FINANCIAL AUDITING IN TURKEY: 
HISTORICAL CONTEXT AND EXPECTATIONS

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“We perceive accounting, financial reporting, and auditing as factors of physical infrastructure and 
as special aspects of economic development of a country”
World Bank Representative in Turkey, Frederick Temple, January 12, 1994.

Abstract

Objectives of this study are: a) To analyze the historical development of financial auditing in Turkey 
with a special stress on practice, professional organization, and education. b) To both provide 
information about the current status of financial auditing in Turkey and make further assessment. First 
financial-auditing practices, education, and professional organization that lay the basis for legal 
regulations have been analyzed. The Case of Ariş A.Ş. is given as an example for the first financial-
auditing practices. Toward this end, we conducted an interview with Prof. Dr. Mustafa Aysan. 
Moreover, the current situation of financial auditing in Turkey is detailed; and the impact of some 
national and international developments on auditing environment in Turkey is discussed. Some further 
assessments are included at the end of the study.

Keywords: Financial Auditing in Turkey, Sample Practices, Education, Professional Organization

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1. Introduction

Accounting and auditing are two mutually interrelated concepts. Auditing wouldn’t exist 
without accounting correspondingly accounting would be nothing without auditing in that 
auditing entails accounting (Güvemli, 2001: 625). Auditing without accounting is groundless 
and accounting wouldn’t be safe without auditing. In almost all countries auditing is a 
superior notion which precedes accounting (Yazıcı, 1986: 9).

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Financial auditing, which raises the reliability of accounting information by examining the compliance of financial statements to accounting standards pursuant to auditing standards, is an integral part of economical system in developed and developing countries. Reports rendered by auditors take notice from all stakeholders which are in need of reliable information particularly from capital market investors. Financial auditing developed in correspondence with economic developments in Turkey. The first practices of financial auditing came with the assignment of court experts in courts and allocation of tax audit authority in accordance with the pertinent tax laws. Subsequently, the professionals of this field have become organized by themselves, establishing the legal status of the profession and raising a consciousness of accounting and auditing within the society by means of training facilities and activities.

Objectives of this study are to: a) Analyze historical development of financial auditing in Turkey with regards to practice, professional organization and training point of views. b) Provide information about the current condition of financial auditing in Turkey and make forward-looking statements. First practices of financial auditing, which lay the basis for legal regulations rather than legal development of financial auditing, professional organization and education scopes of the profession will be analyzed rather than legal development of financial auditing.

2. Financial Auditing Practices

In this part first practices of financial auditing will be scrutinized after a brief summary of Historical Development of Financial auditing in Turkey and the world in general.

2.1. Historical Development of Auditing

The term auditor was first used in the year 1289. The first professional organization of auditors was founded in Venice in 1581. Financial auditing gained prominence in the early 19th centuries in Britain (Arkun, 1980: 19). In Britain, auditing became compulsory for companies with limited liability companies by the law put into force in 1900. William Deloitte established Deloitte & Touch, still in service today, in London in 1845 (Yıldırım et Al., 1995: 149). The legal status for the profession was granted in New York in 1896 and other states followed the same process in the U.S. The first financial statement to be audited by Certified Public Accountants (CPA) was published in 1901 in the U.S. (Ferman, 1974: 88).

Today’s independent audit approach was first put applied in 1930’s in the U.S. AICPA’s (American Institute of Certified Public Accountants) pronouncement of “Examination of Financial Statement by Independent Public Accountants” was published in 1936. Securities Exchange Act, put into force in the USA in 1934, entailed that public companies publish their audited financial statements periodically, assuring the prominence of independent auditing (Pirgaip, 2004).

The profession of auditing has its second longest history in Germany after Britain. The audit function was put into practice in France with “Companies Charter” law in 1867. Pursuant to this law all publicly-owned corporations’ accounts had to be audited by one or more account controller. Essential qualifications for auditors were specified and the scope of auditing was extended in subsequent laws. Accounting and auditing functions were separated with a governmental decree in France in 1966. An association was founded to organize independent auditing in 1988 (Yıldırım et Al., 1995: 168-261). “The Profession of Sworn-in Accountancy” obtained a legal status in 1955 in Greece (SPK, 1985: 232). Regulatory organizations in Turkish financial system became involved in the concept of independent auditing parallel with the development of financial markets by 1987.
There have been some changes within the process of historical development of financial auditing in approaches to financial auditing and in the sides getting involved with it. In the early years only company owners were involved in auditing, however, the number of concerned parties such as lenders, government, capital market investors increased in the course of time (Güredin, 2007: 16). The historical development of auditing approaches can be outlined as below (Bozkurt, 1998: 17-18):

- “Document Audit Approach”, which entails that the whole document be analyzed, was implemented in former and subsequent periods of industrial revolution until the 1900’s,
- During the years between 1900-1930 “Financial Statement Auditing Approach”, claiming that the financial statement be examined as a whole.
- “Systems Based-Audit Approach” requiring that internal control structure within enterprises be examined, valid from 1930’s to today,
- As a result of improvements in information technologies and in the field of auditing and wide-spreading of operational auditing, “Management Auditing Approach”,
- “Risk-Based Audit Approach” was implemented as a result of large scale financial scandals that had emerged after the 2000’s.

