



The Role of Public Oversight Authority on Reliability of Independent Auditing in Turkey (Türkiye’de Kamu Gözetimi Kurumunun Bağımsız Denetimin Güvenilirliği Üzerindeki Rolü)¹

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Abstract

Independent auditing approving reliability of financial information revealed to those concerned in business which also known as accounting control or financial audit constitutes prominence for secure operation of capital markets and development of collaboration for healthy economic growth in globalizing world. Nowadays’ businesses should pay adequate attention to independent auditing due to getting aware of dependency of accurate and appropriate financial decisions plus gaining healthy financial structure to transparency of financial information.

The aim of this study is to determine the role of Public Oversight Board in upgrading the reliability of independent auditing. On this direction, interviews are conducted with big four auditing companies as a qualitative research method and finding are evaluated respectively.

Anahtar Kelimeler

Bağımsız Denetim, Denetimin Güvenirliği, Kamu Gözetimi Kurumu.

Jel Sınıflandırması

M41, M42.

Özet

Muhasebe denetimi ya da finansal denetim olarak da bilinen ve işletme ilgililerine açıklanan finansal bilgilerin güvenilirliğini onaylayan bağımsız denetim, sermaye piyasasının güven içinde çalışması ve ekonominin sağlıklı büyümesi ile küreselleşen dünyada işbirliğinin gelişmesi açısından gerekli ve önemli bir faaliyettir. Günümüz işletmeleri, sağlıklı bir finansal yapıya kavuşmanın, doğru ve yerinde finansal kararlar alabilmenin şeffaf bilgilere dayandığının bilincine vararak, bağımsız denetime gereken önemi vermek durumundadırlar.

Bu çalışmanın amacı, Türkiye’de bağımsız denetimin güvenilirliğinin artırılmasında Kamu Gözetimi Kurumunun rolünü belirlemektir. Bu amaca yönelik, İzmir ilinde faaliyet gösteren dört büyük denetim kuruluşunda karşılıklı görüşme yapılarak nitel araştırma yöntemi uygulanmış ve bulgular değerlendirilmiştir.

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1. Introduction

Parallel to increasing competition in financial markets, the importance of transparent, reliable and accurate financial information rises in the course of time. This fact obliges performing of independent audit to become more affective and abide by international standards and ethical rules. Independent auditing takes prominent importance in terms of stability and development of economic structure. Ensuring of efficient addition of resources for small or corporate investors or public, to economy can only be provided by an effective independent audit. Owing to accounting scandals took place in recent periods, the reliability to information revealed to public by publicly traded companies, and accuracy, transparency of financial statements became argumentative. These phenomena boosted the need for high quality auditing standards in order to perform independent audit procedures effectively in international level. So as to fulfill this necessity, international auditing and assurance standards started being published by International Auditing and Assurance Standards Board that took this name in 2002 transformed from International Accounting and Auditing Standards Board which was founded in 1978. International Auditing and Assurance Standard Board restructured in 2004, and it has launched a study called openness project to develop comprehension of auditing standards and to widen, facilitate these standards usage. With the help of this study finished in 2008, international a number of auditing and assurance standards are changed, another part of them are reorganized for treatment of auditing of periods after 2009, and published in 2010 as a handbook by IFAC.

Improvement of the quality and reliability of independent auditing is not only provided by formation of accounting standards for preparation of financial statements and formation of auditing and assurance standards for auditing activities. At the same time it is proper to investigate whether these formed standards are complied with or they are conformed to what extent. In other words, overlooking of independent auditing became to an obligation. In our study, "Oversighting" that means the control of if independent audit activities are conducted according to current legal regulations and standards or not is handled in the perspective of "Public Oversight" which is introduced to the world by US.

In Turkey, the authorization of forming and publishing of independent auditing standards is given to Public Oversight Accounting and Auditing Standards Authority with Turkish Commercial Code numbered 6102. The objective of this institution is both preparing auditing and accounting standards and performing oversight function.

The aim of our study is inquiring the effectiveness of Public Oversight Authority's in determination of standards and overseeing the compliance to them in order to provide a more effective and reliable independent auditing in Turkey. Consequent to this objective, findings generated from interviews conducted with big four audit companies are assessed respectively.

