



THE STATE OF INDEPENDENT AUDITING IN THE TURKISH COMMERCIAL CODE

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ABSTRACT

Turkish Commercial Code No. 6762, which was implemented for over 55 years, promoted the development of commercial activity in a modern order. However, in time, Turkish Commercial Code became insufficient to cover the current needs. Thus, the need for the preparation and adoption of a new commercial code became inevitable as a result of major changes in the economy and trade life of Turkey and the rest of the world. Consequently, the new Turkish Commercial Code No. 6102 was published on February 14th, 2011 in the Official Gazette, becoming effective on July 1st, 2012. The new Code became effective with the expectations to make up for the deficiencies against the requirements of the era and also to ensure integration into international markets. The new Code has many important regulations that we discuss in this paper, many of which require an entirely new provision for the audit function of companies. However, right before the enactments of the new Code regarding the order of independent auditing of companies became effective, various modifications and additions took place through the Code No. 6335, and through Code No. 6455 following the new Code. In this study, we examine and evaluate the innovations and regulations on the order of independent audit of firms under the new Code No. 6102, as well as the Codes No. 6355 and No. 6455 that modified the provisions of the new Code No. 6102.

1. INTRODUCTION

Turkish Commercial Code No. 6762, which became into force in January 1957 and was implemented for nearly 55 years, was considered effective in terms of satisfying the requirements of commerce in Turkey. However, as a result of substantial changes in economies and commerce both in Turkey and around the globe, it was not sufficient to meet the needs anymore and became obsolete. This gave rise to the need of the implementation of an up to date commerce code.

The main factors leading to the implementation of the recent Turkish Commercial Code could be summarized as (Karahana, 2011: 10-12; Tuan, 2012: 160):

- ✓ The implementation of substantive laws and creation of supranational law regimes by powerful economic and regional unions, such as EU, NAFTA, GATT, WTO, which are important in effecting world trade,

- ✓ The need for the integration of Turkish markets into global markets, the attraction of foreign capital to Turkey and the union of applications,
- ✓ The effects of economic developments in Turkey and around the globe, on the formation of conglomerates,
- ✓ The willingness to remove the implementation of regulations and loopholes that could potentially serve the interest of various third parties,
- ✓ The worldwide rise of free markets and competition, the adoption of these concepts as common considerations in EU and the integration of these concepts into the Copenhagen political criteria,
- ✓ The widespread implementation of electronic transactions and trade,
- ✓ The negative effects of the damage caused by technological changes, such as environmental pollution, on liability law and the subsequent need for the restructuring and redefinition of the liability of the carrier in maritime transportation,
- ✓ The inclusion of consumers, the public, shareholders, insurers, and respondents of electronic transactions subject to general transaction terms, into the parties required to be protected by mandatory regulations,
- ✓ The organization of the various components of the extent of commerce codes in a broad manner, by the international conventions,
- ✓ The process of candidacy to full membership in EU and gaining the position of a country in the negotiating process, and the requirement for the implementation of *Acquis Communautaire* into Turkish laws,
- ✓ The lack of the ability to cope with the requirements of the new era, arising mainly from the technological improvements and the widespread use of internet, and the subsequent willingness to adjust to the most recent developments,
- ✓ The desire to establish Turkish corporations as reliable participants of international trade.

In order to satisfy the requirements and to adjust to the up to date applications around the globe listed above, the construction of a bill proposing a new commercial code started in 1999. As a result, the new Turkish Commercial Code No. 6102 (New TCC) was accepted in January 13th, 2011 by the Grand National Assembly and was published in February 14th, 2011 in the Official Gazette, and became effective as of July 1st, 2012.

