

**PUBLIC OVERSIGHT,
BENEFITS AND CHALLENGES:
TURKISH EXPERIENCE**

Dr. Masum TÜRKER, (Sworn-in CPA)

IFAC Board Member

Istanbul Commerce University

Dr. Ipek TURKER (CPA)

Istanbul University

Faculty of Political Sciences

12th FCM Annual Conference

4 November 2013

Tirana, Albania

PUBLIC OVERSIGHT, BENEFITS AND CHALLENGES: TURKISH EXPERIENCE

INTRODUCTION

By 2000s, after the accounting scandals such as Enron, Parmalat and others, the public confidence to professional accountants performed accounting and auditing professions, and the audit reports produced by them, have decreased. Therefore, it is began a quest in order to create public confidence to the accounting and auditing profession. For this propose, it has made the regulations that develop to accounting and auditing profession, protect and increase the public confidence, and it has developed some rules and standards.

The first of these regulations is the establishment of "public oversight bodies" in order to ensure public oversight of the accounting and auditing profession. Public oversight of accounting profession, In Norway the oversight body was established earlier, in 1992, as an integral part of the Financial Supervisory Authority of Norway (FSA Norway)¹, has began in United States in 2002 with the Sarbanes-Oxley law enacted after Enron²; has implemented in all EU countries in according to amendments made to 2006/43 EC Directive No. 8 of the EU Directive in 2006. In countries that are not EU member, in order to be valid qualification of auditors in EU, public oversight practices of accounting profession start in all countries after regulations with regard to third countries with the decision of the EU Commission on July 29, 2008. (Attachment: According to the decision of the EU Commission, Third countries required to establish to Public Oversight System)

Regulations made in the context of public oversight have been in the form of the establishment of a public oversight body which takes at least ultimate responsibility for the education, qualification, quality assurance and disciplinary procedures relating to statutory auditors and audit firms that have audited to the public interest bodies

¹ Brynjar GILBERG, Inspection of Audit Firms: National or International?
http://www.finanstilsynet.no/Global/Revisjon/Tilsyn_og_overvaking/Tilsyn/Article_Panelist_Brynjar_Gilberg.pdf

² Robert R. MOELLER, Sarbanes-Oxley The New Internal Audit Rules, John Wiley&Sons, Hoboken, New Jersey, 2004., Sanjay ANAND, Sarbanes-Oxley Guide For Information Technology Professional, Second Edition, John Wiley&Sons, Inc., New Jersey, 2006.

(including non-public interest entities in European Union (EU) Member States and other some countries. The oversight of accountancy auditing profession has a integrity including self-oversight model (peer-review), as well as public oversight.³

1. THE SCOPE OF PUBLIC OVERSIGHT

In order to strengthen public confidence in the accounting profession, after regulation continuing over the last ten years, one of the most important innovations in audit practice was **the move from a self-regulated profession to a regulated profession which is under the supervision of a public oversight system**⁴. The objective of the Public Oversight System for Audit is to contribute the raising the performance and quality of the accounting and auditing profession, the protection of the independency and objectivity of the accounting and auditing profession, and ensure the sustainability of the trust to audit of accounts and professional members at national and international level⁵

The most important one of regulations made pursuant to Public Oversight, is the regulation in respect to quality assurance system in order to improve the quality of accounting and auditing services. Quality assurance system consists of; methodologies, policies and procedures that reviews the quality of the performance and procedures regarding to the activities of auditing firms that conducts independent auditing To ensure the public confidence. Auditing firms are required to establish and implement a quality assurance system that have minimum elements.⁶

The other necessary regulations for public oversight of auditing are related to accounting standards, auditing standards, professional competence rules, continuing professional development training, ethic codes and investigation-discipline.

³ A.R.Zafer SAYAR, Bağımsız Denetimin Kamu Gözetiminde Dünya Deneyimleri ve Türkiye Uygulamaları, (**World Experience and Practices in Turkey in Public Oversight of Statutory Auditing**) Genişletilmiş İkinci Baskı, TÜRMOB Yayınları, No: 451, Ankara 2013, p. 79

⁴ FEE Policy Statement on Public Oversight of Statutory Auditors and Audit Firms auditing Public Interest Entities and non-Public Interest Entities, July 2012, p.1

⁵ Masum TÜRKER, **Public Oversight Board**, CECCAR 17 Congress The Romanian Accountancy Profession, The Accountancy Profession: Between Regulation and Public Interest, 1-2 September, Bucharest, 2008, p. 1

⁶ Masum TÜRKER, **Denetim Çalışma Kağıtları Rehberi (Auditing and Guide to Working Papers)**, Forum Media, İstanbul, 10-1, p.1

Accounting standards are accounting principles and rules with accounting basic concepts that constitute the basis of accounting practices⁷. These standards include measurement, evaluation and presentation principles and rules in the process of financial reporting and accounting process based to financial reporting. Today, International Financial Reporting Standards (IFRS) direct to national standards of all countries.

Auditing standards include principles and rules that arrange and describe to all phases of the audit process in a comprehensive manner. Auditing standards are a key factor in the regulation of the audit profession. If the profession is to perform high quality work in the public interest, it needs to have high quality standards that are set in the public interest.⁸

Ethics Code includes principles and rules that will be followed in process of entry into the profession, conduct of the profession and departure from profession by not only professional accountants but also all related parties, according to sense of being responsible for the protection of the public interest. In other words, ethic codes are principles and rules that define to understanding of pragmatism and codes of ethics of profession.

Professional competence rules and continuing professional development training are determined by standards of professional training. In some cases, these standards are determined in law and regulations (such as bylaw). Investigation and discipline regulations should be in the form of being investigated and charged errors and mistakes, and being submitted to the jurisdiction.

In countries that Public Oversight institutionalizes, accounting standards should be prepared in line with IFRS. The other standards and rules should be also prepared in line with standards published within IFAC, for example; auditing standards should be prepared as "International Standards on Auditing (ISAs)"; ethic standards should be prepared as "The Code of Ethics for Professional Accountants (the Code)", and

⁷ İpek TÜRKER, **Türkiye’de Uluslararası Finansal Raporlama Standartlar (UFRS) Paralelinde Yapılan Düzenlemelerin Finansal Tablo Kullanıcıları Üzerindeki Muhtemel Etkileri (The Possible Effects Of The Turkish Financial Reporting Standards That Are Prepared Parallel to The International Financial Reporting Standards, Upon The Financial Report Users)** TÜRMOB YAYINLARI No: 407, Ankara, p. 28

⁸ Masum TÜRKER, **Denetim Çalışma Kağıtları Rehberi (Auditing and Guide to Working Papers)**, Forum Media, İstanbul, 2.5, p.1

standards on professional competence and continuing professional development training should be prepared as "International Education Standards". Investigation and discipline regulations should be prepared on the basis of IFAC's regulations, Sarbanes-Oxley Act and EU 8th Directive .

As a summary, in order to ensure public confidence in accounting and auditing activities, as a minimum, the following should be achieved⁹:

1. to develop national standards on auditing, national accounting education standards and national ethics standards
2. to develop national accounting standards
3. to determine entry requirements to the profession and examination provisions
4. to develop system of investigation, discipline and punishment
5. to define the policies and procedures set quality assurance system in national level in order to provide the compliance of national standards on auditing, national accounting education standards and national ethics standards
6. to determine the rules regarding training and authorization of national quality assurance reviewer
7. National quality assurance reviewer examine whether quality assurance system of audit firms they review are conducted in conformity with Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (ISQC 1).¹⁰
8. The report in regard to the inspections of quality assurance should be published periodically.