2. Reliability Factor in Independent Auditing

Information contained in the financial statements published by companies is followed by the interest groups such as business executives, investors, partners, credit agencies and governments. Dependence to information is at its highest level due to information is the biggest means of competition in today's economies. The interest groups in question to make right choices and better decisions, increases the need to right, reliable, objective, consistent, comprehensible and well-timed information. Thus, the accuracy and reliability of financial information must be approved by an independent, authorized and experienced person who is not in a relationship with the company based on self interest. The accuracy, expediency and reliability of the financial information are revealed by an independent audit. The independent auditing is not only liable for the company audited but also for the public; because the results of the auditing reports affect not only a few people but a great majority of the community. According to the report results only one institution can make the decision. However, the results of the decisions of this institution will damage the national economy.

Independent auditing has great responsibilities in healthy functioning of the economy, effective use of sources and increasing prosperity of the country. A quality independent auditing is expected to provide the accuracy and reliability of financial information. Reliability is information to be verifiable and conveying the case, which is expected to be presented, impartially and honestly. Quality means generally

satisfying the expectations. When it comes to take a look to the term of “quality audit” different understandings appear in people’s minds. To illustrate this view, one survey amongst financial statement users show that %70 of investor beliefs result in that audits should provide an absolute guarantee that there are no material misstatements or frauds noted in the financial statements review (Epstein and Geiger, 1994: 60). On the other hand auditors is expected to have a propensity to conceive audit quality in compliance with strictly following GAAS, and associated with analyzed business risks. In that it can be extracted that the intention of avoiding litigation, minimization of client dissatisfactions, and limiting the ravages to reputations that could follow a bad audit are taken into consideration for assessing audit quality by auditors. (Wooten, 2003: 48) And the quality of independent auditing could be defined as the level of probabilities that an authorized auditor can uncover the breach and report the breach. If the independency in auditing could not be maintained, auditors become less convenient, less legitimate to report irregularities and accordingly the audit quality is prone to damages (Tepelagul and Lin, 2014: 2). The quality of independent auditing is expressed as the level of assurance about that the financial statements do not involve important errors or mistakes. Accordingly, as the level of assurance increases so the quality of independent auditing gets better (Persson 2011.23-24).

Even though, in independent auditing, quality is expressed as the level of assurance about the accuracy of financial information, definitions with regards to the audit quality differs according to the viewpoints of all stakeholders participate in the financial reporting process. While financial statement users perceive the higher audit quality as the absence of important errors in these statements, auditors define the audit quality as company to be audited successfully according to the auditing methodology. Audit companies assert that the high-quality audit is a system that enables to deal with problems in the auditing process. Regulatory authorities define the audit quality as the complete suitability to occupational standards. Consequently, public opinion sees the high-quality audit as a structure that prevents the economic problems for the market or companies (Kneche, Krishan, Peuzner 2012:385-388). With the consolidation of the audit quality, the reliability of the

information audited will have increased. In this sense, it is clear that quality and reliability are the complementary concepts in independent audit and the reliability of the verified information cannot be mentioned without the audit quality.

To ensure the quality expected from the independent audit, it is an obligation independent agencies and auditors providing this service to establish relevant policies. Independent audit is a process directed by an independent auditor. Therefore, it is necessary to establish quality control policies to ensure the expected quality relating to the factors of the process and the independent auditors that direct the process (Bozdoğan, 2014: 27).

Quality is one of the fundamental ways to differentiate from competitors. An independent audit institution to be successful in the intense competition environment brought by the conditions of a globalized world is possible by ensuring a certain level of quality. However, protecting, developing and sustaining such a quality level is as important as establishing it. At this point, the concept of quality control is important in audit activities (Oktay 2013:65).

Due to independent audit is an accuracy, compliance and rationality inquiry, it is an obligation to interrogate the audit activity itself. Ensuring quality and reliability in independent audit is possible with the conformity of the audit to predetermined criteria. The quality of the independent audit activities can be measured with the level of conformity to these standards. If the qualifications of the works performed fail to comply with these standards, it is accepted that the audit carried out is not satisfactory and reliable. Naturally, quality cannot be mentioned in such an audit work.