The new Turkish Commercial Code No. 6102 is comprised of a total of 1535 articles and 6 chapters. A new chapter "Transportation Law" has been added to the Turkish Commercial Code No. 6762, which consisted of 5 sections. As a result, the new Turkish Commercial Code No. 6102 is composed of the following chapters: 10 introductory articles followed by the first chapter "Enterprise Law" (articles 11-123), the second chapter "Company Law"

(articles 124-644), the third chapter "Securities Law" (articles 645-849), the fourth chapter "Transportation Law" (articles 850-930), the fifth chapter "Maritime Commercial Law" (articles 931-1400) and the sixth chapter "Insurance Law" (articles 1401-1520), followed by 15 closing articles.

The new Code is expected to establish a corporate governance structure engaged in reliable disclosure of information to the general public, and a systematic structure for enterprises, constructed based on the concepts of reliability, fairness, accountability and transparency.

In addition, national standards have been reformed in a manner that is compatible with international accounting standards and international auditing standards. Also, a new approach has been adopted in which specific professional groups are given authority and responsibilities. Important new regulations regarding accounting entry methods and principles, and also independent auditing, have been introduced, as well.

However, the regulations in the new Code regarding the auditing of companies were modified substantially as a result of the criticisms received during the periods when the new Code was published and became effective, as well as the periods following the effectiveness date. As a result the Code No. 6335, which contained modifications on 50 of the articles, became effective one day before the new Code became effective. In addition the Code No. 6455 became effective following the effectiveness date of the new Code. The aim of both Codes No. 6335 and No. 6455, was to overcome some issues that could have been observed in the application of the new Code.

The new Code and the additional two Codes, Code No. 6335 and Code No. 6455, all of which could be considered as a substantial reforms to the commerce in Turkey, without a doubt, have many implications. However, in this paper, we mainly focus on the implications of the Codes on the regulations regarding independent auditing in companies in greater detail.

2. THE REGULATIONS REGARDING AUDITING IN COMPANIES UNDER THE NEW TURKISH COMMERCIAL CODE NO. 6102 AND CODE NO. 6335 AND CODE NO. 6455

The new Turkish Commercial Code No. 6102 includes many important revisions for corporations, in an attempt to satisfy the requirements of the new era and to provide integration with the global markets. Most of the regulations in this Code call for provisions that would be considered as new for the auditing functions of companies.

The new regulations regarding the independent auditing of corporations in order to increase their accountability, in line with the general concepts of corporate governance and transparency that dominate the new Code, are outlined in the articles through Article 397 and Article 406, in the third section of the second chapter of the new Code (Ernst&Young Turkey, 2011: 60). In these articles, the subject and the scope of independent auditing, the requirements of being appointed as the auditor, the liabilities of the auditor, the audit report and the opinion letter are regulated. These articles, as opposed to the obsolete Code No. 6762, regulate who could perform auditing, in addition to outlining the scope of independent auditing. The determination of the companies

subject to auditing was determined based on the scale of companies, in the new Code. However the Code No. 6335 provided modification to the new Code, delegating this authority to the Council of Ministers. However, this led to various imperfections in the application of the Codes, in terms of auditing. Therefore, the need for a new regulation about this issue became inevitable. Thus, through the Code No. 6455, article 397 was modified, delegating the authority to determine the rules and principals to the Ministry of Customs and Trade, in terms of auditing, in corporations that are not subject to independent auditing.

2.1. Auditing of Companies

The previous Turkish Commercial Code No. 6762 did not include any mandatory provisions regarding accounting principles and financial statements. On the other hand, the new Turkish Commercial Code No. 6102 includes provisions regarding accounting standards and auditing that is in compliance with the International Financial Reporting Standards (IFRS). Under the new Code, companies are required to arrange their accounting procedures and prepare financial statements in compliance with international accounting and reporting standards (New TTC, article: 515/1).

In the previous Turkish Commercial Code No. 6762, auditing function, which was constructed based on an internal auditing concept, was performed by controllers in joint stock companies and limited partnerships. However, it did not specify any standards, in terms of occupation, for those who could perform the audit. Under the new Code, the controllers are replaced with independent external auditing mechanisms. In addition, the audit function is referred to as "independent auditing". The auditing performed by the controller, who is not required to possess accounting expertise, is removed under the new Code (Doğrusöz vd., 2011: 55). This type of auditing by the controllers is rather replaced with an independent auditing mechanism, which is required to be performed by either a sworn financial advisor or a certified public accountant, who is authorized by Public Oversight, Accounting and Auditing Standards Authority or a corporation whose partners meet these criteria (Law No. 6335, article: 19/1).