2.2. First Practices in Turkey

During the Ottoman era accounting system was an integral part of government financial management. Therefore auditing had the quality of financial auditing (public audit), and was implemented to monitor government’s income and expenses. The Ministry of Finance Inspection Board, still in force today, was established in 1879 (Güvemli, 2001: 640). Ottoman Foreign Debts Administration (Düyun-u Umumiye İdaresi) supplied the need for accountants in the market and raised new teachers in the field of accounting education (Aysan et Al., 1998: 65).

Profession of financial auditing started with expertise practices in courts and in the period between 1926-1934 tax auditing authority was given to well known accountants pursuant to the tax codes in Turkey. This was followed by both the processes of legalization and professional organization (Türker, 2006: 5).

Global economic crisis in 1929 had some bad impacts on Turkish economy as well. A need for accountants and accounting units in the enterprises emerged as result of rapidly changing economical structure and developments in industrialization particularly after the 1950’s in Turkey. These developments also brought up the necessity of an accounting education. Conversely accounting systems were used with a limited scope in the family companies, established in the wake of private entrepreneurship, to inform not the public but just companies. Consequently there was no need for independent audit during those years (Gücenme and Arsoy, 2006: 310).

Independent audits in the European Sense started to be implemented in Public Economic Enterprises. Additionally, the audits performed by inspection staff in the Ministry of Finance and by sworn-in comptrollers in banks may be given as special purpose audit samples (SPK, 1985: 30). There were independent audits performed by state organs in incorporated companies (Pursuant to TCC and Constitution for Auditing Of Incorporated Companies And Constitution For Inspection Board dated 1972) and external audits performed by the “Audit Board”, an audit unit mentioned in TCC before the legal regulation of independent audit in Turkey (Gücenme and Arsoy, 2006: 315).
The first step in financial audit in Turkey was taken when Turkish companies demanding to benefit from foreign credit sources were obliged to employ financial audits in 1970’s. In the following years consultancy was needed in the form of financial auditing occurred in correspondence with the rapid growth of foreign currency flow, consolidation for company centers with foreign currency, international finance facilities, tax laws, TCC, application to General Directorate of Foreign Investment, investment promotion and business combination.


While the legal basis of financial audits dates back to 1933’s in Turkey, first rules were made for banks and subsequently for the capital market. As a result of the regulations put forth in 1987, the number of authorized independent auditors rose up to 35. Of the 35, 8 were international audit companies, 27 were domestic audit companies (Uzay, 1990: 61).

In a research dated early 1989’s the below table was created displaying the status of audit firms in Turkey:

<table>
<thead>
<tr>
<th>No</th>
<th>Audit Company Name</th>
<th>Income (Millions TL)</th>
<th>Wage Distribution (%)</th>
<th>Staff Distribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Arthur Andersen</td>
<td>2.941</td>
<td>54 28 18</td>
<td>60 10 18</td>
</tr>
<tr>
<td>2</td>
<td>Price Waterhouse</td>
<td>2.500</td>
<td>80 20 0</td>
<td>77 (*)</td>
</tr>
<tr>
<td>3</td>
<td>Güven ve Coopers &amp; Lybrand</td>
<td>1.697</td>
<td>32 11 57</td>
<td>17 3 11</td>
</tr>
<tr>
<td>4</td>
<td>Denet Touche Ross</td>
<td>1.378</td>
<td>39 61 (*)</td>
<td>30 2 2</td>
</tr>
<tr>
<td>5</td>
<td>Deloitte Haskins &amp; Sells</td>
<td>967</td>
<td>75 20 5</td>
<td>33 3 5</td>
</tr>
<tr>
<td>6</td>
<td>Arthur Young</td>
<td>950</td>
<td>85 10 5</td>
<td>37 (*)</td>
</tr>
<tr>
<td>7</td>
<td>Denge Denetim</td>
<td>340</td>
<td>39 39 22</td>
<td>10 4 9</td>
</tr>
<tr>
<td>8</td>
<td>Moore Stephens</td>
<td>(*)</td>
<td>80 20 0</td>
<td>13 1</td>
</tr>
<tr>
<td>9</td>
<td>BDO Binder Baylan</td>
<td>217</td>
<td>53 47 0</td>
<td>14 (*)</td>
</tr>
<tr>
<td>10</td>
<td>Vega Denetim</td>
<td>100+</td>
<td>95 2 3</td>
<td>16 (*)</td>
</tr>
<tr>
<td>11</td>
<td>Çevdet Suner (KPMG)</td>
<td>(*)</td>
<td>(<em>) (</em>) (*)</td>
<td>15 (*)</td>
</tr>
<tr>
<td>12</td>
<td>Kavram</td>
<td>97</td>
<td>45 34 21</td>
<td>4 2 1</td>
</tr>
<tr>
<td>13</td>
<td>DFK International Denetim Finans Kontrol</td>
<td>96</td>
<td>85 10 0</td>
<td>7 1 0</td>
</tr>
<tr>
<td>14</td>
<td>Ozgür Denetim</td>
<td>23 (*)</td>
<td></td>
<td>16 0 1</td>
</tr>
<tr>
<td>15</td>
<td>D &amp; D Denetim</td>
<td>(*)</td>
<td></td>
<td>15 3 5</td>
</tr>
<tr>
<td>16</td>
<td>Kural Denetim</td>
<td>(*)</td>
<td></td>
<td>19 (*)</td>
</tr>
<tr>
<td>17</td>
<td>İkden Denetim</td>
<td>(*)</td>
<td></td>
<td>(*)</td>
</tr>
</tbody>
</table>