These rules and regulations determined from past to present are called the audit standards. The audit standards are the general principles that help auditors in fulfilling their occupational responsibilities. In order to deem the audit carried out suitable and valid, the auditor should not ever compromise these principles under any circumstances (Güredin 2000:25).

Accepted for the first time comprehensively by American Institute of Certified Public Accountants (AICPA) in 1947, Generally Accepted Audit Standards (GAAS) are the

standards with general qualifications and reviews and explanatory sub principles are published about them in time. These explanatory sub principles are called audit standards in the literature. Both GAAS and International and National Audit Standards are important criteria for ensuring quality and reliability in independent audit.

International Auditing Standards is a more comprehensible regulation that dominates the audit implementations except for GAAS and shows similarities to AICPA regulations. These standards were published by IAASB (International Accounting and Auditing Standards Board) that came into existence with the transformation of IAPC (International Auditing Practice Committee) into a board, which was founded affiliated to (IFAC - International Federation of Accounts).

With the alteration of the economic conditions in the world with company scandals and global crises, a comprehensible work was started on IAS in 2002 and International Accounting and Auditing Standards Board was renamed as International Auditing and Assurance Standards Board (IAASB). The general purpose of the board is to develop and publish auditing and assurance standards relating to auditing and assurance services that can be harmonized in line with the benefits of international community (Yanık ve Koçyiğit, 2014:123). So the International Auditing and Assurance Standards are published by this Board.

IAASB audit is defined as a discipline that allows for an evaluation generated by authorized and experienced persons about the financial statements by taking the contractual conditions into account in the light of honesty, objectivity and suspiciousness. And the high-quality audit is seen as a system that guarantees the independency of the auditors in order to endure the compliance of financial statements to the current standards. The Board also states that the auditing quality and reliability would increase when a collaborative work was performed by the auditing committee, auditors, regulatory authorities and standard-setting bodies in line with a single purpose. It is supposed that there are a lot of representative variables for the reliability and quality of independent auditing. In addition to these properties of auditors, the other variables are the quality of financial reporting,

independence, properties of company, auditor's opinion, market perception, audit fees and compulsory auditor rotation (Şenyiğit ve Zeytinoğlu, 2014:83)

IAASB develops quality standards and codes of conduct relating to independent auditing of financial statements, other assurance and relevant services and the quality control standards for offering these services, and publishes these standards by updating them every year. The International Auditing and Assurance Standards are grouped under four headings (Yanık ve Koçyiğit, 2014:124-125):

1. International Auditing Standards are implemented in the examination of historical financial information.

2. International Inspection Standards are implemented in the examination of historical financial information.

3. International Guarantee Agreements Standards are implemented for the subjects except for the historical financial information.

4. International Relevant Service Standards are about the principles to be complied in other service agreements offered by the profession members.

IAASB published the International Standard on Quality Control (ISQC) as well as the international auditing and assurance standards mentioned above on the purpose of carrying out reliable and quality independent audits. The perceptions of users, competences and abilities of auditors, behaviors of other responsible persons who take part in the process of knowledge creation, legal regulatory bodies and balances in the business world play essential roles in these standards.

The auditor establishes a quality control system that involves policies and procedures related to these quality control factors mentioned and ensures its continuance. Besides, in these policies and procedures that were put in writing and conveyed to staff, take part the personal responsibilities that staff has to obey for quality.

IAASB published ISQC 1 (Quality control towards corporations offering auditing, financial information investigation and other assurance or similar services) in 2004

and ISA 220 (Auditing Quality of Financial Statements - Revised) standards in 2005 intended for improving the quality of independent audit (Esendemirli, 2013:115)

Again, regarding the quality control, the Auditing Standards Board (ASB) within AICPA is responsible for determining the quality control standards and it published the "Audit Organization's Quality Control Systems" numbered QC 10, which entered into force on June 1, 2010 (AICPA, 2010: 2023)

According to this standard, quality control investigation of independent audit corporation is evaluation of audit results with an objective eye by a team formed from expert partners or professionals having sufficient experience and authority who have not involved in audit team as audit quality controller title (AICPA, 2010: 2025).

In addition to Quality Control Standards, International Ethical Standards (IES) prepared for profession members must be implemented for audit reliability and quality. The basic principles of these standards published by IESBA (International Ethics Standards Board for Accountants), which is one of the boards of IFAC are, independence, honesty, impartiality, occupational competence and attention, secrecy and professional conducts and these are valid for all services provided by profession members.

