabled auditors to compare financial statements from different accounting periods. With the additional legal regulations and amendments made during the 24 years since its inception, its functionality has been enhanced.

4. The Audit Required by the Capital Market Board

The Capital Market Law No. 2499[4] was passed on 30 July 1981. With this law, the Capital Market Board (hereafter the Board) was established. The Board makes detailed regulations for organizing the capital markets and developing market instruments' and institutions. The Board licenses, regulates and supervises capital markets and institutions in Turkey. Its aims are as follows:

- To maintain fair, proper and efficient capital markets,

- To ensure that investors are protected and receive full, accurate and timely information,

4) Capital Market Law # 2499 passed in 1981.

- To safeguard investments in capital markets

The Regulation of the Independent Audit on the Capital Market[5] was passed on 13 December 1987. This regulation formed the first legal independent audit in Turkey. It was implemented from 1988 onwards. Article 16 of the Law explains the following concepts: the Standards of Accounting, Financial Statements and Reports, and Independent Auditing. According to Article 16, issuers and capital market institutions are to prepare financial statements, financial reports and other information required by the Board. These financial statements must be audited by independent auditing firms authorized by the Board with respect to compliance with the principles of fair reflection of the accuracy and reality of information. The professionals conducting audits for the listed companies are CPAs and/or SCPAs working at an authorized auditing firm. According to the Public Oversight Authority's records, the current number of authorized auditing firms in Turkey is 185.

With significant amendments, this regulation was changed and developed over time, specifically after the Sarbanes and Oxley Act (the SOA) that was passed in the USA on 30 July 2002. That is to say, in 2006, an amendment on Independent Audit Standards for the Capital Market[6] was released in order to strengthen the independence of auditors to comply with the SOA. Additionally, the code of ethics in independent auditing was added to the said Regulation in 2006.

Turkish Accounting Standards Board

5) Regulation on independent audit in the Capital Market promulgated in the Official Gazette # 19663 on 12 Feb 1987.
6) Notification on Independent Audit Standards in the Capital Market, Series X. # 22, promulgated in the Official Gazette # 26196 and issued on 12 Jun 2006.

The development of capital markets and the international companies, which had the tendency to increase investments in Turkey, and which applied international accounting standards, can be considered as important factors that increased the need to create a Turkish Accounting Standards Board (the TASB), by making a change in the Capital Market Law.

The law[7] that led to the change in the Capital Market Law was passed in 1999 and TASB started work in 2002[8]. Although the legal regulations were made with the Capital Market Board Law, the TASB budget was funded with shares taken from TURMOB.

Among TASB's tasks, the most important one was the creation of the Turkish Accounting Standards (hereafter TASs), the purpose of which can be understood from its name. The TASB made an agreement with the International Accounting Standards Committee Foundation (IASCF). As part of this agreement and under the acronym TASs, it started to issue the International Accounting Standards that were released every year by the International Accounting Standards Board (IASB).

The application of TASs commenced as of 2005, with the preparation of the financial statements of 592 public companies listed on the Istanbul Securities Exchange, banks and insurance companies. Then again, the said companies also had to prepare financial statements under the standards defined by the Ministry of Finance. It can therefore be seen that these companies were subject to two distinct audits, one of which was required by the Ministry of

Finance for tax purposes, and other by the Board according to the terms of TASs.

Currently, in Turkey TASs are applied only to publicly held companies.

7) Turkish Accounting Standards Board, Annex: 1st Provision that was added to Capital Market Law # 2499, passed on 18 Dec1999, Law # 4487.
8) Turkish Accounting Standards Board Regulation promulgated in the Official Gazette # 25404 on 16 Mar 2004.

However, after the New Turkish Commerce Code (TCC)[9], which came into effect as of June 2012, TASs aimed to be applied for all joint stock and limited liability companies.