(*) No information obtained

Source: European Accounting Focus, 1989: 5

Having witnessed the development of auditing profession in Turkey and deeply interested in professional practices, organization and education of auditing, Prof Dr. Mustafa Aysan, stated his below considerations and assessments pertinent to the development of the profession in the interview\(^1\). The notes taken from the interview with Aysan are included and evaluated in some parts of this study. This part represents his own statements pertinent to Ariş A.Ş., a company performing financial audits, which was established by him and his friends, and professional developments of the time.

2.3. The Case of Ariş A.Ş.

\(^1\) The interview in Finansbank General Directorate-Istanbul on Nov 16, 2007.
“System consultancy was formerly employed in Turkey. Verification process was used in subsequent periods. Our friends in the real sector were well aware of this. There was a crucial need for such organizations as Expert Accountants’ Association of Turkey-EAAT. A theoretical and practical description had to be made for it. We highlighted auditing on accounting congresses. I have actively participated in three congresses to point out the importance of this profession to the country. Then I invited a president candidate for IFAC two times to Turkey and had him mention about this profession. I made R. Seatler, a lecturer in Boğaziçi University at that time, give a series of conferences. We incessantly gave lots of proposals to the state for a pertinent law. After the 1960’s foreign companies started to make investments in Turkey. The requirement for an independent audit appeared in accordance with the parent of the foreign companies. Turkish companies were in need of a similar assurance in order to obtain credits and loans from foreign banks. In the early 1960’s an English accountant, named Newberry, opened an office in Taksim, Istanbul. He brought several experts with him for this aim. The number of staff working in his office increased up to 50. Then, he went to Germany. When Newberry’s office closed, our company, Ariş Şirketi, established in 1970, started to perform annual financial audits for the Türk Dış Ticaret Bankası. This company was established by 40 accountants to provide auditing services. We established this company with the affiliation of a financial audit company in New York. Our objectives are to; pioneer in the field and aggregate accountants under such an organization. Our company continued its services for about 10 years however, nobody took the risks because they all were doing their own businesses. We wanted to establish and run a company in the form of association, but we couldn’t succeed. We transferred Ariş to İsmail Otar and his friends. They also liquidated the company after a while. Today there are no domestic audit companies giving service independently. All of them are depended upon a foreign audit company. Some of our friends were widely-recognized in Europe 25-30 years ago. We can’t encounter such individuals today. We don’t have such companies giving service to foreign banks. Conversely, we should have lots of audit companies. There are definitions for small scale enterprises in the draft of Turkish Commercial Code, and it significantly contributed to the profession. It mentions about independent auditing specialization and our two vital requirements have so far been 1) Financial report disclosure principles and, 2) good experts”.

3. Professional Organization

Prof. Dr. Mustafa AYSAN’s considerations and assessments on professional organization and education are as follows:

“Financial auditing” has been restructured in accordance with market requirements. However, there have been ongoing organization efforts since 1930’s. In 1942, Association of Expert Accountants and Business Organizers (Eksper Muhasipler ve İşletme Organizatörleri Derneği) was established with 100 members. İsmail Otar and Osman Fikret Arkun are among the founders of the association. They called me and I spoke to them and became a member of the association for which I have been working for a long time. The above mentioned association was involved in the arrangement of accounting congresses which started in 1956. Each year a school of accounting has been responsible for holding the congresses. In the year 1956-57 Ankara University Faculty of Political Sciences held the first congress. I have been directly involved in the 3rd congress held in 1959. Conditional grants were obtained from the USAID (The United States Agency for International Development). The USAID suggested that an association be founded for the sustainability of grants. In view of this, we changed the name of the association as “Expert Accountants’ Association of Turkey (EAAT)”. I recommended using the term
‘expert accountants’ which was then accepted. The EAAT has been providing service after the establishment of TÜRMOB (The Union of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey) as well. According to me the EAAT, means consciousnesses. Such an Association is essential for researches. The EAAT, publishes “The Journal of Accounting (Muhasebe Dergisi)”, and supports accounting congresses. Osman Fikret Arkun, Ismail Otar and I attend the World Congress of Accountants in 1972 with twenty companions. It was in that congress that the foundation of the IASB was decided. In The Eleventh World Congress of Accountants in Munich 5 years later it was decided to found IFAC as well. This decision was taken with approval and signature of 117 countries. I have also signed this decision on behalf of EAAT. In 1970’s we initiated “Accounting Education Symposia” with the grant to “Association of Coordination and Management (Sevk ve İdare Derneği)”. Our objective was to promote accounting education in Turkey. The department of “Financial Auditing” was established in Istanbul University Faculty of Business Administration in 1968 in pursuant to my proposal. We opened Master’s Program in Auditing in 1981-1982 educational year in the Institute of Accountancy”.