It is not enough regulatory bodies to determine the necessary standards and rules for independent auditing activities and auditors for improving the reliability and quality of independent audit. During the auditing activity, it is necessary to control, in a word observe, to what extent these regulations were complied. In the next chapter, takes part the effect of public oversight in increasing the reliability of independent audit.

3. Regulations on Independent Audit in Turkey

The necessity of carrying out independent audit started with the audit of banks for the first time in Turkey in 1987. However, principles and rules related to independent audit gained legal status with the notifications of the Capital Market Board in 1988.

The regulations regarding to independent audit generated by different institutions in Turkey are briefly below.

A. Regulations of Capital Market Law about Capital Markets Board

In Turkey, one of the first steps taken on the audit is the Capital Market Law No. 2499 enacted in 1981. CMB published the Regulation about the Independent Audit in Capital Market in order to regulate the audit of the partnerships affiliated to it in 1987 and independent audit agencies were established according to this regulation. In the declarations (Serie X, No:1-9 numbered declarations) it published later, CMB determined the general principles regarding to audit agencies and auditors, audit standards and reporting principles and rules. It made changes in these regulations according to current needs in recent years and finally published the Declaration about the Independent Audit Standards in Capital Market Serie X No: 22 in 2006. This declaration was prepared in conformity with the ISA - International Standards on Auditing published by IFAC. The purpose of the regulations and declarations published is to perform supervision activities by examining the establishment conditions of organizations where audit activities will be performed, their operation principles, qualifications of people who will work in these organizations and agreements with customers (Bozdoğan, p.60).

B. Regulations of TURMOB under the Law No. 3568

TURMOB Law No. 3568 Public Practice Accounting, Independent Accountant and Financial Consultancy and Certified Councillorship Law entered into force in Turkey by being published in Official Gazette in 1989. With this law, accounting gained legal identity by being associated with certain principles. Then, with a new regulation made in 2008, the title of public practice accounting was removed. The occupation members were organized under the same roof of Union of Chambers of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey (TURMOB). This organization is a member of IFAC. The authority of independent audit was given to persons who received the certificates of Independent Accountant and Financial Advisor and Certified Public Accountant (CPA) with the Law No. 3568. So, this law brought arrangements that define the minimum qualifications of persons to carry our independent audit. One of these arrangements is the

establishment of the Turkish Accounting and Auditing Standards Board (TMUDESK). Afterwards, the task of arranging accounting standards was received from this institution and given to Turkish Accounting Standards Board. TURMOB established TUDESK (Turkish Auditing Standards Board) in 2003 in order to determine and publish the international auditing standards.

TUDESK translated the international auditing standards prepared by IAASB, which works associated to IFAC, into Turkish and these were published by TURMOB in 2008. The authority of TUDESK is terminated in 2011 and passed to Public Oversight Accounting and Auditing Standards Authority.

C. Regulations of Banking Regulatory and Supervisory Agency (BRSA)

Banks to be evaluated as the organizations having public responsibilities made the regulations of independent audit in this field important as is the case with the capital markets. With the Banking Law No. 4389 enacted in 1999, it was determined that banking activities regulated and audited by different institutions since 1987 to be audited by an autonomous establishment called Banking Regulation and Supervisory Agency (BRSA). The Banking Law entrusted BRSA the task of authorizing the institutions to perform independent audit, grading and support services activities of banks.

D. Regulations of the Energy Market Regulatory Authority (EMRA)

With the Electricity Market Law No. 4268 enacted in 2001, firstly the Energy Market Regulatory Authority (EMRA) was established to regulate the electricity markets. Later on, with various laws, this Authority was entrusted the task of regulating the markets of natural gas, petroleum and liquefied petroleum gases as well. With the regulation entered into force in 2003, EMRA brought arrangements regarding to independent audit of natural and legal persons that operate in energy market.

E. Regulations of the Undersecretariat of Treasury

One of the tasks of the Undersecretariat of Treasury is carrying out the regulation and observance function regarding the insurance sector. The independent audit of the pension companies was added to this responsibility, which at first was only for insurance and reinsurance companies. For institutions to perform independent

audit activities receiving permission from the Undersecretariat of Treasury, they must be independent audit agencies that were authorized by CMB and BRSA.