5. The Insurance Auditing Board and Independent Audit of Insurance Companies

The auditing of insurance companies by the state has a 50-year old history in Turkey. That is to say, the first institution, founded for the purpose of auditing of activities and transactions of insurance companies, was the Insurance Control Board, established in 1963. The Board was renewed in 1994 and renamed the Insurance Auditing Board. The Board started to operate as an audit unit under the roof of the Under Secretariat of the Treasury[10], in order to conduct audits of the insurance companies' transactions. The Insurance Auditing Board[11] audits the insurance companies with their own audit staff, not with SCPA and/or CPA. The said staff consists of audit experts, audit expert assistants, and insurance auditing actuaries and assistants. This audit aimed to be the general audit of insurance companies. However, the insurance companies are audited for two aspects, not just the tax audit. The second audit is an independent audit of insurance companies' accounting system and is conducted by authorized independent auditing firms, that is, by SCPAs and CPAs. A special regulation about this audit was issued in 2003. The expectations of the independent auditing of insurance companies

9) Turkish Commerce Code, passed on 13 Jan 2011 and Law # 6102 (promulgated in the Official Gazette # 27846 on 14 Feb 2011)

10) Under Secretariat of the Treasury is an establishment that has taken over a lot of government's establishments' audits besides incentive practices, international trade related to Ministry of State.

11) Regulation on Independent Audit Principles in the Insurance Companies promulgated in the Official Gazette # 25223 on 8 Sep 2003.

are listed below[12] :

- *Financial statements are audited and reported with the view that they are created with the countries' account and record regulations' being in accordance with relevant legal regulations.*

- *When required the independent audit is conducted via the companies' accounting books, records and documents by reconciliation with the processing businesses.*

- *Companies' units regarding accounting transactions, efficacy and performance of internal control system are examined within this scope.*

- *Year-end financial statements are audited using all audit techniques.*

These audit procedures express an advanced and modern understanding. There are four types of auditor's opinion in the independent audit of the insurance sector as well as in the known independent audit activities. So the reports being prepared by auditors can be *unqualified opinion*, *qualified opinion, adverse opinion,* or *disclaimer of opinion.*

The current data (from 2013) about insurance, reassurance and pension companies demanding audit services, and the authorized independent audit firms, are shown in Table 5.

12) Regulation on Independent Audit Principles in the Insurance Companies promulgated in the Official Gazette # 25223 on 8 Sep 2003.

Table 5: Companies being audited and authorized audit firms

Companies Being Audited	#
Non-life insurance companies	34
Life insurance companies	8
Pension companies	15
National reassurance companies	1
TOTAL	**58**
Authorized independent auditing firms	**39**

Given the number of authorized audit companies, it draws our attention that the number of insurance companies using audit services is larger than authorized audit firms. These data indicate that some audit firms have clients operating in different insurance sectors.

6. Banking Regulation and Supervision Agency and Independent Audit of Banking Sector

The protection of the rights of savers, who have bank deposit accounts, creates the main function of the bank audit. The first measure in fulfilling this purpose was taken by the Government in 1933 with the Protection of the Deposit Law [13]. According to this law, banks should deposit a specified amount of money, which is composed of the accounts that savers opened at their branches, at the Turkish Central Bank as an exchange, and this amount is kept as a fund source for the reimbursement of savers. In the case of the bank's bankruptcy the said funds, held at the Central Bank, are paid to the savers.

These provisions, taken from the Turkish Central Bank and collected in

13) Law of Protecting the Deposit # 2243 passed on 30 May 1993.

a private fund, were implemented in 1983 when the Saving Deposit Insurance Fund (SDIF) was founded, which is still in existence[14]. Originally managed by the Turkish Central Bank, the SDIF and its audit-related issues were handed over to the Banking Regulation and Supervisory Agency (BRSA).

The years 1994, 2001, 2002, 2008, and 2009, are the times when economic crises happened in Turkey. In the 1994 crisis, the banking sector experienced a great shakeup; the government distrained 11 banks between 1994 and 1999. In this period, the Under Secretariat of the Treasury attended to the banking sector, and specific banks were subject to directorial and financial punishments.