Below are the professional organizations founded by the professionals interested in financial auditing in Turkey all of which are still in service today, but one:

a) Association of Accountants and Comptrollers (Muhasebeciler ve Murakplar Cemiyeti): It was founded in 1935 in Istanbul and was closed after a short period (Yazıcı, 1986: 65).

b) The Expert Accountants’ Association of Turkey-EAAT (Türkiye Muhasebe Uzmanları Derneği): The EAAT was founded in 1942 by 14 individuals. Its objectives are listed as follows in its bylaws (Güvemli, 2001: 695) to; “Raise licensed accounting staff for various units in all fields in of private and public sector in Turkey, promote the capacity and quality of existing accountants and ensure that their knowledge is utilized effectively in management and examinations, organize and promote the accounting profession, ensure that its members are culturally, socially and economically developed and protect their rights and benefits”.

There has been a substantial shift in the status of association thus increasing the number of its members from 100 to 1300 today. “Accounting Magazine (Muhasebe Mecmuası)”, which was first published by the association on September 10, 1958 and its name was changed as “The Journal of Accounting (Muhasebe Dergisi)” and announcements made in accounting congresses were published in this journal till 1967 (www.tmud.org.tr).


d) The Association of Independent Auditing (Bağımız Denetim Derneği): After it was made necessary for companies under the banks and capital market to employ auditing activities in their premises in 1987, 19 national and foreign auditing companies were registered. These companies aggregated to form the Association (Türker, 2006: 6). The association forms the broadest platform on which the issues and affairs of auditing profession are negotiated and its objectives may be listed as below (Bağımız Denetim Derneği, 2004: 6);

“It gives service in many fields ranging from; developing and dealing with the profession of auditing rather than public authority and in this context training its
members, introducing and promoting auditing, representing its members in front of national and foreign professional organizations and authorities to providing solutions for the common problems of its members and establishing a strong collaboration among them”.

Capital Markets Board of Turkey encouraged and supported the foundation of association. After the foundation of TÜRMOB as a professional organization in 1989, some discussions were made as to whether activities of the association were ceased or not. However, there seemed to be a need for a platform for independent auditing practices thus it was decided that the association should continue giving service. Today, the Association provides technical expertise on auditing, solutions for its nearly 100 members’ common problems, forward-looking assessments about future and monitor global developments (Coşkun, 2006: 2).

e) The Union of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey (Türkiye Serbest Muhasebeci Mali Mişavirler ve Yeminli Mali Mişavirler Odaları Birliği-TÜRMOB): Founded in accordance with Law No: 3568, published and put into force in 1989, the union is the top level professional organization of Independent Accountant, CPA and Sworn-in CPA’s in Turkey. The union has supported the development of profession in Turkey with regulations, committees and congresses since 1989. The colleagues must become a member of chamber under TÜRMOB. In the beginning of 2008 there were totally 70,000 professionals in 70 chambers under TÜRMOB. Of the 70,000, about 30,000 were a member of Independent Accountants, 40,000 of CPA. Furthermore, there are 3,673 Sworn-in CPAs registered as a member of 8 Sworn-in CPA chambers under TÜRMOB (www.turmob.org.tr).

4. Education

İsmail Otar’s, accounting historian, announcements about the emergence of accounting education as a profession in Turkey are as follows; accounting books between period of Tanzimat in Ottoman (Reorganizations and political reforms made in the Ottoman state in 1839) and 1928 were translations from French. German genre was dominant in both practice (in Public Economic Enterprises) and education from the first years of republican era to 1950’s (Aysan et Al., 1998: 65-68). Auditing education started to be provided in Istanbul University Faculty of Business Administration, founded in 1968, in accordance with auditing standards issued by AICPA. This education was further continued with Master’s Program of “Accounting Expertise” in the late 1970’s (Türker, 2006: 6).

According to Masum Türker the courses conducted under the title “Control and Revision” after the 1940’s was further changed as “Audit and Revision” and finally “Financial Auditing” (Türker, 2006: 6). In his book’s, named “Financial Auditing” and dated 1975 January, foreword Prof. Dr. Osman Fikret Arkun says; “I see that it will be useful to gather all experiences I had in those ten years in the field and my education experiences in Istanbul Economic and Commercial Sciences Academy” (Arkun, 1980: 8).