Regarding internal auditing, Article 515 of the new Code requires auditing to be carried out in a true and fair manner. The Article requires the financial statements of joint stock companies to be prepared in accordance with Turkish Accounting Standards, presenting the assets, debt and liabilities, owners' equity and operational results in such a manner that is full, understandable, and comparable. The financial statements are also required to be compatible with the needs and the characteristics of the companies, in addition to being transparent and accountable, reflecting the truth in an honest, as-it-is manner.

In the process of auditing these companies, financial statements including the balance sheet, income statement, cash flow statement and statement of owner's equity and their footnotes, in addition to the annual report prepared by the board of directors and the report prepared by the early risk identifier and management committee will be subject to audit, as well.

In the new Code, it was required that, regardless of the size of its assets, all corporations (including joint stock companies, limited partnerships and commandite companies) are audited by independent auditing firms, whereas small and medium size enterprises are

audited independently by one or more sworn financial advisors or certified public accountants. However, right before the effectiveness of the Code, due to the criticisms received, through the Code No. 6355, the obligation of companies of any scale being independently audited was removed. Rather, the authority of determining companies of which scale are subject to independent auditing was delegated to the Council of Ministers.

The criteria, established by the Council of Ministers, regarding which companies are subject to independent auditing was published in the Official Gazette on January 23rd, 2013.

However, the establishment of the scales of companies subject to independent auditing too high by the Council of Ministers, led to substantial amount of companies not being subject to mandatory independent auditing. This led to various problems in application. In order to overcome these problems, the Code No. 6455 was established and published in the Official Gazette on April 11th, 2013. According to the Article 80 of the Code No. 6455, the corporations that were not subject to mandatory independent auditing according to the Code No. 6335, also became subject to independent auditing. Thus, any corporation, regardless of its sales, assets and number of employees, became subject to auditing. In addition Code No. 6455 excluded limited partnerships from mandatory auditing (Law No. 6455, article: 82).

2.2. Subject and Scope of Audit

Article 398 of the new Code, regulating the subject and cope of auditing could be summarized as follows:

- ✓ The audit of the company's and group of companies' financial statements will be performed by the auditor in accordance with the Turkish Auditing Standards (TAS) that are in compliance with international auditing standards.
- ✓ Audit includes the inspection of financial statements' being in accordance with Turkish Auditing Standards, the new Turkish Commercial Code No. 6102 and articles of incorporation.
- ✓ Audit also includes the inspection of the financial information in the annual report being in accordance with the financial statements, in addition to whether the information gives a true and fair view.
- ✓ Both separate and consolidated financial statements are subject to independent auditing.
- ✓ The determination of whether a proper early risk-detection mechanism exists and the identification of whether this mechanism functions properly are also subject to independent auditing.
- ✓ In cases where the company that has been taken into the scope of consolidation is not audited, the auditor, who is responsible for consolidated financial statements, is also responsible for auditing the financial statements of this company.

- ✓ If a foreign company with its headquarters in abroad has been audited in accordance with auditing standards identical to the new Code, it is considered an exception.
- ✓ If financial statements and annual report of the company has changed following the audit, in a manner that could affect the audit reports; the audit must be performed again and this situation must be reported in the new report.

What is aimed through the regulations summarized above is to promote the competitiveness of Turkish companies in international markets, as well as promoting the integration with the rest of the world by applying the same financial reporting standards with industrialized countries.