In 2001 and 2002, when economic crises again appeared, the Banking Law was renewed and the new Banking Law was enacted with Law # 4389[15]. With the passing of this law, only one regulatory and supervisory institution was left to deal with the banking sector: the Banking Regulation and Supervisory Agency (BRSA). 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. The Banking Law[16] was amended in 2005 by the Regulation on Information Systems Audit of Banks Being Performed by Independent Audit Institutions. The purpose of this Regulation was to define the principles and procedures concerning the audit of banks' information systems and authorized independent audit firms. This Regulation is based on the provisions of Article 15 and Article 93(4) of Banking Law # 5411 passed on 19 October 2005. In Article 5 of this Regulation, the requirement

14) Savings Deposit Insurance Fund, Decree Law # 70 (promulgated in the Official Gazette # 18112 on 22 Jul 1983.
15) Banking Law passed on 18 Jun 1999 and Law # 4389 promulgated in the Official Gazette # 23734 on 23 Jun 1999.
16) Banking Law # 5411 passed on 19 Oct 2005, promulgated in the Official Gazette # 25983 on 1 Nov 2005.

of audit institutions when conducting an information system audit of the banks is explained as follows:

a) to have the authority to perform independent audit of banks,

b) to employ a sufficient number of auditors with professional competence to perform audits under this Regulation.

According to the Article, the auditors undertake the following roles:

The responsible partner and chief information systems auditor; assistant chief information systems auditor; senior information systems auditor; information systems auditor; assistant information systems auditor. The responsible partner and chief information systems auditor is responsible for the audit of information systems on behalf of the authorized institution and has the authority to sign the information systems reports. This title requires a minimum of ten years' experience in information systems audits. Professional information systems control or safety is required to gain the title of responsible partner and chief information systems auditor. Six years is necessary to become a senior information systems auditor, and three years to become an information systems auditor and hold a Certificate of Information Systems Auditor (CISA). All employees charged with information systems audits under this Regulation have to verify that they received or have been given education for at least 23 hours a year, and for at least 124 hours in three years, within the related education programs.

Banking Law # 5411 (Provision 33-42) says that the institutions or firms that conduct independent audits in the banks shall be determined by the BRSA. If an independent audit institution detects that a bank is in a dangerous condition or the findings show that managers have violated the related laws or the contracts, its duty is to inform the BRSA of the situation.

These explanations show that the banking law enacted in 2005 provides a modern structure for the financial sector institutions, both in terms of the audit and accounting systems. The procedures and principles of independent audit work called for by the BRSA have developed over time and these procedures and principles were determined in 2006 under the Regulation[17] on Activities and Authorization of the Institutions Performing Independent Audit of the Banks.

Just as the Capital Market Board authorizes the institutions that conduct the independent auditing of publicly held companies, the BRSA has taken over the task of determining which bodies will conduct the independent audits of the companies operating in the financial sector.

There are four types of institutions that operate in the financial markets where the BRSA requires them to have their financial statements audited. These finance sector institutions and audit institutions having the authority to perform these audits as at the end of 2014 are shown in Table 6[18]. As is seen in Table 6, the number of institutions being audited under the BRSA was 168 for the end of 2014 and the number of authorized audit companies was 39. In this case, there are about four entities that will benefit from the audit service supplied per authorized independent firms. On the other hand, it should be considered that most of the authorized audit firms provide audit services to public companies in the capital markets, or to sectors benefiting from other audits, as well.