Istanbul University Faculty of Business Administration lecturer Prof. Dr. Ersin Güredin stated that; At first “Business Auditing” course was incorporated in the curriculum of 3rd year classes in 1968 and then “Financial Auditing” course was integrated into the program for last classes as well”. Prof. Dr. Ersin Güredin published his course book titled “Auditing” in 1981 for the first time.

The education of Financial Accounting in Turkey will be analyzed below under the headings of courses, publications and scientific meetings. Courses and publications are related with raising auditor candidates and scientific meetings are particularly related with professional improvement
4.1. Courses

In Turkey, there are no educational institutions providing education in the mere field of accounting and auditing. Accounting and auditing courses exist in the curriculum of Economic and Administrative Sciences Faculties and Faculties of Business Administration or Economics among other courses. There are “Accounting Programs” in Vocational Schools of Social Sciences in pre-graduate program level, and the graduates of this program have no legal right to be a Financial Auditor. This is because Law No. 3568, which establishes the legal status of accounting and auditing professions in Turkey, entails that people to deal with auditing must have a CPA or Sworn-in CPA titles (namely, they must have a bachelor’s degree at least) (Law No. 3568, Article 2).

Gücenme and Arsoy (2006), made a survey on accounting courses in the bachelor’s programs of 60 universities in Turkey and found that one of the mostly (75 percent) conducted courses in bachelor’s degree education programs is the course for financial auditing. In 49 universities the rate of financial auditing courses in Master’s programs accounts for 43 percent while in the same rate has been determined as 33 percent for doctorate programs of totally 21 universities.

There are post-graduate programs in most of the universities of Turkey in the field of Accounting and Finance (in some universities Accounting and Accounting/finance field of study) in master’s degree level, (thesis, non-thesis) and doctorate degree under the framework of Institute of Social Sciences. Educational programs which have “Financial Auditing” courses in their syllabus are listed by analyzing web sites of universities and presented in Table 2.

| Table2. Universities with Financial Audit courses in their Post-Graduate Programs |
|---------------------------------|---------------------------------|
| **University**                  | **Master’s Degree**             | **Doctorate Degree**           |
| Marmara University              | - Auditing Theory               |                               |
| (Financial Auditing)            | - Accounting and Auditing Standards |                               |
|                                 | - Capital Market Board of Turkey and Auditing Practices |                               |
|                                 | - Internal Control in Enterprises |                               |
|                                 | - Cost Auditing                 |                               |
|                                 | - Internal Auditing             |                               |
|                                 | - Computer Assisted Audit Techniques |                           |
|                                 | - Fraud Auditing                |                               |
|                                 | - Tax Auditing                  |                               |
|                                 | - Operational Auditing          |                               |
| İstanbul Ticaret University     | - Auditing Theory and International Auditing Standards (Z) |               |
| (Accounting-Auditing)           | - Internal Control Systems (Z)  |                               |
| Bilgi University                | - Auditing Theory (Z)           |                               |
| (Accounting-Auditing)           | - Standards of Auditing (Z)     |                               |
|                                 | - Internal Auditing (Z)         |                               |
| Başkent University              | - Financial Auditing (S)        | International Auditing Standards (S) |
| (Accounting-Auditing)           |                               |                               |
| Marmara University              | - Financial Auditing Practices (Z) | International Auditing Standards (Z) |
| (Accounting-Finance)            | - Advanced Auditing Practices   |                               |
|                                 | - Advanced Auditing             |                               |
| İstanbul University             | - Auditing Principles and Techniques |               |
|                                 | - Advanced Auditing Practices   |                               |
| Akdeniz University              | - Financial Auditing (S)        | External Auditing and Auditing Standards (S) |
|                                 | - Advanced Auditing Practices   |                               |
| Anadolu University              | - Auditing Standards (S)        | - Auditing in Computerized Systems (Z) |
|                                 | - Internal Control (S)          | - Internal Auditing (Z)        |
| Balikesir University            | - Advanced Auditing (S)         |                               |
As it seen in Table 2, there are some courses for financial auditing in the Departments of Business Administration under different course titles in many universities including leading universities of Turkey. The fact that there are some courses under the titles of internal auditing, internal control and operational auditing along with financial auditing courses are promising developments for the profession of financial auditing. On the other hand, Istanbul Ticaret University and Bilgi University’s opened a Master’s Program under the title of “Accounting–Auditing” and Marmara University under the title of “Financial Auditing”, which would mean more experienced and equipped candidates for auditing profession. In this context, the aim of Marmara University Financial Auditing Master’s Degree Program is as follows (http://sbe.marmara.edu.tr):

“The aim of this program is studying the concept of auditing both in theoretical and practical aspects and training employees in various auditing practices. Another aim of this program is to give an education in a way to raise new academic staffs in auditing, which are less in number.