2.3. Regulations Regarding the Auditor

Articles 347 through 359 in the previous Turkish Commercial Code No. 6762 regulated the controllers as a part of joint stock companies. However, these Articles did not specify the required professional knowledge and expertise levels of those, who were to perform the auditing function. Thus, auditing could not meet the expectations. In practice, controllers were chosen among those individuals without the knowledge and expertise with various backgrounds, who would approve the reports prepared by the employees of the companies, without performing any physical auditing (Özbingöl, 2008: 134). Therefore, the new Code has removed the practice of internal auditing and replaced it with independent external auditing.

The new TCC includes up to date new regulations regarding the auditor summarized as follows:

- ✓ Any type of connection between the auditor and the enterprise is considered to be against the character of the auditor and ethics.
- ✓ Auditors have the obligation to conduct confidentiality. These individuals cannot use business and operational secrets, without permission. If the audit is performed by a corporation authorized to perform the audit, then the obligation to conduct confidentiality also bonds the board of directors, the member and employees of this corporation.
- ✓ Individuals that violate these obligations are to be held responsible, whether it is caused intentionally or neglectfully. In these cases, the auditor is responsible to the enterprise, shareholders and liabilities of the enterprise with a compensation fee for the damages up to 100.000 TL (and 300.000 TL for joint stock companies listed on stock exchanges).
- ✓ The obligation to the compensation fee mentioned above, cannot be cancelled or limited by contract. However, the claims arising from this violation will be barred five years from the report date.

- ✓ The auditor is required to be either a sworn financial advisor or a certified public accountant, who is authorized by Public Oversight, Accounting and Auditing Standards Authority, or a corporation whose partners meet these criteria.
- ✓ The provisions that prohibit being the auditor are specified in the Code.
- ✓ Rotation for the auditor is mandatory. The auditor who is selected as the auditor for a total of 7 years within a period of 10 years cannot be selected as an auditor for the same company again before three years have elapsed. The Public Oversight, Accounting and Auditing Standards Authority has the authority to shorten these periods.
- ✓ The auditor cannot provide any other services to the enterprise that he/she audits, other than tax consultancy and tax auditing.

2.4. Appointment and Dismissal of the Auditor and Termination of Contract

The auditor is required to be appointed for each fiscal year and before the end of the fiscal year that the auditing will be performed in, by the General Assembly of the company. The General Assembly has the authority to appoint the auditor and this authority cannot be transferred.

The auditor for the group of companies is required to be appointed by the General Assembly of the parent company. The appointed auditor must be registered with the Trade Registry and must be announced by the website of the company, as well as in the Turkish Trade Registry Gazette. In cases where the auditor has not been appointed by the fourth month of the fiscal year, the auditor will be appointed, upon the request of the board of directors, every member of the board or large shareholders (holding 10 % of the basic or issued shares, and 5 % of the shares in publicly traded joint stock companies), by the Commercial Court of First Instance in the city of the company headquarter (New TCC, article: 399).

The new Code has approved the principle of non-dismissal of the independent auditing contract. However, in exceptional cases when fair cause can be established, the Commercial Court of First Instance can appoint another auditor. The auditor can terminate the contract in cases when fair cause can be established and the auditor has been filed for dismissal by the company (New TCC, article: 399/preamble). However, the independence of the auditor has been specified by stating that conflicts of opinions, a qualified opinion or an opinion with a disclaimer letter cannot be deemed as the cause.

2.5. Conditions Preventing Being Appointed as the Auditor

In the previous Turkish Commercial Code No. 6762, the controllers were not required to have any professional expertise and/or to meet any other specific conditions. Thus, controllers were not functional or leading. Therefore, the new need for a new code arose as a result of not attaining desired level of transparency and consistency (Yıldırım, 2011:

47). Under the new Code, the controllers are dismissed as parts of the company (Law No. 6335, article: 19). In addition, under the Code No. 6335, auditing is required to be performed by either a sworn financial advisor or a certified public accountant, who is authorized by Public Oversight, Accounting and Auditing Standards Authority, or a corporation whose partners meet these criteria. Also, those who can be appointed as the auditor have been specified in detail in the new Code (New TCC, article: 400). Under the new code an individual cannot be appointed as the auditor if he/she;