17) Regulation about Activities and Authorization of the Institutions that shall Perform Independent Audit of the Banks promulgated in the Official Gazette # 26333 on 1 Nov 2006.
18) bddk.gov.tr

Table 6: Institutions in the finance sector and authorized audit firms

Finance Sector Institutions	#
Banks	***49***
Public development and investment banks	*4*
Banks under Saving Deposit Insurance Fund	*2*
Private investment banks	*5*
Private investment banks	*4*
Public deposit money banks	*3*
Private deposit money banks	*10*
Foreign deposit money banks	*11*
Foreign bank branches that collect deposits	*6*
Participation banks	*4*
Leasing companies	***30***
Factoring companies	*77*
Financing companies	***12***
TOTAL	***168***
Authorized Independent Audit Companies	***39***

7. Energy Market Regulatory Authority and Independent Audit of the Energy Market

The Electricity Market Regulatory Authority was established according to Law # 4628 and it was later renamed the Energy Market Regulatory Authority (EMRA) as per the provisions of the Natural Gas Market Law # 4646. With the enactment of the Petroleum Market Law # 5015[19] and Liquefied Petroleum Gas (LPG) Market Law # 5307, the Authority was commissioned to regulate and supervise the petroleum and LPG markets. Members of the Energy Market Regulatory Board assumed their duties on 19 November 2001.

The objective of these above-mentioned Laws was to establish a financially viable, stable and transparent energy market, which would function according to the provisions of private law and within a competitive environment, to ensure the independent regulation and supervision of the market in order to provide sufficient electricity, natural gas, petroleum and LPG of good quality to consumers, at low cost, in a reliable and environmentally friendly manner.

EMRA was founded under the Electricity Market Law, yet it shows activity about the Petroleum Market Law and the regulation of Petroleum Market. Provision 14 of the law says *the Board audits the Petroleum Market activity with its own audit staff and through the service of private (independent) audit firms.* This means EMRA has the electricity market and petroleum markets audited by providing audit services of independent audit firms. 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.

EMRA released a regulation to determine the procedures for the

19) Petroleum Market Law # 5015 passed on 4 Dec 2003, promulgated in the Official Gazette # 25322 on 20 Dec 2003.

independent audit of energy market institutions[20]. Article 5/B (c) and (f) of Law # 4628 explains the duties of the audit board of EMRA as follows:

> *c) To perform audits, preliminary inquiries and investigations, to impose penalties and sanctions, decide the filing of application into any legal or administrative organ including the filing of lawsuits,*
>
> *f) To examine the audited financial statements of those operating in the petroleum market or to have them examined.*

Article 18 explains the duties and responsibilities of EMRA's main service units. One of EMRA's main service units is the Supervision Department. The Supervision Department's audit-related duties are as follows:

> *1) to carry out duties involving examination and auditing of transactions and accounts of entities, which are subject to legal provisions governing the energy market, in accordance with applicable laws and regulations;*
>
> *2) to audit the financial statements, statutory books and records of entities*

On the other hand, Article 45 explains that EMRA audits the markets' activities via its own personnel, or by way of service procurement from public institutions and organizations, and private auditing firms.

In the above-mentioned regulation, the purpose of the independent audit is stated as follows:

> "*... to provide development in secure and competitive conditions with the energy market, to ensure that the companies' activities,*

20) Regulation about Auditing of Companies operating in the Energy Market by Independent Audit Firms, promulgated in the Official Gazette # 25248, on 3 Oct 2003.

> *applications, processes, accounts and financial statements are in accordance with generally accepted accounting principles. The entities and institutions with licenses are subject to audits confirming and reporting whether their system reflects the truth honestly, and to determine that the licensed institutions comply with the conditions to which the license they have is subject ...”*

According to these explanations, the auditing of these licensed companies should only be conducted by authorized independent audit companies. In addition to accounting audits, it can be seen that this audit also involves determining whether those companies with a license are in accordance with the conditions required to obtain this license.

In the regulation, it is required that the independent audit institutions should have adequate experts and office equipment to perform audit activities in this sector. Additionally, an independent audit institution can make an audit contract with an entity in this sector for a period of seven years and, at the end of this time, two years should pass in order from them to be able to make a contract with the same auditing firm.