2. REGULATION OF THE ACCOUNTANCY PROFESSION

Regulation of the accountancy profession usually covers the following: professional accountants' competence requirements with entry, licensing and approval (registration)¹¹

⁹ Masum TÜRKER, **Quality Assurance System in Accountancy Profession and Turkish Experience**, Professional Accountancy Education and Service Quality Assurance: Experience, Reality, Prospects 28-29 May, Tbilisi, Georgia , 2008, p.7

¹⁰ ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

¹¹ According to EU 8.Directive on Statutory Auditors, the approval requirements made a statutory audit by a real person, are as follows: After reaching to university entrance level a) to complete theoretical training courses;

requirements, including education requirements; monitoring of the behavior and performance of professional accountants¹²; the standards, including ethical standards, that professional accountants must meet; and disciplinary systems and procedures for those who fail to meet the requirements¹³.

Regulation of accountancy profession have two targets¹⁴:

- 1- Intent to enhance societal welfare; and
- 2- Target to develop the capabilities of professional accountants.

In theory, regulation of accounting profession is the three ways:

Public Interest Theories

Under public interest theories the purpose of regulation is expressed as the need for public protection or interest¹⁵.

Private Interest Theories

Private interest theories regulation is recognized as a mechanism designed to confer benefits on politically effective groups¹⁶.

The Corporatist Theory

The corporatist theory contains elements of the interest group theories. In common with the capture theory, corporatist theory recognizes the existence of diverse interest in society. It is also has a public interest component, since the State is presumed to act to maintain social order by creating administrative units through which diverse interests can be managed¹⁷.

Regulation of accountancy profession may be take place by four ways according to

b) Pass the practical training, and c) to pass proficiency exam being the same level with university final examination made by State and Professional Body

¹² According to EU 8th Directive on Statutory Auditors, and IFAC International Education Standard 8 (IES 8), "*Competence Requirements for Audit Professionals*", Competence requirements for auditors provide the detailed information about; a) the content of theoretical training and b) practical training of auditors.

¹³ IFAC, Policy Position Paper "Regulation of accountancy Profession, December 2007, paragraph 18.

¹⁴ S. Susela DEVI, Keith HOOPER, Howard DAVEY, **Accounting Theory & Practice A Malaysian Perspective**, Pearson Prentice Hall, Kuala Lumpur, 2004, p. 482 vd.

¹⁵ Greg TOWER, A Public Accountability Model of Accounting Regulation, **British Accounting Review**, s.61-85, no:25, 1993, p.72

¹⁶ Ibid, p.73

¹⁷ S. Susela DEVI, Keith HOOPER, Howard DAVEY, **Accounting Theory & Practice A Malaysian Perspective**, Pearson Prentice Hall, Kuala Lumpur, 2004, p. 482 vd.

findings in practice¹⁸:

1. Voluntary self-regulation of profession (voluntary regulation)
2. Regulation of profession that the State authorizes the responsibility on self-regulation to professional bodies (self-regulation with legitimate power)
3. Regulation of profession by a public body or an independent body constituted by the State (outside regulation with legitimate power)
4. The regulation made with combination self-regulation with legitimate power and outside regulation with legitimate power.

Self-regulation with legitimate power and outside regulation support each other; and they should act as a complement to each other, they should not compete with each other.¹⁹. There are a number of ways that self-regulation and external regulation may be combined to create an efficient and effective regulatory mix. In striking a balance between the various methods of regulation, it is possible that professional accountancy organizations will have responsibility for some aspects of regulation and a government or independent agency for other aspects. For example, a professional accountancy organization may have responsibility for aspects of regulation where it has significant expertise, such as setting education requirements for professional accountants.

The mix of self-regulation and external regulation will vary by jurisdiction and will depend on a number of factors, including:

- The historical experience in the jurisdiction; for example, financial reporting failures arising in practice have often led to more external regulation;
- The self-regulatory performance of the professional accountancy organization;
- The regulatory performance of government;
- Membership of international bodies, and the use of standards and practices developed and endorsed by these bodies;
- The general political orientation to regulation as an instrument of economic management;
- The development path of the economy; and

¹⁸ For approach, see: IFAC, Policy Position Paper “Regulation of accountancy Profession, December 2007, paragraph 24,

¹⁹ IFAC, Policy Position Paper “Regulation of accountancy Profession, December 2007, paragraph 24.

- The nature and characteristics of the market failures to be addressed by regulation.

Trends in the balance between self-assessment and external assessment may also differ. In recent years many countries have seen an increased role for external regulation, while in other countries, especially those in transition, the trend has been to strengthen the self-regulatory role of the profession. (Regardless of how do you create a balance is created in a particular jurisdiction in institutional relations, when there is cooperation and mutual respect between the parties, favorable outcomes generally arise.)

In practice, a professional accountancy organization would rarely regulate without some form of government mandate or oversight. Similarly, the government would rarely regulate without any form of interaction with, or explicit or implicit delegation of authority to, the professional accountancy organization.

Commonly, professional accountancy organizations act under a delegation from their respective governments. The government has given legal recognition to the professional accountancy organization and has assigned to it a set of roles and responsibilities and some form of reporting (accountability) requirement. These responsibilities can include:

- setting admission criteria (entrance requirements for professions)
- setting education requirements, including continuing education requirements (practicing experience, examination, CPD);
- establishing disciplinary procedures; and
- adopting and implementing ethics, technical, and professional standards.
- establishing Quality Control review system and reporting its results

Reporting requirements vary, but can take the form of annual reports by the professional accountancy organization to the government, which has the primary, over-arching public interest oversight responsibility under these arrangements. However, reporting by the professional accountancy organization of its activities assists in fulfilling its public interest and public accountability responsibilities.

The role of government in the regulation of the accountancy profession is to ensure that regulation is achieving its public interest objective of – at the lowest possible cost – quality, and consistency of quality, in the supply of accountancy services. To do this effectively, governments need to:

- Understand the nature and characteristics of the issues that regulation is seeking to address;
- Have in place a system for monitoring the performance of the body(ies) charged with regulating the accountancy profession;²⁰
- Have the authority and the ability to change faster the laws and regulations necessary to ensure the overall quality and consistency of accounting service, by evaluating the outcomes of reports,

The force of professional organization(s), depends on being produced high-quality services by their professional accountants. In other words, the reputation of the professional bodies depends on the quality of services provided by their members. In this context, in order to maintain and improve their own reputations, professional organisations need to make the necessary arrangements ensuring the quality of the services provided by professional accountants, and share these arrangements with the public. Therefore, professional accountancy organizations, whose own reputation will reflect the quality of services provided by its membership, must play a role in the regulation of the profession to ensure the quality of the services provided by their membership. In fulfilling this role, they have an important responsibility to the community in which they live.

Professional accountancy organizations can perform regulatory responsibilities in a manner that increases the overall effectiveness of the regulatory system. They aim to ensure the quality of services provided by their members, through their dedication to upholding and promoting high-quality professional practices.

Over the last decade there have been many changes to the regulatory environment for the accountancy profession. New and emerging trends in regulation have highlighted the importance of ongoing dialogue between the accountancy profession and government regulators, as the appropriate balance is struck between self-regulation and government regulation. These developments include:

- Global adoption and implementations of international high-quality technical and professional standards. Successful adoption and implementation of standards across

²⁰ Whether the regulation is conducted by a professional accountancy organization or by a government or independent agency, the monitoring should encompass the adequacy and quality of the resources available to the organization.

jurisdictions assumes that standards are adopted without alteration to ensure consistent, universal application.