- a. Is a shareholder of the company subject to the audit;
- b. Is an employee or manager of the firms subject to the audit, or has held these titles within the previous three years, before being appointed as the auditor;
- c. Is the legal representative or representative, member of the board of directors, manager, owner or holds more than 20 % of the share of the company, of a commercial company, legal entity or a commercial enterprise;
- d. Is the spouse, lineal consanguinity, or abloom or in-law relative up to and including third degree of a member of the board of directors or managers of the company subject to the audit;
- e. Is employed by a company which is connected to the company subject of the audit in any manner, or by a company which holds more than 20 % of the share of the company subject to the audit; or is employed in any manner, by any individual who holds more than 20 % of the shares of the company subject to the audit;
- f. Takes an active role or has contribution in bookkeeping or financial statement organization of the company subject to the audit, other than auditing;
- g. Is the legal representative, representative, employee, member of the board of directors, partner, owner of the legal entity or real person or of one of its shareholders that cannot be appointed as the auditor, according to paragraph "f", or is personally the real person since he/she was actively involved or contributed to bookkeeping or financial statement of the company subject to the audit;
- h. Is employed by an auditor that cannot be appointed as the auditor to the company due to the conditions stated through paragraphs "a" to "g" above;
- i. Has more than 30 % of his/her total income as a result of his/her occupational activities related to the auditing in the previous five years his/her consulting and auditing services provided to the company subject to the audit, or participating companies in the audit company through more than 20 % of the capital, and the earning are expected to continue in this manner in the same current year.

2.6. Liability of Presentation of the Documents to the Auditor and Auditor's Right to Information

Under the Article 401 of the new Code, in order to provide the sufficient grounds for the auditor to perform the audit, the company's board of directors has the responsibility to prepare and approve the financial statements and annual report, and submit it to the auditor without delays. In addition, the board of directors is responsible for providing the auditor with the necessary conditions in order to audit via inspection of company books, inner correspondences, documents, assets, debt and liabilities, cash, negotiable instruments and the inventories, under the first paragraph of the Article.

The auditor, also, has the authority to ask for all the related financial statements before the financial statements are prepared, when necessary in order for the preparations of the year-end audit. The board of directors, which is responsible for the financial statements, has the obligation to provide the auditor with the consolidated financial statements, annual reports and audit reports of the group of companies.

2.7. The Audit Report

The audit report is a formal written document, which reports the scope and characteristics of the preparations performed and the evaluations regarding the financial statements of the company subject to the audit (Ozbirecikli, 2009: 155). The audit report is the most vital tool that facilitates the communication between the auditor and related third parties. It is also the final outcome of the audit process.

The audit report is regulated in Article 402 in the new Code. The most substantial regulations in the Article are as follows:

- In the audit report regarding financial statements of the company, the type, scope, characteristics and the results of the audit will be presented in a clear and understandable language with comparative information. In this report, the auditor reports:
 - ✓ Whether the bookkeeping methods, financial statements of the company and the financial statements of the group of companies are consistent with the regulations of law and the articles of association of the company regarding financial statement reporting,
 - ✓ Whether the information and documentations requested within the context of the audit were provided by the board of directors properly,
 - ✓ Whether the financial statements and books were kept in accordance with the stipulated chart of accounts,
 - ✓ Whether the assets, financial situation and profitability are presented in a true and fair view manner in accordance with Turkish Accounting Standards,
- In cases where proper early risk-detection mechanisms do not exist, a separate report introducing recommendations regarding the issue shall be prepared.
- In the audit report regarding the annual report of the company, the auditor evaluates whether the stated financial information and evaluations based on the information are consistent, true and reliable. In addition, an analysis regarding the continuity of company's existence and future developments is presented.

- The auditor signs the report and submits it to the board of directors of the company.