4.2. Published Articles, Announcements, Books, Theses and Special Reports

The articles, announcements, books, theses and special reports form another educational perspective of financial auditing. According to the results of research on Selimoğlu and Uzay’s (2007) 310 articles and announcements about independent auditing during the period between 1995-2006; a) Researchers became more involved in Independent Auditing in the course of time. This interest has risen to utmost level particularly in the period of 2002-2003 when financial scandals were encountered. b) The subjects handled by researchers happened to be particularly about the introduction of auditing profession. The main concerns were; professional ethics, fraud auditing, internal control-internal auditing and electronic (computer assisted) auditing. Few researchers deal with such fields as audit sampling, transaction cycles (financial statements items) auditing, audit evidences, audit planning, completing the audit and reporting, operational auditing (Selimoğlu and Uzay, 2007: 51).

The results of research on books and theses published on financial auditing by Uzay and Selimoğlu (2007) in Turkey during the period of 1995-2005 are as follows: a) During this period 72 books were published, 17 of them being course books, and academicians in Turkey started to write books on financial auditing in the early 1970’s. However, particularly the number of course books increased tremendously in 2000’s. b) During this period there have been 24 doctorate theses in 10 various universities on Financial Auditing. 6 of these theses are written in Istanbul University, 5 of them in Marmara University. The number of master theses in the same period was 134. Given the analysis of them throughout the years, we can say that 62 of these theses were completed during 1995–2000 while 72 during 2001-2006. In view of

<table>
<thead>
<tr>
<th>University</th>
<th>Courses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Celal Bayar University</td>
<td>Control and Auditing Practices (Z), Advanced Auditing Practices (S),</td>
</tr>
<tr>
<td></td>
<td>Operational Auditing (S)</td>
</tr>
<tr>
<td>Çukurova University</td>
<td>Auditing (S), Advanced Auditing Techniques (S)</td>
</tr>
<tr>
<td></td>
<td>National and International Standards of Auditing</td>
</tr>
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<td>Dokuz Eylul University</td>
<td>Auditing (Z)</td>
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<tr>
<td>Erciyes University</td>
<td>-Independent Auditing Standards and Practices (S)</td>
</tr>
<tr>
<td>Abant Izzet Baysal University</td>
<td>Financial Auditing (Z)</td>
</tr>
<tr>
<td>Afyon Kocatepe University</td>
<td>Internal Auditing</td>
</tr>
<tr>
<td>Gazi University</td>
<td>Financial Auditing (Z), Independent Auditing (Z)</td>
</tr>
</tbody>
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(Z) Required course; (S) Elective course
the fact that the number of master’s theses on financial auditing completed in 2006 is 19 we may easily conclude that researchers are getting more involved in this field (Uzay and Selimoğlu, 2007: 197).

The titles of special report/publications rendering useful information for the development of financial auditing profession in Turkey are as follows:

- 22 announcements are included in papers book titled “Türkiye Muhasebe Uzmanlığı” (Turkey Accounting Expertise) published by Expert Accountants’ Association of Turkey in 1974.
- The communiqués and discussions presented in the seminar on “Independent External Auditing in Enterprises” held by Capital Market Board of Turkey on May 10-15 1985 were then published under the same title by the board (Sermaye Piyasası Kurulu, İşletmelerde Bağımsız Dış Denetim Semineri, Yayın No:3, Ankara, 1985).
- The papers presented in “Audit Function in Enterprises” symposium held by the collaboration of Ankara Chamber of Commerce and National Productivity Center on December 8-9, 1989 were then published in “Journal of Economy and Technique: Standard” Year: 28, No: 17 (Special Volume) (Ekonomik ve Teknik Dergi Standard, Yıl:28, Sayı:17-Özel Sayı).
- The announcements and negotiations represented in the meeting held by Dokuz Eylül University for the 500th anniversary of accounting science were then compiled and published in a single book (Oya Yıldırım, Ayşen Dalgeç ve Erdal Özkol (Editors), Muhasebe’nin Tarihsel ve Çağdaş Konumlarından Geleceğine Bakış, TÜRMOB Yayın No: 23, Ankara, 1995).
- Another report submitted by the World Bank is “ROSC Report”. The report, in which the differences between accounting and auditing standards of various countries and international standards are pointed out, was issued in October 2006.

4.3. Congresses, Symposiums and Conferences

There were serious attempts extended for the enactment of a law to set a framework to entail auditing in Tax Reform dated 1949 and in Turkish Commercial Code dated 1957, however, almost all of these endeavors have proved unsuccessful. Therefore, academics and implementors started to organize Accounting Congresses in Turkey (Türker, 2006:6). Below are the congresses and symposiums which enabled academics to understand social realities and observe business life. By this way, implementors are provided with scientific data in their studies (Aysan et Al., 1998: 54). The major scientific meetings regularly held on financial auditing in Turkey are as follows:

a) Turkish Accounting Congresses: The first “Turkish Accounting Congress” was held after the mid 20th century by collaboration of academicians, implementors, public auditors and representatives of business life in Ankara University in 1957. Below are the regularly held Turkish Accounting Congresses with main topic of auditing (Güvemli, 2001: 707):
- The general topic of 15th Turkish Accounting Congress (1992) is: “Status and Qualifications of Professionals in the World and Turkey, Auditing Standards, and Professional Standards in EC and Turkey.
- The general topic of 16th Turkish Accounting Congress (1997) is: “The Audit Formation of Economy and Accounting”.
- The general topic of 17th Turkish Accounting Congress (2002) is: “New Approaches in Accounting, Taxation and Auditing”.