Independent audit reports can be an unqualified opinion, qualified opinion, adverse opinion, and also a disclaimer of opinion. In the meantime, it should be pointed out that the independent auditors should be authorized according to CPA and SCPA Law # 3568. It can also be seen that the audit principles and applications are the same as the sectors mentioned above.

Data concerning the energy market entities that receive independent audit services from authorized audit firms are shown in Tables 7 and 8. In the energy market, independent audits are performed only for the electricity and petroleum markets. This is why the numerical data of independently audited businesses will be detected by the different handling of these two markets.

Table 7: Institutions in the Electricity Market and authorized audit firms

The Electricity Market Institutions	#
Companies being given a production license	*1,019*
Companies being given an auto producer license	*210*
Companies being given a wholesale license	*101*
Companies being given a distribution license	*21*
Companies being given a distribution license in an industrial area	*127*
Companies being given a retail sale license	*21*
TOTAL	***1,499***
Authorized Independent Audit Companies	***83***

Table 8: Institutions in the Petroleum Market and authorized audit firms

The Petroleum Market Institutions	#
Companies with a storage license	*102*
Companies with a mineral oil license	*282*
Companies with a free user license	*53*
Companies with a spill license	*68*
Companies with a transmission license	*22*
Companies with a refinery license	*6*
Companies with a business (biodiesel) license	*44*
Companies with a distribution license	*53*
Companies with a franchise license	*15*
Companies with a shipping license	*116*
TOTAL	***761***
Authorized Independent Audit Companies	***83***

The total number of entities operating in the electricity and petroleum markets, which are given licenses by EMRA, is (1,499+761) 2,260. The number of independent audit institutions authorized to perform auditing of these entities is 83. So, on average, each independent audit firm audits approximately 27 entities. It should be emphasized here that most of these independent audit firms are active in other sectors that are subjected to independent audits, as mentioned before.

8. Auditing Under the New Turkish Commercial Code

Translated from the French Code de Commerce passed in 1807, the first Commercial Code of Turkey was enacted in 1850 with the name Kanunname-i Ticaret. Thanks to this law, accounting practices were formed, and the accounting books traders were required to keep were defined (Tokay, 1987: 121). The Commerce Code that became effective in 1926, after the declaration of the Republic, was taken from the German Commerce Code. The Turkish Commerce Code was re-examined and renewed according to German, Swedish, and Italian laws in 1957 and passed as the Turkish Commerce Code numbered 6762 *(*Şensoy*, 2008: 181)*. In order to comply with European Union standards the Commerce Code Commission was established in 1999. The Commission, taking the German and Swedish Laws into consideration, prepared a new commerce law draft in 2007 *(*Çelebi *& Güçlü, 2007: 144)*. The New Turkish Commercial Code (the New TCC) was adopted by the Turkish Parliament on 13 January 2011, and circulated in the Official Gazette on 14 February 2011. The New TCC and the relevant Law on Enactment entered into force on 1 July 2012 (1 January 2013 for certain articles). Below are the explanations regarding the independent auditing of all joint stock companies and limited liability companies the New TCC has brought about.

Subsequent to the enactment of the New TCC, Public Oversight Accounting, and the Auditing Standards Board (2011) were established in 2011, in order to provide an effective auditing and public oversight system. The Board was authorized to define Turkish accounting and auditing standards, entering the qualifications required of the independent audit profession. The Board also has the authority to monitor the activities of independent auditors and auditing firms.

Independent audit of companies

The New TCC envisages a system for the auditing of the firms that is completely novel. Through the new regulations, the audit currently included among the mandatory organs of the companies, and exercised through an auditor who does not necessarily have expertise in the subject matter, is replaced by an independent audit mechanism that should be conducted by independent audit firms, or by CPAs and SCPAs. Under the New TCC, audits are required to be performed by independent auditors. Independent audit firms are allowed to audit the financial statements of all companies, other than those exempted due to their size, by the Council of Ministers. It means that the Council of Ministers will define the size of the SMEs that will be subject to independent audits. The auditor that was originally assigned by the independent audit firm to audit a company must be replaced by another auditor, for a period of at least three years, if the auditor has submitted audit reports for that company for seven consecutive years (Provision 400).