2.8. The Opinion Letter

The auditor shares the results of the audit and his/her evaluations with an opinion letter. However, the new Code requires the information disclosure to the public through the opinion letter, rather than the audit report (Arslan, 2011: 83-84). Article 403 of the new Code regulates the opinion letter. It is important not to confuse the audit report regulated by Article 402, with the opinion letter regulated by Article 403, in the new Code. The opinion letter has such a structure that it could lead to serious legal consequences, whereas the audit report is a documentation of the financial statements of the company with comparative information (Selamoglu, 2012).

The opinion letter, which is prepared as a result of the audit conducted in accordance with the Turkish Auditing Standards that are in compliance with international auditing standards, discloses the financial and operational structure of the company. Therefore, the board of directors will face serious sanctions, as a result of the auditor refraining from expressing an opinion or expressing an adverse opinion.

Article 403 of the new Code regulates four types of opinions to be expressed in the opinion letter submitted by the audit as a result of the audit:

Clean Opinion: In the clean opinion letter, the auditor reports that no conflicts were determined in the audit performed in a manner consistent with early risk identifier and management and in accordance with Turkish Auditing Standards; and that the financial statements of the company are correct according to the audit and Turkish Accounting Standards, and that it gives a correct and fair view of the company according to the Turkish Accounting Standards.

Qualified Opinion: A qualified opinion is expressed in cases where the auditor has reservations that the financial statements include conflicts, which can be corrected by authorized committees and the effects of these conflicts on the financial statements are minor and limited. The scope and subject of the conflict and the methods for revision are required to be stated clearly in the opinion letter. The general assembly of the company takes actions about the necessary measures and revisions.

Refraining from Expressing an Opinion: In cases of uncertainties to the extent that the audit could not be performed according to the laws and to achieve results, or there were major restrictions imposed by the company during the audit, the auditor has the right to refrain from expressing an opinion without the obligation to provide the proofs, only by expressing the reasons. *This type of opinion will result in the same consequences of an adverse opinion.*

Adverse Opinion: An adverse opinion is expressed in instances of major conflicts. In the case of an adverse opinion, what is required to be done can be stated as: (I) the board of directors of the company will convene the general assembly in the following four business days and resign, (II) the general assembly elects a new board of directors, where unless

stated otherwise in the article of incorporation, the previous board members can be re-elected, (III) the new board of directors has the financial statements prepared in the following six months and submits these to the general assembly of the company.

2.9. Auditor's Responsibility of Confidentiality

The Articles 404, 554 and 562 of the new Code specify that if the auditor has fault and negligence in the process or confidentiality, he/she could be obligated to monetary penalties. Since sworn financial advisors, certified public accountants and independent audit companies perform auditing under the new Code, in instances where the audit is performed by an independent audit company, the responsibility of confidentiality includes the members of the board of directors and employees of the audit company, too (Ernst&Young Turkey, 2011: 61). This leads to an increased responsibility of confidentiality for independent audit companies.

The responsibility of confidentiality regulated by Article 358 in the old Turkish Commercial Code No. 6762 is revised in Article 404 of the new Code, including extensive changes. Under Article 404 of the new Code, special auditors and independent auditors, and the assistants of these individuals and the employees of the independent audit company are obligated to conduct the audit in an unbiased and honest manner consistent with professional ethics. These individuals are obligated to not disclose any information or company secrets they obtain during the audit. The secrets of the company subject to the audit can be disclosed only under the permission of that company and in this case, the responsibility of the auditor ceases to exist. In addition, any irresponsibility provision to limit the scope of or to revoke the responsibility of the independent audit company will be null and deemed void. This provides the opportunity for the processes to function flawless and more professional.

Under the related Articles, individuals that are negligent in their obligations to confidentiality are subject to a monetary penalty of up to 100.000 TL for each audit. For joint stock companies listed on the stock exchange, the penalty is set as up to 300.000 TL. Paragraph 4 of Article 404 states that the monetary penalty arising from this provision cannot be limited or cancelled by a contract. Claims related to this responsibility will be barred by the statute of limitations in five years, following the report date.