b) Turkish Accounting Education Symposia; It was initiated by Istanbul University, Faculty of Business Administration, and Institute of Accounting in 1979 and annually held by various universities except the years 1988, 1992 and 1994. 27th Turkish Accounting Education Symposium will be held in 2008. Below are the Accounting Education Symposia with the general topic of Financial Auditing:
- The general topic of 6th Turkish Accounting Education Symposium (1984) is; “Problems in International Accounting and Auditing”
- The general topic of 8th Turkish Accounting Education Symposium (1986) is; “The Profession of Sworn-in CPA and Its Future in Turkey”.
- The general topic of 10th Turkish Accounting Education Symposium (1989) is; “, The Law of Independent Accountancy, Certified Public Accountancy and Sworn-in Certified Public Accountancy and its preamble and regulation”.

c) Turkish Auditing Symposia; Held by Istanbul Chamber of Certified Public Accountants (ICCPA), the first “Turkish Auditing Symposium” was performed in 1995 while the 8th one was conducted in 2007. In addition, the last two symposiums were held simultaneously with “1st and 2nd International Auditing Symposia of Turkey” again held by the ICCPA. ICCPA regularly issues the symposiums’ announcement books by adding the notes taken in negotiations following the symposiums. The pertinent symposiums and announcement books are eminent sources of information for the people concerned in and making a research on Financial Auditing of Turkey. Below are the topics of Turkish Auditing Symposia:
- 3rd Turkish Auditing Symposium, (1997), “Authorities, Responsibilities and Ethics in Accounting and Auditing Profession”.
- 4th Turkish Auditing Symposium, (1999), “Technological Developments and Audit Profession towards the 21st Century”.
- 7th Turkish Auditing Symposium, (2005), “Challenges and Emerging Issues in International Accounting”.
- 8th Turkish Auditing Symposium (2007), “New Approaches in Auditing”.

d) Other Scientific Meetings; Apart from the above mentioned ones there are some other kind of regular scientific meetings in which Auditing is included, these are:
“Turkey Accounting Standards Symposiums” which have been held by İzmir Chamber of Certified Public Accountants since 1996.

“International Accounting Conferences” which have been held by MÖDAV since 2004.

The Balkan Countries’ 1st International Conference on Accounting and Auditing held by Trakya University & Association of Accounting and Finance Academicians (AAFA) in 2007.

Permanent Trainer (Formator) Training Program initiated by TESMER, reports directly to TÜRMOB, in 2007.

5. The Profession’s Today and Future

Professional organization efforts for financial auditing in Turkey resulted in professional education activities and as the results of physical practices appear and due partially to appropriate economical conditions, financial auditing (independent auditing) has officially been initiated in Turkey in 1987.

The milestones of the establishment of rules for financial auditing in Turkey could be given briefly as follows: In 1987, it was made compulsory for the banks and capital market to conduct independent audit, in 1989 the enactment of Law No: 3568, foundation of Turkey Auditing Standards Board (TÜDESK) in 2003, the publication of international standards of auditing by CMB of Turkey in 2006.

The law no: 3568 issued in 1989 created and defined three categories of accounting and auditing professionals and established accounting and auditing as a profession and defined those rendering services in these fields as professionals. Law No: 3568 clearly regulates the companies that would be subjected to independent auditing. Independent auditing in the real sense has its roots in auditing activities rendered in accordance with capital market regulations in Turkey (Güredin, 2007: 36). CMB goes on setting standards of independent auditing in capital market with its regulations starting with Serial X in accordance with international standards. In addition, TÜDESK issued the Turkish translation of international standards of auditing.

In today’s Turkey independent auditing enterprises have to adhere to the rules of CMB in auditing activities within the scope of capital market; the rules of Banking Regulation and Supervision Agency (BRSA) in banks or private finance enterprises’ audits; Turkish Treasury’s rules in insurance and reassurance companies’ audits; Energy Market Regulatory Authority’s (EMRA) regulations in audits of enterprises giving service in the field of energy market. It is stated in both CMB and BRSA regulations that Law No: 3568 and principles stated in regulations and communiqués related with the implementation of this law will be pursued in auditing activities, if relevant regulations are vague and obscure.

By May 2004, there were 81 registered independent auditing enterprises of CMB, 42 in BRSA’s list, in Turkish Treasury’s list 102 auditing enterprises for factoring companies and 57 for insurance companies, 46 independent auditing enterprises were registered in EMRA’s list (Pirgaip, 2004: 14).