- External regulation of the market for audits, often undertaken in a manner consistent with the principles outlined in the Core Principles for Independent Audit Regulators, issued by the International Forum of Independent Audit Regulators (IFIAR).²¹
- The issue of SMOs by IFAC (the list of SMOs and their functions are given in the appendix), which provide clear benchmarks to professional accountancy organizations to assist them in ensuring high-quality performance by professional accountants. (Attachment: Agenda 5.7.2, p. 3 and 4). As part of IFAC's Member Body Compliance Program, member bodies are required to perform ongoing self-assessments of their compliance with each SMO. The seven SMOs cover areas such as quality assurance, investigation and discipline arrangements, and advocating adoption and implementation of standards issued by independent standard-setting boards.²²

Professional accountancy organizations and government regulators share a commonality of interests and objectives, in respect of their concerns for the quality, behavior, and standards of professional accountants, and awareness of the public interest imperative for the accountancy profession.

3. THE RELATIONSHIP BETWEEN PUBLIC OVERSIGHT BODIES AND PROFESSIONAL BODIES

The relationship between Public Oversight Bodies and Professional Bodies has recently taken on different dimension. It is observed that Public Oversight Bodies have begun to intervene to mandate and jurisdictions of Professional Bodies.

In this context, Public Oversight Bodies have been in tendency to identify and publish accounting and auditing standards; determine procedures and principles of independent audit practices; identify independent auditor's qualifications; announce audit examination areas; and make professional examinations and continuing education, as well as having an oversight that is the primary mission of Public Oversight Bodies. These interventions in areas of the main task of professional bodies have been an important threat risk to the development of our profession.

²¹ Briefly about the IFIAR is given in the following pages. The rules mentioned here are given in Annex 3.

²² Refer to www.ifac.org/download/statements-of-membership-obligations.pdf for details and descriptions of these SMOs

It should be clarified the topic named "The Relationship Between Public Oversight Bodies and Professional Bodies". In other words, it should be identified the mandate and jurisdictions of Public Oversight Bodies, and roles and responsibilities of Professional Bodies. (For example, it should give a generally accepted international formula to this question, "which bodies should be responsible for making audit examination, and being licensed to auditors?").

Over the last decade, public oversight bodies that take responsibility on statutory audits and/or monitoring to auditors of public interest entities, take an ever increasing role on regulation and monitoring of accountancy profession. In some cases, the following responsibilities conducted by Professional Accountancy Organizations (PAOs) before, have been also conducted by Public Oversight Bodies:

- To determine the requirements of quality assurance, and conduct inspections of quality assurance;
- To identify and issue independent requirements for auditors; and although to a lesser extent;
- To specify the requirements of practical experience and exam for professional accountants;
- Determination and conduct of professional examinations; and
- Issuance of accounting and auditing standards.

Distribution of responsibilities mentioned above between PAOs and Public Oversight Bodies change from country to country.

Given the global nature of audits there is a need for international cooperation. After a few initial roundtable conferences, in respect of public oversight of its auditors, The International Forum of Independent Audit Regulators (IFIAR²³) was formally created at a meeting in Paris on September 15, 2006. IFIAR has grown reflecting the growth in the number of independent auditor oversight bodies and the importance of international cooperation. IFIAR's Members establish relationship with the oversight bodies in different countries. IFIAR has three core functions: (1) Sharing information about the audit market environment and regulatory activity – promoting greater consistency across regulators, (2) Promoting collaboration in regulatory activity – increasing the effectiveness of audit

²³ <https://www.ifiar.org/About-Us.aspx>

supervision, and (3) Interacting with other international organizations interested in audit quality²⁴.

IFIAR's recently agreed upon 11 Core Principles covers; ²⁵(Attachment 3: IFIAR Core Principles): the audit regulator's structure (responsibilities and powers serving the public interest, operational independence, and transparency and accountability); operations (comprehensive enforcement powers, independent and competent staff, objectivity, and cooperation with other audit regulators and third parties); and inspections (recurring inspections of public interest entity auditors, risk- based inspection program, effective procedures for firm wide and file reviews, and mechanism for reporting and remediation of inspection findings)²⁶.

Public reporting of inspection findings is one of the topics discussed by audit regulators. According to surveys among the IFIAR members over the last three years shows; a) more inspection findings at an aggregate level should be made public – resulting in more media coverage; and more countries are issuing individual public inspection reports – resulting in increased attention by audit firm management. It is observed that the public reporting of inspection findings promotes audit quality.

4. PUBLIC OVERSIGHT OF ACCOUNTANCY AND AUDITING PROFESSION

The history of accountancy profession in Turkey has lain to centuries ago. Auditing services have also started after 1920s. Professional accountants in Turkey have tackled to gain the legal status of the profession for many years²⁷. In 1942, Expert Accountants Association of Turkey (EAAT) had been established as a career profession in process of

²⁴ Brynjar GILBERG, Inspection of Audit Firms: National or International?

http://www.finanstilsynet.no/Global/Revisjon/Tilsyn_og_overvaking/Tilsyn/Article_Panelist_Brynjar_Gilberg.pdf

²⁵ For more information, see: (<https://www.ifiar.org/IFIAR/media/Documents/General/Final-Core-Principles.pdf>)

²⁶ GILBERG. A.g.m.

²⁷ Please see for the detailed information on the development of accounting and auditing profession:

- Masum TURKER, Criticism of Draft RSC Report Submitted to World Bank, 2005
- Masum TÜRKER, Türkiye'de Denetim Faaliyetlerinin Gelişimi, Dayanışma Dergisi, p. 89, Şubat 2006
- Nail SANLI-Mehmet ÖZBİRECİKLİ, The Development Process of the Audit Profession in Turkey: An Investigation from Past to Future, Thirteenth World Congress of Accounting Historians, July 17-19, 2012, Newcastle, United Kingdom (separate edition).

"education, practical training and examination at the level of bachelor degree," and accountancy profession was structured as a voluntary regulation. However, professional exams have become effective in 1974 after 32 years. EAAT that has extend to its international relationship, after the process of education, practical training and examination at the level of bachelor degree became effective, has been a founder member of International Federation of Accountants (IFAC) in 1977. There had been an auditing requirement for companies that are traded in the capital market in 1987, and 19 companies as local and foreign have been established since 1987 and then statutory audit services have started.

4.1 ACCOUNTANCY PROFESSION IN TURKEY

The Law No. 3568²⁸ on Accounting Profession has been accepted in June 1, 1989. Therefore, TURMOB has been established in order to regulate accountancy profession within the²⁹ Law. TURMOB have two types on licensing. To become a Certified Public Accountant; to have at least a bachelor's level, to pass the practical experience entrance exam, to have a practical experience of minimum 3 years, to pass the examination for Certified Public Accountants on 7 subjects. To become a Sworn-in Certified Public Accountant, after working during 10 years as Certified Public Accountants (SMMM), to pass the examination for Sworn-in Certified Public Accountants on 10 subjects.

In the Article 2 of the Law No:3568 Accountancy Profession, the subject of profession has been defined separately for each licenses and they are as follows:

"A) The Subjects of the profession of Certified Public Accountancy are as follows:

Enterprises and business concerns owned by real and legal persons

²⁸ The Law No. 3568 "**The Law Of Accounting Profession**"

²⁹ According to the Article 135 of Turkish Constitution, the bodies that are authorized on regulation of the organization of professions, are accepted as professional organizations with public institution status and recognized their freedom of organization.