Independent audit-related responsibilities for board members of a joint stock company

In accordance with TASs, the Board of Directors is responsible for the preparation of the financial statements and annual reports. The Board of Directors must fulfil this responsibility within the three months following the financial year-end, and the reports must be submitted to the General Assembly.

The Board of Directors of the company responsible for the preparation of the consolidated financial statements is obliged to present the financial statements of the group companies, their annual reports, and the financial advisers (SCPA or CPA). The scope of these audits includes an audit of financial statements and/or consolidated financial statements and the annual report. The audit must be conducted in accordance with Turkish Auditing Standards, which are identical to International Auditing Standards (ISA).

One of the mandatory responsibilities of the Board of Directors, concerns the establishment of the mechanism required for the financial planning needed for accounting operations, financial supervision and proper management of the company. Unaudited financial statements and unaudited annual reports of the Board of Directors are considered not to have been prepared.

The Board of Directors is obliged to submit to the auditor all the required data and documents that will constitute the basis of the said data, in order to enable the auditor to conduct his/her audit in accordance with the law, and with due care and attention (Provision 401).

In cases where an adverse opinion has been issued, the Board of Directors calls for a General Assembly to be held within four working days following the receipt of the auditor's opinion. The General Assembly is also obliged to appoint a new Board of Directors. The new Board of Directors is responsible for the preparation of financial statements that conform with the Code, the articles of agreement of the company, and the existing standards, and presents these financial statements to the General Assembly in six months, together with the auditor's report. In cases when a qualified opinion is submitted, the General Assembly has to reach a resolution concerning the required measures and revisions (Provision 403/5).

The New TCC, prepared with a modern and reformist approach, can be considered as a change that will direct the course of commercial life in Turkey. The New TCC offers a very important opportunity and basis for institutionalization, increasing competitive power, establishing public confidence and transparency. The ethical and transparent structures these changes will bring about can be sustained in Turkish commercial life.

The law provides regulations for use in commercial life that can ensure the required level of transparency, auditability, accountability and reliability. The preparation of financial statements, in accordance with International Financial Reporting Standards (IFRS) and independent audits in line with International Auditing Standards (IAS), will necessitate the adoption of many international standards in matters such as internal controls, internal audit and risk management, all of which are requirements for corporate governance under TAS. This points toward a significant process of adaptation and will mean a great deal of preparation for many Turkish companies.

The scope of auditing, which approximately **694,053**[21] (Note: According to the Ministry of Customs and Trade, this number is currently 98,250 joint stock companies + 747,123 limited liability companies)

21) The number of entities is calculated by considering the number of taxpayers (joint stock and limited liability companies) for 2007 obtained from Performance Report of 2007 of Revenue Administration of Turkish Republic and number of established and liquidated companies in the period from 2007 to 2011. www.tobb.org.tr/ekonomstat/Sayfalar/istat-ii-Sanayi-ve-Sirket.aspx. www.gib.gov.tr.

prospective clients (SMEs) will generate, requires that the CPAs and SCPAs should develop themselves across many aspects, particularly concerning the TASs and auditing techniques. That is to say, 43,660 prospective auditors (41,504 CPAs and 2,156 SCPAs) are likely to conduct audits of these companies, thus each audit professional will audit approximately 16 entities on average, as will be seen in Table 9 below. However, it is expected that this number will decrease after the Council of Ministers defines the size of the SMEs that will be subject to independent audits.

9. Conclusion

We conclude that, in spite of the fact that independent audit activities stretch back to the 1960s, in Turkey the principles of the independent auditing profession were first defined in 1987 under CML. Yet, independent auditing has changed, developed and expanded over time, in terms of the current requirements, international standards, laws, regulations, applications, and use of technology etc.