2.10. Divergence of Opinions between the Company and the Auditor

Under the Article 405 of the new Code, when divergence of opinions exists between the company and the auditor about the year-end accounts, financial statements and the annual report prepared by the board of directors of the company, regarding the interpretation and implementation of administrative acts or provisions of the law, the commercial court of first instance in the city of the headquarters of the company subject to the audit, will give the judgment about the divergence, upon the request of the board of directors of the audited company or the auditor. The judgment is final. In addition, the legal costs of the court will be bearded by the company subject to the audit.

2.11. Audit by Special Auditor for Relations of Group of Companies

Special audit for relations of group of companies is regulated in the new Code under Article 406. According to this Article, in the case of the request by shareholders, the commercial court of first instance in the city of the headquarters of the company subject to the audit can appoint a special auditor in order to inspect the relation of the company with one of the other companies of the same group of companies when (a) the auditor has submitted a qualified opinion or refrained from expressing an opinion letter about the relations of the company subject to the audit with the controlling company or with the group companies, (b) the board of directors of the audited company has expressed that the company suffered losses by the group of companies as a result of certain legal transactions or applied measures and that the resulting compensation has not been given.

3. CONCLUSION

The goal of the regulations in the third part, titled as "Auditing", of the second chapter of the new Turkish Commercial Code No. 6102 is to secure that independent auditing process and results, which will determine whether the company's and the group of companies' assets and financial structure are presented in accordance with the true and fair view principle, are presented in a formal report written in a clear and understandable language following the transparency principle, to all the related parties, including the shareholders of the company subject to the audit.

The new Code brings a modern systematic approach to auditing of corporations, paying attention to international audit standards, aimed at enabling companies to have a better and sound understanding of their situations. The main purpose of this is aimed to provide that the commerce in Turkey will be compatible with the rest of the globe, in accordance with international standards. As a result, positive consequences would be observed in the future including, but not limited to, (1) the preparation of financial reports understandable by and comparable with the rest of the globe, (2) the opportunities to attract financial resources, partners and new markets abroad, (3) the preparation of financial statements of higher quality compatible with the requirements of IPOs both domestically and abroad, (4) increases in commercial credibility and trade volume of companies, (5) the prevention of informal and illegal accounts and the creation of perfect competition markets, and (6) transparency and the resulting trust environment in commerce.

In the previous Turkish Commercial Code No. 6762, the internal audit was established as one of the main functions of the corporation. There were no regulations regarding independent auditing or any type of professional auditing. On the other hand, the regulations in the new Turkish Commercial Code No. 6102 highlights the importance of independent auditing, as well as listing all the details necessary for improved and more effective application of auditing. The most important of these improvements is the removal of the auditor as a part of the company, and assigning the auditing function to independent, audit professional, outside of the company subject to the audit. In addition, auditing is required to be performed by either a sworn financial advisor or a certified public accountant, who is authorized by Public Oversight, Accounting and Auditing Standards Authority, or a corporation whose partners meet these criteria. Also, rotation of the auditor is compulsory under the new Code. In this context, if the auditor who prepares

the audit reports of the company for 7 years time within 10 years time cannot be reelected as an auditor for the same company again unless 3 years have passed.

In addition to these comprehensive regulations, the importance of the results of the opinion expressed by the auditor could be highlighted in the new Code. For example, when the auditor expresses an adverse opinion, the board of directors of the company is required to convene the general assembly in the following four business days and resign, followed by the general assembly electing a new board of directors. In the case where the auditor refrains to express an opinion, the same consequences appear.

Overall, while establishing an up to date system about the auditing process of enterprises, which meets the requirements of the new era, much attention has been paid to the attempts of being in compliance with the international auditing standards. In addition, the new Code aims to improve the functioning of these new auditing procedures and the system as a whole, which would lead to better evaluation of the companies' positions by themselves. After all, it is with no doubt that, the new Code and the most recent Codes No. 6335 and No. 6455, altogether, facilitates significant improvement in Turkish commerce.

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