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: to regulate administration, accounting, finance, financial legislation and to perform the jobs related to their applications and to provide advisory services in the related fields.*

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.*

B) The Subjects of the profession of Sworn-in Certified Public Accountancy are as follows:

(A) *In addition to the duties specified in sub-paragraphs (b) and (c) of Paragraph (A) above, the subject of the profession of Sworn-in Certified Public Accountancy also includes the application of certification within the framework of the regulation to be promulgated in compliance with Article 12 of the Law.*

As is seen, According to the Law No:3568 Accountancy Law; "certified public accountants" and "sworn-in certified public accountants" are trained in order to make auditing and reporting services, and they have enough knowledge.

4.1.1 Process of Becoming Certified Public Accountant

According to the Article 4 of the Law 3568, General Requirements in order to become "Certified Public Accountant" are set out, the following provision include in the Article 5 of the same law:

A - In order to become to become a Certified Public Accountant the following conditions apply:

a. *To have at least a B. A. degree in law, economics, business administration, accounting, banking, public administration and political science from a Turkish university, or from foreign universities offering degrees equivalent to their Turkish counterparts, on*

the condition that this equivalence is ratified by the Higher Education Committee, or to hold a post-graduate degree in one of the disciplines mentioned above, following an undergraduate degree received in a different branch.

- b. To have a practical experience of minimum 3 years.*
- c. To pass the examination for Certified Public Accountants.*
- d. To receive a license as a Certified Public Accountant.*

The persons that may be the professional accountants as their educational background are a homogen group, they are subjected to a examination at acceptance level to practical training. It is aimed that is selected into the group's most successful ones among them.

The practical experience entrance exam made as per the Article 6 of the Law 3568 covers to the following topic;

- 1- General Knowledge and Skills (Turkish, Mathematics, Ataturk's Principles and History of Turkish Revolution)
- 2- Financial Accounting
- 3- Accounting Standards
- 4- Cost Accounting
- 5- Financial Statement Analysis
- 6- Auditing
- 7- Economy
- 8- Finance
- 9- Law

These examinations are made with the aid of Anadolu University. In addition, the examinations are read with " relative evaluation system" in order to ensure the successful candidates to be received to practical training.

After candidates passed the exam successfully, only, they have a right to start to practical training. According to the Article 5/b of the Law 3568, in practical training period for 3 years, on the one hand, candidates work in the office of a professional accountant and/or

under the supervision of a professional accountant; on the other hand, according to the Article 6/1 of the Law 3568, candidates are subjected to "compulsory education" programs.

During compulsory trainee education, an aspiring professional accountant is trained from total of 21 lessons that include nine lessons from accountancy group, four lessons from law group and eight lessons from support group. The topics took place in the scope of these lessons are as follows:

- 1- Books and Documents
- 2- Declaration
- 3- Auditing
- 4- Financial Accounting
- 5- Financial Statement Analysis
- 6- Cost Accounting
- 7- Accounting Standards
- 8- Corporate Accounting
- 9- Management Accounting
- 10- Professional Law
- 11- Social Security Law
- 12- Commercial Law
- 13- Tax Law
- 14- Office Management
- 15- Service Marketing
- 16- Human Research Management
- 17- Statistics
- 18- Business Finance
- 19- Capital Market Institutions and Instruments
- 20- Capital Market Regulation

21- International Accountancy Bodies

During the trainer education, an aspiring professional accountant is subjected to the assessment of practical training about these subjects. After candidates succeed from these assessments, they are eligible to enter the the examination of professional competence. These examinations made by examination commission consisted of 7 persons³⁰ that are selected by TURMOB;

- 1- Financial Accounting
- 2- Financial Statement Analysis
- 3- Cost Accounting
- 4- Accountancy Auditing
- 5- Tax Legislation and Practice
- 6- Law; Commercial Law, Obligations Law, Business Law, Social Security Authority and Pension Fund for the Self Employed Regulation Regulation, Administrative Jurisdiction
- 7- Professional Accountancy Law.³¹

4.1.2 Process of becoming a Sworn-in Certified Public Accountant (YMM)

According to the Article 9 of the Law 3568, in order to become "a Sworn-in Certified Public Accountant" one should have:

- a. *At least ten years of experience as a Certified Public Accountant,*
- b. *To pass the Sworn-in Certified Public Accountant examination*
- c) *T have a license of Sworn-in Certified Public Accountant".* Thus, persons who become SMMMs after a very hard process should practice with this title at 10 years, then pass the

³⁰ According to the Article 10 of the Law 3568 The examination commission consists of 7 members. Two of these members represent the Ministry of Finance. Three of the members are selected among five candidates proposed by the Higher Education Council, and the remaining two are selected by the Ministry of Finance among the four candidates proposed by the Union.

³¹ Those exam subjects regulated in the Article 14/1-b of the Sworn-in Certified Public Accountancy and Certified Public Accountancy Exam Regulation.

exam conducted by a commission³² appointed by the Ministry of Finance and then become a YMM. YMM exam subjects:

- 1- Advanced Financial Accounting (Professional Standards)
- 2- Financial Management
- 3- Management Accounting
- 4- Auditing, Reporting and Professional Law
- 5- Revision
- 6- Tax Technique
- 7- Taxes on Income
- 8- Taxes on Expenditure and Wealth
- 9- Foreign Trade and Exchange Regulations
- 10- Capital Market Regulation.³³

The aim of stating the objective, subject of the profession and the special conditions to become a professional member in detail is to show that independent auditing activity is not found and regulated by the 660th Statutory Decree but this need emerged years before and the professions that conduct those work created by the Lawmaker and our professional members are licensed in a process accordingly.

5. INDEPENDENT AUDITING

"Independent auditing" concept entered our national regulation in 1987³⁴ first time, has been changed with parallel to international requirements and global developments within

³² According to the Article 10 of the Law 3568 the examination commission consists of 7 members. The members of the Examination Commission are selected by the Ministry of Finance, four are among the tax auditors of the Ministry of Finance, one is among two candidates proposed by the Higher Education Council, and two are among four candidates proposed by TURMOB

³³ Those exam subjects regulated in the Article 14/1-a of the Sworn-in Certified Public Accountancy and Certified Public Accountancy Exam Regulation.

³⁴ Regulation on Independent External Auditing in Capital Market became effective with publication on Official Gazette dated 13.12.1987 and numbered 19663.

the process. According to the regulations issued by the administrative authorities responsible for regulating the related areas, independent auditing has been conducting by the our authorized professional members as independent auditor for specific limited areas. Turkish Commercial Code (TCC) dated 13.01.2011 and numbered 6102 brought a new ground in this area that Article 397 requires equity companies should be audited according to the Turkish Auditing Standards (TDS) compatible with the International Auditing Standards³⁵, and Article 400 requires that the auditor only be the independent auditing firms having SMMM and YMM partners³⁶.

TÜRMOB is a professional organization with public institution status and according to the Article 135 of the Constitution of the Turkish Republic it is equipped with tasks and authorities like meeting the common needs of the persons belong to specific profession, facilitating their professional activities, ensuring their developments in compliance with the general interest of the profession, protecting professional disciplinary and ethics in order to make stronger the integrity and the confidence in the professional members' relationships among themselves and with public.