As summarized in Figure 1, the milestones in the development process of independent audit activities indicate that audit activities were started for tax purposes. Then, depending on economic development and enlarging capital markets, independent auditing firms were established in the 1970s. The 1980s witnessed the definition of auditing principles, in order to meet the auditing needs of banks and publicly held companies. Due to globalization, the 2000s witnessed the establishment of auditing-related standards that complied with international standards.

Figure 1: The Milestones in independent audit activities[22]

1-First Turkish Commercial Code (Translation from French Commercial Code -1850)
2-Tax inspection performed by public accountant (1926-1934)
3-Second Turkish Commercial Code (Based on German Commercial Code-1926)
4-First Law Draft on Accounting Profession (1932)
5-Setting accounting systems of public establishments by German experts (1937)
6-Beginning of auditing of foreign companies (1939)
7-Establishment of Association of Accounting Experts of Turkey (TMUD) (1942)
8-Turkish Taxing System-Declaration base (1949)
9-World Bank Report on shortcomings in accounting profession in Turkey and its effects on economy (1951)
10-Law on Encouraging foreign capital (1954)
11- Turkish Commercial Code, No. 6762 (1957)
12-Report on improvement of accounting systems of public establishments prepared by American and Turkish Academicians (1961)
13-Uniform chart of accounts, generally accepted accounting principles and preparing managerial-oriented reports for public establishments (Supported by World Bank and prepared by foreign and Turkish scholars- 1968-1970)
14- MUHAŞ Joint Stock Company, established by Touch Ross and Turkish partners (1967)
15-First national audit firm: Aris Research, Consultancy, and Development Joint Stock Company. It performed auditing of American Foreign Trade Bank (1971)
16-TMUD started to admit members who graduated from faculty, attended two-year-traineeship and received a certificate by passing examination (1974)
17-TMUD became a member of International Accounting Standards Committee (IASC) (1974)

22) This chronological list is prepared by benefiting from criticism written by Masum TÜRKER to the World Bank in the ROSC Report-2005. Some parts of the Report were published in 2006 in Dayanışma Dergisi Vol. 88, 89 and 90.

18-Establishment of IFAC and TMUD's participation as founder partner (1977)
19-Translation of International Accounting Standards and publication of them in the Journal of Istanbul University Business School (1977)
20-Enactment of the Capital Markets Law (1981)
21-Beginning of independent auditing of banks and publicly held and registration of national and international auditing firms (1987)
22- Law of Accountancy Profession # 3568 (1989)
23-Translation of 31 International Accounting Standards was published as a book by TMUD (1992)
24-Auditing standards in accordance with European Union 8th directive were published. In addition to this, tax inspection standards were published under the name of "attestation" (1992)
25-Uniform chart of accounts was published and "economic" financial statements were accepted by tax administration (1992)
26-Enactment of pre-auditing of financial statements based on tax declaration by all Professional accountants (1994)
27-Enactment of mandatory auditing prior to applying to banks in order to receive credit (1994)
28- Basic Education and Training Centre (TESMER) (1993)
29-Turkish Accounting Standards Board was established by TURMOB in order to prepare accounting standards (1994)
30-The Turkish Commercial Law gave authority to TURMOB members to audit owner's equity of joint stock companies (1995)
31-Enactment of mandatory auditing of cooperative's entities which has more than 1,000 partners by TURMOB members (1995)
32-Auditing Partnerships Profession Act was passed (1996)
33-Framework of compliance auditing and pre-auditing techniques (Limited compliance auditing act) was passed (1996)
34-Accounting profession ethics code complied with IFAC and AICPA (1996)
35-TURMOB adopted Continuous Professional Training Decision complied with Continuous Professional Training issued by IFAC Education Committee (1999)