F. Regulations of Public Oversight, Accounting and Audit Standards Authority

Existence of different regulations of different institutions regarding the independent audit activities in Turkey prevented uniformity in this particular. International developments and regulations of the European Union which state that auditors and audit institutions must be liable to public oversight necessitated making new regulations in the field of independent audit in Turkey. Following this necessitation, a POB was established similarly with the Public Oversight Board (PCAOB) in the USA in 2011. The Board generates a quality, assurance and public oversight system in the field of independent audit in conformity with the EU directive (Regulation No. 2006/43/EC). The Board undertakes the tasks of providing reliability and quality in independent audit, determining the audit standards and codes of conduct, authorizing auditing agencies and inspecting their activities, and the authority of public oversight in the field of independent audit. With the starting-up of POB, the authorities of the institutions such as CMB, BRSA, EMRA and Undersecretariat of Treasury, who make public oversight on the relevant organizations, were transferred to POB. So, the supervision of whether the audit agencies work in conformity with the necessary regulations was collected under one central authority, and this consequently targeted the improvement of reliability and quality of independent audit.

4. Associating Independent Audit with Public Oversight Authority

The supervision of independent audit is the control of whether independent audit activities in general were performed in accordance with the legal regulations and standards or not. Since the beginning of the 20th Century when accounting and audit occupations had started to develop and be globally accepted, it is seen that the supervision and auditing of the occupation were performed by the members of the profession in the logic of self-regulation of the occupation. Particularly in countries with developed finance and capital markets such as the USA, England and Canada, occupational institutions and organizations had influence both in the regulation of

independent audit agencies and establishing independent audit standards, and in carrying out supervision and auditing works intended for these activities.

The most comprehensive example in auditing activities within the frame of self-regulation logic of the occupation was seen in the USA. In the USA, auditing activities were performed related to quality controls of independent audit under the leadership of AICPA. A part of the activities in question was carried out by an investigation team working associated with the relevant unit of AICPA; however, an important part was performed as an independent audit agency to be subjected to quality control by another independent audit agency. With this method which is called peer review, it is ensured determining and reporting whether the audit agency has the elements of quality control or not, and to what extent it applied them (Uzay, 2011: 617). As a result of the quality control examination performed, a report similar to independent audit opinion was prepared and conditional, positive or negative comments were given as is the case with independent audit reporting.

In the early 2000s, as a result of the arising of the fact that an important part of the global accounting scandals (Likewise Enron and Parmalat), actualized due to accounting frauds and unreliable financial reporting, the need of reviewing the entire process came to the fore and Sarbanes Oxley Act (SOX) was published as an act of reaction. Besides, following these scandals in question, independent audit and its functions have started to be questioned and the notion of “supervision of independent audit” has started to be discussed internationally for increasing the reliability and quality of independent audit. In the USA, the Public Oversight Board (PCAOB) was established with SOX in 2002 in order to review the audits of public limited companies. While the general purpose of this non-profit and independent organization is to look after the public interests in the preparation of independent audit reports and right and eye opener information about the organizations; its special purpose is to supervise the auditors for protecting investors.

PCAOB investigations focus on how a firm conducted selected audits and on the effectiveness of the firm’s quality control policies and procedures. Those inspections are specialized to reveal whether there are deficiencies in how the accounting firm

performs public company audits and whether there are downsides in its quality controls over public company auditing. (Center for Audit Quality, 2012: 3)

The audit companies registered to PCAOB have to make audits conforming to the occupational standards and prepare audit reports. PCAOB is responsible for performing the constant supervision of the situation in question. All audit companies have to register to PCAOB founded in the USA, and the supervisions of those who audit 100 or more public limited companies must be made annually and of the others once every three years.

The factors affecting the formation of Public Oversight Accounting and Auditing Standards Authority:

- The necessity for taking step for complying with EU's instruction no.8 about public oversighting
- Enlarging the extent of independent audit with Turkish Commercial Law no. 6102
- The need for reaching audited corporations from the point of CMB
- Gathering different oversighting bodies in single center to have a more reliable oversighting system.