6. PUBLIC OVERSIGHT IN TURKEY: THE PUBLIC OVERSIGHT, ACCOUNTING AND AUDITING STANDARDS AUTHORITY

First national accounting standards in compliance with the international accounting standards in Turkey was published by TMODESK³⁷ founded by the professional accountancy organization (PAO) TURMOB in 1994. TMODESK prepared 19 national accounting standards and a draft conceptual auditing framework. Autonomous Accounting Standards Board of Turkey (TMSK) which was formed by a law in 1999 and became effective in 2002, published the Turkish Financial Reporting Standards and Accounting standards, based on the standards prepared by TMODESK

³⁵ However, Article 397 of the Turkish Commercial Code numbered 6102 was amended with the Article 18 of the Law 6335 and it was determined that only companies that will be determined by the Council of Ministers shall be subject to the independent auditing. Nowadays, it is expected that is published the Bylaws as secondary legal regulation that imposes an obligation that the other joint-stock companies should be audited by SMMMs and YMMs under the supervision of the Ministry of Commerce. Please see for Draft Regulation: Korkut ÖZKORKUT, a.g.e. p.299-315

³⁶ Article 397 of the Turkish Commercial Code was amended with the Article 19 of the Law 6335 and the authorization responsibility given to Public Oversight Board.

³⁷ TMODESK: Accounting and Auditing Standards Board of Turkey

and according to the agreement with IASB, fully convergent with the all IFRSs/IASs, and the Turkish translation of IFRICs³⁸.

When the national accounting standards was started to be prepared by an autonomous body then in 2003 TUDESK³⁹ was established by TURMOB in order to prepare the Turkish Auditing Standards that are in compliance with the International Auditing and Assurance Standards. TUDEKS first of all published the translation of the 2004 version of the International Auditing and Assurance Standards. TUDEKS was established 33 committees to prepare the Turkish Standards, and also published the 2008 version of the International Auditing and Assurance Standards.

In 2008, the government send the Draft Law on Public Oversight Board and Turkish Auditing Standards Board to TBMM'ne⁴⁰ (parliament). This Draft Law designed the establishment of the Public Oversight Board to oversight the profession, professional members and professional body like PCAOB⁴¹, together with the authority of the preparation of Turkish Auditing Standards.

In this Draft Law, it was proposed that professional accounting members (SMMMs and YMMs) certified by TURMOB shall be authorized as statutory auditor, review of the quality assurance systems, continuous professional development training and disciplinary and investigation procedures shall be conducted by the professional accountancy body TURMOB under the oversight of the Public Oversight Board. It was also proposed that Turkish Auditing Standards shall be prepared within the Public Oversight Board.

Turkish Commercial Code (TTK) which was revised according to the EU Corporate Law, was adopted by the parliament in 2011 to be effective in 2012. The New TTK requires that the Turkish Financial Reporting Standards and Accounting Standards that are fully convergent with IFRSs/IASs should be used⁴². While the Code requires statutory audit for the joint stock companies, the rules of the provisional regulations was determined until the Law on Public Oversight Board and Turkish Auditing Standards Board. According to this, responsibility to prepare the Turkish Auditing Standards were assigned to TURMOB which is a professional

³⁸ For more information about TMUDESK and TMSK and in this issue see: İpek TÜRKER, a.g.e., p. 64 vd.

³⁹ TUDESK: Auditing Standards Board of Turkey

⁴⁰ TBMM: Grand National Assembly of Turkey (the lawmaker)

⁴¹ PCAOB: Public Company Accounting Oversight Board. Please see for more detailed information: Anne M. MARCHETTI, **Beyond Sarbanes-Oxley Compliance Effective Enterprise Risk Management**, John Wiley&Sons, Inc.,Ne Jersey, 2005; John T. BOSTELMAN, **PLI's Guide to the Sarbanes-Oxley Act For Business Professionals**, Practice Law Institute, New York City, 2005.

⁴² With an amendment made later, the requirement for companies above the determined thresholds and companies out of the determined sectors become voluntary.

accounting body (PAO) and the responsibility Public Oversight were assigned to the Ministry of Commerce⁴³.

However, the government used the authority that gained from the parliament to make a Statutory Decree⁴⁴ (KHK) without going to parliament regarding to corporate law in November 2011 and established the "Public Oversight, Accounting and Auditing Standards Authority of Turkey" (KAMUDESK) with the KHK numbered 660. KAMUDESK has a duty to oversight the auditing aspect of the accounting profession in public interest. Also, it has an authority to develop Turkish Auditing Standards and Turkish Accounting Standards⁴⁵ within the public oversight body.

However, the Law on Public Oversight, Accounting and Auditing Standards Authority (KAMUDESK) published with the Statutory Decree cleaned the references and duties that were given to TURMOB with the draft law submitted to parliament before and left the requirement that only SMMMs or YMMs certified by TURMOB can be authorized⁴⁶.

Duties and authorities of KAMUDESK are as follows:

1. To set and issue Turkish Accounting Standards in compliance with the international standards in order to ensure relevance, transparency, reliability, understandability, comparability and consistency of financial statements of the parties⁴⁷ who are liable to keep books in accordance with the laws they are subject to.
2. To make secondary legislation⁴⁸ and take necessary decisions for implementation of the Turkish Accounting Standards, and approve legislation to be prepared by the institutions and bodies having, authorization to regulate in respect of their own fields.
3. To set and issue national auditing standards in compliance with the international standards including the audit of information systems by means of overseeing the public interest in order to ensure fair submission of financial statements, financial status, performance and cash flows of entities, and their relevance with needs of users, reliability, transparency, comparability and understandability, in accordance with Turkish Accounting Standards

⁴³ For further information on statutory audit regulated by the new Turkish Commercial Code see: Korkut ÖZKORKUT, **6102 sayılı Türk Ticaret Kanunu Açısından Anonim Şirketlerde Bağımsız Denetim (Statutory Audit in Joint Stock Companies According to the Turkish Commercial Code numbered 6102)**, Banka ve Ticaret Hukuku Araştırma Enstitüsü, Yayın No:478, Ankara, 2013

⁴⁴ Statutory Decree: The Decree as Law

⁴⁵ With this Statutory Decree, the autonomous Accounting Standards Board of Turkey that was established before is dissolves and transferred to the Public Oversight Body.

⁴⁶ After the establishment of the Public Oversight Board, on behalf of the Board some who wanted to gain an auditor authority before the parliament tried to withdraw the requirement to be SMMMs or YMMs a few times. But with the professional body TURMOB's contacts at parliament, those efforts did not realized.

⁴⁷ "to be liable to keep books" mean "to be liable to make financial reporting

⁴⁸ It is described in the following notes.

4. To determine establishment requirements and working principles of statutory auditors and audit firms, to authorize the entities satisfying these requirements and, members of profession who would perform statutory audit, then announce them in form of lists, and record them in the official registration to be created and continuously keep open for public access in the web site of the Authority.
5. To supervise and oversight the compliance of the operations and audits of statutory auditors and audit firms with the standards and regulations issued by the Authority.
6. To suspend or withdraw the approval of statutory auditors and audit firms which have been determined as contradictory as a result of investigations and supervisions.
7. To carry out examination, approval and registration for members of profession who would perform statutory audit, execute discipline and investigation procedures, determine continuing education standards and professional ethic rules, organize a quality assurance system oriented to them and ensure to take necessary measures to remove deficiencies in these fields.
8. To cooperate with authorized bodies of foreign countries in the issues related with field of engagement of the Board, announce foreign auditing firms and auditors approved to carry out statutory audit in Turkey in accordance with the principle of reciprocity in form of lists and record them in the official registration to be created and continuously keep open for public access in the web site of the Authority.
9. To make regulations in order to ensure independency and impartiality of audit and improve the confidence and quality of audit and take necessary measures.
10. To make secondary legislation related with the field it is charged to regulate and supervise and take necessary decisions on these issues.
11. To follow-up international practices and developments related with its field of engagement, cooperate with the International Accounting Standards Board and International Auditing and Assurance Standards Board and other international organizations working in field of accounting and auditing, draw up license and copyright agreements and affiliate to these organizations if required.
12. To organize meetings, conferences and similar events and make necessary publications oriented to adoption and implementation of accounting standards and auditing standards and settlement of public awareness in the issues related with its field of engagement.
13. To determine the members of the study and advisory commissions.
14. To fulfill other similar duties specified with the regulations.