36-Regulation on self-governing and independence of Turkish Accounting Standards Board was passed by Parliament (1999)
37- Turkish Accounting Standards Board was established and started to operate (2002)
38- Turkish Auditing Standards Board (TÜDESK) was established and started to operate (2003)
39-TESMER started distance training system (2003)
40-TÜDESK translated International Auditing and Assurance and published them in TÜRMOB Publications (2004 and 2008)
41-Turkish Accounting Standards Board published 15 Turkish Accounting Standards that were in accordance with IFRS and effective as of 2006 (2005)
42-Ethics Code complied with IFAC Code of Ethics was published by TÜRMOB (2006)
43-Regulation on discipline of TÜRMOB was amended in terms of Sarbanes and Oxley Act (2006)
44-Requirements to enter accounting profession of law numbered 3568 was amended in terms of IFAC standards and EU 8th directive (2008)
45-Quality Assurance System and Independent Auditing register system were set in TÜRMOB 24 (2009)
46-Mandatory auditing was introduced with # 6102 numbered Turkish commercial Code (2011)
47- Public Oversight Accounting and Auditing Standards Board was set by Decree-law numbered 660 (2011)
48-TURMOB has performed risk-oriented auditing education program for members throughout Turkey (2012)

Along with a changing business environment, the education levels of CPAs and SCPAs have been increased in parallel with their ever-increasing number, particularly as a result of Law # 5786. High education levels and professional knowledge are the key points for being prepared to adapt to the constantly changing business environment. Independent audit activities have expanded over time in the six different scopes previously explained and can be considered as evidence of the changing business environment and professional requirements. On the other hand, it can be seen that the core purposes of these independent audits are the same: to ensure that related people/parties are protected and receive complete, accurate and timely information from institutions. Also, the auditing techniques used by auditing firms are similar because of IAS. As mentioned above, according to the New TCC, some of the SMEs have been subject to independent auditing as of 2013. This is the most up-to-date position for independent auditing in Turkey.

It can be seen in Table 9 that the work load of authorized audit firms, other than performing attestation, is quite high, that is about 12 entities per auditor or audit firm (6.3+4.2+1.6 = 12.1). This does not mean that these audit firms cannot deal with audits of SMEs. However, it does not appear logical to expect an audit firm or auditor to cope with the audits of so many entities if it has insufficient well-qualified and experienced audit teams. In this context, those certified audit firms that do have well-qualified and experienced audit teams will certainly have a competitive advantage in the audit market.

Table 9: Number of authorized audit firms (2010-2014)

Audit required by	# of authorized auditing firms/auditors	Average entity per auditing firm/auditor
The Ministry of Finance	3,137 (the SCPAs) attestation	3,137/2,156 = 1.5
The Capital Market Board	92 (independent audit firms)	592/92 = 6.4
The BRSA	40 (independent audit firms)	171/40 = 4.2
Insurance Regulatory Board	35 (independent audit firms)	58/35 = 1.6
The EMRA	83 (independent audit firms)	2,260/83 = 27
The New TCC	43,660 prospective auditors	694,053/43,660 = 15.8

On the other hand, the number 694,053, or even more, is expected to decrease due to the fact that small companies are highly likely to be exempted by the Council of Ministers from having an independent audit. In this context, the current prospective audit market will shrink and certified audit firms and auditors preparing for a changing business environment will share the audit market as of the year 2014.

In conclusion, we can see that the development process of the independent audit has occurred as a natural consequence of economic developments in the different sectors and is going to expand towards SMEs as a natural consequence of the need for reliable financial information and transparency. Generally, independent audits are required from publicly held companies in many countries, but in Turkey SMEs are also going to be subject to them. Even though it is likely that some problems arising from informal and endemic habits at commercial life will be encountered while performing the audits, this audit application may be beyond those even in the most developed economies. The previously mentioned compulsory audit may also be a way to establish transparency and accountability in Turkish business life.

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