Keeping these factors in mind, with delegated legislation no. 660 Public Oversight Accounting and Auditing Standards Authority is established in 24.12.2011. By this formation the authorities of TMSK which is responsible for determining Turkish accounting standards and TUDESK that is responsible for determining Turkish audit standards is given to Public Oversight Authority.

Differently from other international organizations, POB in Turkey undertakes not only the supervision function but also arranging the standards of accounting and auditing. The arrangements of POB in the field of independent audit are as follows (Sayar, 2013:45):

- 1) "Statutory Decree No. 660 about the Organization and Duties of Public Oversight Accounting and Auditing Standards Authority"
- 2) POB Independent Audit Regulation

- 3) Independent Audit Official Registry Declaration
- 4) Declaration of Independent Audit Examination
- 5) Declaration of Independent Audit Applied Vocational Training
- 6) Declaration of Independent Audit Authorization

Amongst these regulations 26.12.2012 dated and 28509 numbered 5th chapter of the Independent Audit Regulation, which is one of the arrangements above, published in official journal, the liabilities of the audit agencies and auditors are indicated under four articles with regards to ensuring the quality and reliability in POB audits:

Audit agencies and auditors perform their activities in a way to make quality and reliable audits.

The activities of audit agencies and auditors involve the actions and processes intended for the continuance, quality and reliability of the audits in addition to the audit process.

The audit process starts with the job request of the organization for each financial year; it is planned, programmed and performed according to TAS (Turkish Audit Standards) and ends with the reporting of the audit process. Provisions about the liabilities following the submission of the report are reserved. The audit process is documented according to TAS.

In addition to TAS, the provisions of this chapter, notably those regarding the occupational ethics and quality control system, are obeyed both in and out of the audit processes on the purpose of ensuring the quality, continuance and reliability of the audits.

In the independent audit regulation, take part the subjects such as establishing the quality control system, which is a complement for quality and reliability in audit, obeying the occupational ethics principles and protecting independence in the Articles 21 and 22).

Warning to audit companies, and sanctions such as suspending and cancelling official authorizations take part in the Article 39 of the regulation up to the application to these companies.

Independent auditing concerns closely Turkish economic existence and it takes importance through institutionalization of corporations, sustainability; enhancing competition power, transparency and establishing public trust. This issue took place in most important and appropriate parts regulated within Turkish Commercial Code numbered 6102. However Turkish Commercial Code no.6102 divides companies subject to independent audit into certain categories. According to this categorization, independent auditing is made compulsory for companies exceeding a certain magnitude, and for banks, insurance companies, security dealers and those have traded securities in stock exchange. Every year ministerial cabinet determines the scale of companies that will be subjected to independent audit procedures. So as to abide by European union acquis the extent of independent auditing is aimed to be widen gradually in the course of time. With the decision of ministerial cabinet published in official journal in 01.02.2015 the criterion to dependency to independent audit is reorganized. As a result, it is estimated that approximately 5.000 companies will be subjected to independent audits.

5. A Research Conducted in İzmir about the Role of Public Oversight Authority on Reliability of Independent Auditing

In our study to measure the role of public oversight authority on reliability of independent auditing an implementation is conducted in İzmir. While determining the method of research, literature review is performed firstly by taking other academic works as samples. Based on that idea, conversation, observation and document review methods are chosen among qualitative research methods. The findings collected from the interviews made with big four audit companies in İzmir in order to detect the role of Public Oversight Accounting and Auditing Standards Authority's role on reliability of Independent Auditing is as follows:

- According to these mentioned companies, two most important factors about reliability and quality of independent auditing are audit team and audit

company. Consequently, field professionals should pay attention to Turkish Accounting/Financial Reporting Standards and Turkish Auditing Standards. They should keep relevant knowledge updated. Standards of IFAC should be implemented.