KAMUDESİK has made the following "secondary legal regulations" in order to perform the above⁴⁹ tasks:

- 1) Statutory Audit Regulation
- 2) Communique of Official Registration on Statutory Auditing
- 3) Examination Communique on Statutory Auditing
- 4) Applied Professional Education Communique on Statutory Auditing
- 5) Authorization Communique on Statutory Auditing

KAMUDESİK has taken over this task from TMSK and accepted to TFRS/TASs published by TMSK and then KAMUDESİK becomes to publish by making modifications in according to IASB. In addition, KAMUDESİK becomes publish to some Turkish Auditing Standards and "Quality Assurance System in Auditing and Assurance Services".

When reviewed the duties and authorities of KAMUDESİK, and the Statutory Decree numbered 660; it is seen that is made regulations on three main topics with regard to accountancy profession, and these topics are as follows:

- Financial Reporting and Accounting Standards;
- Auditing Standards; and
- Public Oversight.

It is seen that there is a Statutory Decree aimed to be established the single and powerful authority authorized in these three areas⁵⁰. When considered from this point of view, relationships between KAMUDESİK, professional accountants and TURMOB as professional accountancy organization (PAO), appear on three areas.

KAMUDESİK publishes TFRS/TASs conformed with UFRS/IASs that are necessary and primary in practice for professional accountants, should be complied by professional accountant provided the accounting and financial reporting services, and at the same time, are used as appropriateness criterion by professional accountant performed the auditing activities. In this context the such relationship will have met the demands of the Turkish Commercial Code and the Capital Markets Board, and will respond to the demands of international investors.

⁴⁹ Secondary legal regulations: by the power vested by the laws adopted by parliament; are Bylaws, Communique, Circular, Ruling and similar regulations that are mandatory and sanction power published by the authorized institution.

⁵⁰ A.R.Zafer SAYAR, Bağımsız Denetimin Kamu Gözetiminde Dünya Deneyimleri ve Türkiye Uygulamaları, **(World Experience and Practices in Turkey in Public Oversight of Statutory Auditing)** Genişletilmiş İkinci Baskı, TÜRMOB Yayınları, No: 451, Ankara 2013, p. 59

The second area of the relationship between KAMUDESİK and professional accountants is Turkish Auditing Standards, in concordance with International Auditing and Assurance Standards, that become to be published by KAMUDESİK regulated to necessary methods and techniques on auditing activities. These standards will provide that financial statements to be audited are fair, reliable and honest, and will make a major contribution in being developed the necessary professional techniques in order to be prepared the auditing reports in concordance with international rules and performed the auditing activities.

The third area of the relationship is the oversight of accountancy profession in concordance with international rules in public area. According to EU Public Oversight Circular on dated August 29, 2008, this oversight activity shall comply with EU 8. Directive on Statutory Audit.

KAMUDESİK consists of 9 persons; including 7 person from governance bodies, 1 person from The Union of Chambers and Commodity Exchanges of Turkey (TOBB) and 1 person TURMOB as professional body.

KAMUDESİK explained that will issue a auditing license to SMMMs and YMMs that have completed 15 years in profession, including bachelor's degree and practical training, if these SMMMs and YMMs have an auditing training on the topics identified in Universities accredited by KAMUDESİK and then succeed. In addition, it is explained that SMMMs and YMMs that have auditing licenses given by Capital Markets Board, will be given auditing licenses without seeking for training. It is explained that the auditing licenses examination will be arranged for the other professional accountants on the following topics:

- a) Accounting (General Accounting, Cost and Management Accounting) - Both SMMMs and YMMs are exempt from these subjects.
- b) Accounting Standards (Turkish Accounting Standards, regulations and standards in the legislation in related to the preparation of the annual and consolidated financial statements)
- c) The Principles of Corporate Governance and Financial Management - Only YMMs are exempt from these subjects.
- d) Auditing (Turkish Auditing Standards, ethic codes, independency, risk management, internal control and the other regulations on auditing)
- e) Common Law Legislation, (Commercial Law, Obligations Law, Enforcement and Bankruptcy Law, Civil Law, Tax Law, the Social Security Legislation, Administrative Law) - Both SMMMs and YMMs are exempt from these subjects.⁵¹
- f) Capital Markets, Banking Business, Insurance Business and Private Pension Regulation

⁵¹ According to informal data of Public Oversight, Accounting and Auditing Standards Authority

As of 31 October 2013, the total number of TURMOB's members are 92.928. According to the regulation of KAMUDESK at above, the number of SMMMs and YMMs in the scope of 15-years period exceeds 35.000.⁵² The number of applicants for training are over 7000 persons.

As of 31 October 2013, there are 2568 persons among SMMMs/YMMs completed to their processes and there are 1539 persons among SMMMs/YMMs to be completed to their processes. A total of 4107 persons have been auditing license.⁵³ 1544 candidates not had exemptions for not entitled to training, had attended to the first exam and 196 of them have passed to the exam. The number of registered audit firms to KAMUDESK are 89.⁵⁴

7. QUESTIONS AND SUGGESTIONS

Providing for a high quality and reliable auditing in order to be ensured quality financial reporting on public oversight, will effect to future and credibility of accountancy and auditing profession. Considering in terms of the integrity of the services provided by professional accountants, it is clear that professional accounting bodies as well as auditing for reputation and reliable future have also a role in public oversight.

For example, not including professional accountancy bodies in quality assurance system and inspections is contrary to the generally accepted principles of public oversight. In addition, as increasing the auditing capacity, this function is no met without the contribution of professional accountancy bodies (PAO). This situation will lead to unfair competition based on quality assurance between professional accountants, and may cause the developments to reduce the reputation of the profession. Turkey has experienced such a process in oversight process⁵⁵ in banking sector before 2000s, and in oversight process⁵⁶ of Capital Markets recently.

⁵² The number is calculated by using TURMOB's annual reports dated on 2000-2001-2002-2003-2004-2005-2006-2007-2008-2010 and 2013

⁵³ Public Oversight, Accounting and Auditing Standards Authority: <http://www.kgk.gov.tr/eng/>

⁵⁴ Public Oversight, Accounting and Auditing Standards Authority: <http://www.kgk.gov.tr/eng/>

⁵⁵ It is claimed that before 2001 financial crisis, the penalty had not been given to the auditing firms that supervised banks, and then during those dates, public authorities to have responsible for regulating the banking sector had prepared adverse audit reports, and they demanded these reports to being changed as positive reports.

⁵⁶ CMB started to publish the reports of quality control auditing results after being established KAMUDESK. Because these reports have not been published for many years, Therefore, the Small and Medium National Audit Enterprises has led to unfair competition. Their market share decreased in an unfair manner.

According to the Article 25 entitled "Inspections to be performed by the Authority" of the Statutory Decree dated 26/9/2011 and numbered 660, the inspections of quality assurance system are regulated as follows:

- a) Quality assurance system inspections containing sufficient testing of selected audit files to be performed by the Authority include review of audits performed by statutory audit firms within the framework of the standards and legislation of the Authority and supervision of the compliance of activities of these firms with legislation of the Authority and quality and quantity of resources spent, auditing fees paid and evaluation of internal control system of the relevant statutory audit firm.
- b) Inspections are carried out at least in every three years for statutory audit firms which audit public interest entities and in every six years for the others.
- c) The Authority reserves the right of performing or causing others to perform an inspection in case of a warning, complaint, notification and other cases considered necessary in addition to these planned inspections. Quality assurance inspections of statutory auditors are performed by the Authority in accordance with the principles procedures and essentials of which are determined by the Authority. **Sufficient number of quality assurance experts shall be employed within the Authority to execute these inspections.**
- d) **The Authority may either carry out the inspections by means of its professional personnel or relevant audit units of the Ministry of Customs and Trade, Ministry of Finance, Undersecretariat of Treasury, Banking Regulation and Supervision Agency, Capital Markets Board and Energy Market Regulatory Authority having the authority of regulating and auditing certain fields with law in cases of requirement. Inspection activities are carried out in scope of annual inspection plan prepared by the Board in every year by receiving opinion of relevant authorities.**
- e) Results of inspections to be performed according to this article shall be announced to public opinion with a report in every year.
- f) Statutory auditors and audit firms are liable to take necessary measures in direction of opinions and recommendations determined as a result of inspections. Necessary sanctions, including suspension and withdrawal of the license, are implemented on those who failed in taking necessary measures in a period specified by the Authority.

As a result of this review, the penalties are organized as follows:

As result of inspections and auditing, warning and complaint or notifications of the other institutions and organizations, those determined to have acted contrary to provisions on auditing in the Statutory Decree, and the regulations of the Authority, about their auditing activities, are punished as follows with the decision of the Board, depending on the nature of the irregularities detected:

- a) warning
- b) suspension of the license,
- c) withdrawal of the license

The situation that the oversight of accountancy and auditing profession is given to the decisions of public oversight body that works as a government body, leads in the loss of the independence of the accounting and auditing profession in the process. In order to avoid such a danger, it is essential to be collaboration between Public Oversight Body that is the sole regulatory and supervisory board, and Professional Accountancy Body that is the umbrella organization of professional accountants and auditors performing the independent auditing practices.

As is known, auditing activities carried out under the name of the statutory audit are a dimension of accountancy profession. Thus, it has been accepted as a necessary rule that persons equipped with independent auditing authority in laws and regulations regulated the statutory auditing in Turkey, have a SMMM or YMM license; partners of auditing firms or auditors working in audit firms should have these licenses. By legal regulations, this rule is also performed by Authorities regulated to banks and capitals markets that have demanded to auditing before public oversight. According to this rule, before audit firms and auditors that demands the auditing authority in practices, are tasked, should had been carried out the necessary cooperation after being obtained the opinion of TÜRMOB as professional accountancy body (PAO). Before Public Oversight Body gave licenses to auditors, while it was demanding the requested information from professional accountancy body, it should had cooperate with professional accountancy body about audit firms. Because, according to the profession Law No:3568, audit firms are not also permitted on professional activities before they get the registration from professional body.

Secondary regulations published by the Public Oversight Board do not suggest cooperation with the professional organization regarding to investigation, disciplinary and punishment matters. However, the professional organization has a disciplinary registry for professional accountancy members and their professional firms. Professional accountancy organization (PAO) has a wide disciplinary network throughout Turkey and has a disciplinary mechanism that the final decision on disciplinary matter is made by the Central Disciplinary Board that is appointed by election. Those decisions made in this mechanism are subject to the courts act independently. That means, parties have a possibility that to send the matter to the court.

In international practices, particularly US Public Oversight Board and in most of the EU countries, those Public Oversight Boards are seen as they are in consultation and concordantly with professional organizations. Registry of professional auditing members kept at professional organizations where they are members, all the professional trainings including auditor's trainings and al professional exams including auditor's exams conducted by professional organizations. Disciplinary files of auditors also followed at professional organizations. In this context, the focus of the Public Oversight Board is oversight of the compliance of the independent auditing with the auditing standards and when performing this activity obtains every kind of information in an electronic format from the professional organizations within a cooperation. This is a good cooperation example and its dimension is that Public Oversight Boards to appoint professional organizations for those activities and oversee the Professional accountancy organization (PAO) regarding to these duties.

It is a matter of adverse effect on the audit quality that the Public Oversight Board determines the rules of audit and when performing the oversight of the audit also determines the financial reporting and accounting standards and auditing standards to be used. In the roots of the banking crises in Turkey in 2002 there were a similar risk. The correct methodology is that the financial reporting and accounting standards and auditing standards to be determined by separate and independent board and establishment of an oversight mechanism subject to the approval of the Public Oversight Board. If the Public Oversight Board does not approved matters in both financial reporting and auditing standards are corrected and determined failures are not resolved then it should require the right practice by setting standard.

When we look at the international practices, those bodies that develop accounting standards and auditing standards and the bodies that oversee the independent auditing are different

bodies. This is seen as essential for avoiding the interest conflicts.⁵⁷ As an example in USA accounting standards are determined by Financial Accounting Standards Board, FASB and auditing standards are determined by American professional accountancy organization AICPA (American Institute of Certified Public Accountant) and oversight of the audit practices is conducted by PCAOB a Public Oversight Board which has a public institution status, equivalent to KGK in Turkey⁵⁸.

Before the establishment of the Public Oversight Board, professional accountancy organization (PAO) in other words TURMOB has a training program which is compatible with International Education Standards (IES), compulsory for professional accountancy members regarding to TFRS/TMS practices comply with IFRS/IAS and auditing practices comply with ISAs and this training program has not been considered by the Public Oversight Board. Secondary regulations published by the Public Oversight Board do not suggest cooperation with the professional organization regarding to training activities. This is also contrary to the paragraph 24 of the IES 859.

Similar to subject of the professional training;

- Auditor exam as well as auditors training;
- Process of creating registry for auditors;
- Development of the independent auditing standards

Should be transferred to professional accountancy organization TURMOB⁶⁰.

It should be remembered that the Public Oversight System's bases formed by Sarbanes-Oxley Act in USA, is a product of a reaction Act⁶¹.

When the practices in developed countries are reviewed, in general principal duties of the Public Oversight Boards seen as their oversight function of the independent audit activity. In addition, it is seen that performing their taking activities with the support and assistance of

⁵⁷ SAYAR, A.g.e., p.78

⁵⁸ SAYAR. Ag.e., p. 79

⁵⁹ Despite this attitude of the Public Oversight Authority, TURMOB as Professional Accountancy Body, has provided training on TFRS/TAS and adaption with ISA for more than 40000 professional accountants. For this reason, TURMOB has a good instructor staffs.

⁶⁰ Sayar, A.g.e., p.78

⁶¹ Sayar, A.g.e, p. 79

Professional Accountancy Organizations, within a co-operation; are not involved in the development of the accounting standards and auditing standards; and transferred the operations of practical training, education, examination, registration, license, authorization of candidate auditors to the professional accounting bodies⁶².

In auditing area, Turkey has a professional tradition that has been shaped within the general framework of the accountancy profession and has applicable features.

It will create a problem in the near future that accounting and auditing standards will be shaped according to government tradition as Public Oversight, Accounting and Auditing Standards Authority that was established in 2011 in Turkey, has the duty and responsibility to develop accounting and auditing standards in addition to its principal duty as oversight function of the independent audit.

Also, KGK which takes the responsibility of practical training, education, examination, registration, license, authorization of auditors, has not been in cooperation with professional accountancy organization TURMOB in these areas and since today there is not any attitude as transferring authorities like in developed countries. However, cooperation with the professional accountancy organizations (PAOs) in the process of public oversight of the accountancy auditing profession make a contribution to the development of the accountancy auditing profession and it will also ensure more strongly that financial reports that are presented to parties seeking public interest and looking for interest from companies, are more qualified, transparent and reliable.

⁶² For more information on the applications in the countries, please see: SAYAR, a.g.e.