- Since big four audit companies are performing audit activities for many years, they are supported from by means of technical knowledge, education and expertise from abroad headquarters and controlled for quality and reliability, they are not expected to face such troubles in this matter. These qualifications made them to be preferred by big financial corporations, publicly traded stock companies and international business corporations.
- Quality and reliability issues cause troubles in small scaled local companies with limited qualified personnel. However, Public Oversight Authority would figure out this downside by widening the extent of independent auditing practices and following strict policies regarding education of auditors. For this reason, gathering oversighting function in one institution and taking out of other institution's authority (CMD, BRSA, EMRA etc.) can be classified as a prominent and proper approach.
- The lengthiness of certification process of Public Oversight Authority, which is 5-6 years, decreases the motivation of beginners in this profession (First CPA certificate, than POA educations and examinations). Nonetheless, Public Oversight Authority sees this processes as inevitable for increasing the number of qualified auditors.
- Owing to POA's organization structure is formed by tax based accounting professionals, they took expertise educations (Turkish Financial Reporting Standards, Turkish Accounting Standards and Turkish Auditing Standards) from big four auditors. This case made independent audit companies become educators of the ones who will audit themselves. Furthermore, POA makes observations on PCAOB of US and gets educations from them in order to learn and keep track of international implementations.

- On the condition of POA demand, Capital Markets Board and Banking Regulation and Supervision Agency can give assistance on independent auditing. Specifically, CMB has numerous qualified auditors, and made an important progress about quality and reliability of independent auditing in the past years.
- Most intense competition in independent auditing sector is occurring in audit fees issue. In order not to lose customers audit companies can cut fees. This situation diminishes the prestige of the business and decreases the quality of service rendered. For getting rid of this downside POA should determine a certain audit fee per hour concerning the magnitude of companies. Consequently, unfavorable competition between firms can be overcome, service quality can be improved and independency of auditor would be strengthened. In that Public Oversight Authority can differentiate between low quality and high quality audits.
- The biggest disadvantage in the perspectives of big four audit firms brought by Public Oversight Authority is the obligation to enter lots of information of audited firms to POA's portal (such as sizes of companies, audit contracts, audit reports). This gathering of information is necessary for POA's determining the scope of audit. This fact generates a load of work for big four audit firms since the numbers of their consumers are too many. However, Public Oversight Authority can gather these information to determine which will be audited from Ministry of Commerce easily. The lack of communication between governmental organizations prevents it.
- Public Oversight Authority has not performed an extensive oversight towards audit reports yet (including big four firms). Any sanction about the reliability and quality of auditing has not yet been used.
- POA has performed a limited oversight in the year of 2014. Including big four audit firms, it has been inquired that whether conditions specified in quality control standard number 1 are met and whether audit contracts and relevant audit reports are uploaded to POA's portal. Notified troubles are transmitted

to audit company. In 2015 it will be controlled if these troubles are solved or not and the reports prepared by audit firms will be subjected to oversight.

6. Conclusion

The main purpose in independent auditing is financial audit. If decisions made on financial matters base on unreliable financial information, irreversible drawbacks could be caused. For this reason, principles and rules about auditing profession focused more on financial transactions.

Rapid changes occurred in information and communication technologies in the world affected the scope and structure of economic activities. These advancements that lead to an integration of money and capital markets globally, caused augmentation in world trade volume and the number of international corporations.

This fact trigger the need for reliable financial information, apart from accounting field, it lead to new regulations in auditing fields. Accounting and auditing scandals happened in US and EU countries in the beginning of early 2000s devastated (like Enron and Parmalat) devastated the trust towards accounting and financial reporting processes and give countries rise to more strict precautions in terms of preparations and auditing of financial statements.

Important alterations made independent audit field with Sarbanas-Oxley act in the US, and directive about auditing numbered 2006/43/EC in European Union. With these mentioned alterations, independency and functions of audit teams in audit corporations made more effective, responsibilities of corporate executives have been increased, enhanced reliability and extent of reveled financial statements are aimed, sanctions towards corporate executives and employees are foreseen. One of these regulations is establishing public overseeing system in independent auditing. With this respect, overseeing authority of independent auditing activities is brought from professional organizations and given to Public Oversight Authority engaged with governmental authority.

In Turkey, Public Oversight Accounting and Auditing Standards Authority was founded with rights and authorization in this field. Parallel to the system adopted in

developed countries, to diminish practical implementation differences and to reach uniform applications it is aimed to establish an integrative legal structure.

Public Oversight Accounting and Auditing Standards Authority have ultimate rights and responsibilities of widening adoption of accounting and auditing standards, authorization of independent auditors and independent audit companies and supplying public oversight on independent auditing matters.

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