**ACCORDING TO THE DECISION OF THE EU COMMISSION, THE LIST OF
THIRD COUNTRIES REQUIRED TO ESTABLISH TO PUBLIC OVERSIGHT
SYSTEM⁶³**

Argentina
Australia
The Bahama Islands
Bermuda Islands
Brazil
Canada
Cayman Islands
Chile
China
Anglo Norman Island, Jersey, Man Island
Hong Kong
India
Indonesia
Israel
Japan
Kazakstan
Malaysia
Mauritius
Mexico
Morocco
New Zeland
Pakistan
Russia
Singapore
South Africa
North Korea
Switzerland
Taiwan
Thailand

⁶³ EU Commission decision: 29 July 2008

Turkey

Ukrania

The United Arab Emirates

The United States

STATEMENTS OF MEMBERSHIP OBLIGATIONS (SMOs)⁶⁴

1. The SMOs provide clear benchmarks to current and potential IFAC members (i.e., PAOs) to assist them in ensuring high quality performance by professional accountants. IFAC members are obligated to comply with the requirements included in the SMOs.
2. The SMOs recognize that IFAC members may not have direct responsibility for certain items that are covered in the SMOs, for example, with respect to standard setting, which may be the primary responsibility of an independent or government body. Where IFAC members do not have such direct responsibility (either it is a shared responsibility, or they have no direct responsibility) they are obliged to use their “best endeavors” to ensure that the SMO requirements are met.
3. There are seven SMOs issued by the IFAC Board that cover the following topics:
 - (a) SMO 1 *Quality Assurance*. This SMO is applied by IFAC members to quality assurance review programs for their members performing certain audit engagements of financial statements. It applies whether the member bodies carry out such programs on their own behalf, on behalf of the profession, or on behalf of governments, regulators or other agencies, or whether the programs are carried out by another body. Additionally, SMO 1 requires member bodies to establish and publish quality control standards and guidance requiring firms to implement a system of quality control in accordance with the International Standard on Quality Control (ISQC) 1.
 - (b) SMO 6 *Investigation and Discipline*. This SMO is applied by IFAC members in the investigation and discipline of misconduct, including, but not limited to, breaches of professional standards and rules by their individual members (and, if local laws and practices permit, by their member firms). SMO 6 specifically acknowledges that legal systems are very different from country to country. It also states reduced requirements that enable member bodies to comply with SMO 6 in countries where the investigative and disciplinary process is wholly or largely the responsibility of government or other outside agency.

⁶⁴ TURMOB and EAAT have continued their activities in compliance with SMO since 2003. You can review these SMOs by IFAC website.

(c) SMOs 2, 3, 4, 5 and 7 set out the obligations of IFAC members in relation to the use of international standards, by IFAC members themselves, and/or by their own members. They cover standards issued by the four independent standard-setting boards supported by IFAC, and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Specifically, the SMOs relate to the various standards, as follows:

- (i) SMO 2 *International Education Standards for Professional Accountants and Other IAESB Guidance*
- (ii) SMO 3 *International Standards, Related Practice Statements and Other Papers Issued by the IAASB*
- (iii) SMO 4 *IFAC Code of Ethics for Professional Accountants*⁶⁵
- (iv) SMO 5 *International Public Sector Accounting Standards and Other IPSASB Guidance*
- (v) SMO 7 *International Financial Reporting Standards*

⁶⁵ 2 Of course, the Code of Ethics is now referred to as the IESBA Code of Ethics for Professional Accountants

CORE PRINCIPLES FOR INDEPENDENT AUDIT REGULATORS⁶⁶**Part A. Structure****Principle 1: The responsibilities and powers of audit regulators should serve the public interest and be clearly and objectively stated in legislation.**

Audit regulators should have a mandate to work in the public interest and protect investors by seeking to improve audit quality. The responsibilities and powers of audit regulators should, at a minimum, require independent oversight of the audits of public interest entities.

The legal framework for audit oversight should set forth the audit regulator's mandate and responsibilities, and provide the regulator with adequate powers and authority that enable the regulator to perform its audit oversight duties, including powers to address, through inspection and enforcement, compliance with the requirements for the authorization/registration of auditors/audit firms and compliance with applicable auditing, professional and independence standards.

Principle 2: Audit regulators should be operationally independent.

Independence means the ability to undertake regulatory activity and to take and enforce decisions without external interference by those regulated. The audit regulator should be operationally independent from external political interference and from commercial, or other sectoral interests, in the exercise of its functions and powers, including not being controlled in its governance by audit practitioners. The audit regulator should have a stable source of funding, which is secure and free from influence by auditors and audit firms and sufficient to execute its powers and responsibilities.

Principle 3: Audit regulators should be transparent and accountable.

The audit regulator should have public accountability in the use of its powers and resources to ensure that the audit regulator maintains its integrity and credibility. Further, the decisions and actions of the audit regulator should be subject to appropriate scrutiny and

⁶⁶ IFIAR

review, including appeal to a higher authority. Transparency should include the publication of annual work plans and activity reports, including the outcome of inspections either in the aggregate or on a firm by firm basis.

Part B. Operations

Principle 4: Audit regulators should have comprehensive enforcement powers which include the capability to ensure that their inspection findings or recommendations are appropriately addressed; these enforcement powers should include the ability to impose a range of sanctions including, for example, fines and the removal of an audit license and/or registration.

Audit regulators should at a minimum be responsible for the system and conduct of recurring inspection of audit firms undertaking audits of public interest entities. Audit regulators should have the authority and ability to enforce inspection findings and recommendations. The audit regulator should have comprehensive enforcement arrangements such as fines, suspensions and the removal of an auditor's or audit firm's license or registration.

Audit regulators should have adequate and appropriate mechanisms for enabling information to be brought to their attention by third parties and for then dealing with such information, such as through complaints procedures or through whistle blowing arrangements. These mechanisms should act in a timely and effective manner and their results followed up through an appropriate system of investigations and penalties in relation to cases of inadequate or noncompliant execution of an audit.

Principle 5: Audit regulators should ensure that their staff is independent from the profession and should have sufficient staff of appropriate competence.

Audit regulators should have arrangements in place to ensure that inspection staff members are independent of the profession. These arrangements will, as a minimum, include ensuring that staff members should not be practicing auditors or employed by or affiliated with an audit firm, and that the arrangements are not controlled in any form by a professional body.

In order for audit regulators to be effective, it is a prerequisite that there is sufficient staff of appropriate competence. The persons carrying out the reviews of quality assurance systems of audit firms should have appropriate professional training and relevant experience in auditing and financial reporting, and training in regulatory quality assurance reviews.

This also means that adequate arrangements for consultation and discussion amongst inspectors are in place. New inspectors should be subject to proper supervision and appropriate training.

Principle 6: Audit regulators should be objective, free from conflicts of interest, and maintain appropriate confidentiality arrangements.

Audit regulators should maintain the highest standards of ethical conduct to provide the public with confidence in the objectivity of their decisions. Audit regulators should have in place prohibitions against conflicts of interest by its governing body and staff and ensure that appropriate arrangements are in place to protect confidential information from public dissemination.

Principle 7: Audit regulators should make appropriate arrangements for cooperation with other audit regulators and, where relevant, other third parties.

Taking into account the global nature of the financial markets, where necessary and relevant, cooperation and information sharing with other audit regulators and other third parties, including financial market regulators, is helpful to improve audit quality.

Audit regulators should provide timely assistance to each other within reasonable limits. Arrangements should be in place for sharing information between audit regulators and other regulators (or between parts of the audit oversight system if it involves more than one body), and for protecting the confidentiality of such information.