According to the press release by the CMB on March 24th, 2006, there are 94 independent auditing enterprises, in which about 2,000 CPAs and Sworn-in CPAs are employed, authorized for independent auditing in capital market by the CMB (www.spk.gov.tr). The pertinent independent auditing enterprises are currently auditing 350 public companies. However, it is anticipated that about 3,000,000 Small and Medium Sized Enterprises’ (SMEs) will demand independent auditing service in accordance with Basel II criteria to be pursued by the early 2009 and the TCC draft to be put into force within 2008 (Referans Gazetesi, 20.2.2008). Therefore, nearly 100 independent auditing enterprises and 40,000 CPA and
There is a limited number of researches on the structure on independent auditing enterprises in Turkey. Ergun’s survey (1999) generated some valuable information about audit firms, their employees and auditing practices obtained from the responses of 33 audit firms. The sector’s, in other words audit firms’ and auditors’, profiles aren’t known exactly while there are empirical studies on different sub-fields (such as internal control, fraud auditing and auditing techniques) of financial auditing.

As is throughout the world, in Turkey the four big (Price Waterhouse Coopers, Ersnst & Young, Deloitte Touche Tohmatsu ve KPMG) are dominant in the sector. According to the results of a survey on public companies; 77 percent of these companies’ audits are rendered by the 4 big. On the other hand, in Turkey auditing firms are specialized on specific fields. For instance; KPMG specialized particularly in the field of banking and financial services (Ozkan, 2007: 2).

On the other hand, auditing companies give service in many fields such as; auditing and accounting services, outsourcing, tax auditing and consultancy, enterprise risk services, corporate finance and managerial consultancy. The total revenues of auditing companies from auditing activities by 2001 are as follows: a) auditing revenues (72,55%), b) other professional revenues (25,11%), c) other revenues (4,33%) (Pirgaip, 2004: 30).

5.1. Challenges in the Sector and Solutions

There are some weaknesses and strengths of independent auditing in Turkey. These are outlined as follows in “Sector of Independent Auditing” report, prepared by the Association of Independent Auditing for Economics Congress of Turkey in 2004 (Bagimsiz Denetim Dernegi, 2004: 13-14):

a) Strengths: Accounting and reporting standards of Turkey are in compliance with international standards, there is a highly qualified workforce in independent auditing sector and auditing is compulsory for financial sector.

b) Weaknesses: The difficulties encountered in adaptation to rapid changes in accounting and reporting standards, in addition to financial sector, auditing is compulsory for only public companies, inefficiency of mechanisms to monitor auditing quality and there are a number of institutions authorized for accounting and auditing standards.

Huseyin Gurer, a responsible partner of an independent auditing company, compiles the challenges for auditing enterprises in Turkey under six headings as follows:

- Customers,
- Regulatory Agencies,
- Professional Organizations,
- Colleagues,
- Staff,
- Media and Public Consciousness.

Lack of technical information is the leading cause of customer related problems. Failure to establish consciousness of auditing and thus prolonged auditing processes result in cost increases. It is essential to enhance coordination among regulatory agencies. The authority and responsibilities of professionals are to be redefined. There’s no practice uniformity among auditing enterprises, thus there may be differences in auditing durations. Audit firms face with some challenges in staff employment. In relation with the media, the comments made without
specialized knowledge on the field misguide the public opinion, thus bruising auditing comprehension (Gürer, 2007).

Independent auditing firms are in constant competition to obtain market share because of equivalent auditing services and low cost of contracting with another audit firm (Özkan, 2007: 3). Unfair competition among audit firms leads to audit quality concessions. Consequently, according to the results of an empirical survey, independent auditing has no effect on the transparency of accounting information submitted in financial statements prepared by enterprises giving service in Turkish capital market (Çürük, 2004: 149).

5.2. Developments Having an Influence Financial Auditing in Turkey

From the early 2000’s large scale financial scandals throughout the world, stimulated regulatory agencies and international professional organizations to do something, and the existing rules and regulations relevant to financial auditing were reviewed and it was decided to establish new regulations and institutions (such as Public Oversight Board) to promote auditors’ independence for the enhancement of accounting quality. Some developments on national and global scale directly related to financial auditing and their probable effects will be scrutinized below. These are:

- **Sarbanes Oxley Act (SOA) and EU 8th Directive has brought new perspectives to auditing profession:** In the aftermath of SOA, enacted in the U.S. in 2002, and large scale scandals in the EU (such as Parmalat, Ahold), the EU accelerated its scrutiny studies on independent auditing. The EU adopted “EU 8th Company Law Directive”2 (AB Şirketler Hukuku 8. Yönergesi) on May 17th 2006 as a result of the process starting with the preparation of report called ‘Green Paper’ in 1996 in EU and ending with development of public policies for auditing profession. 8th Directive and SOA are similar with some respects. In both regulations it’s stipulated that:
  
  - Loss of confidence in capital market after financial scandals should be compensated,
  - “An independent oversight unit” authorized for auditing should be established.
  - The roles of EGAOB (European Group of Auditors’ Oversight Bodies) in EU and of PCAOB in the U.S. are similar,
  - Every endeavor should be made for the independence of auditors.
  - Audit partner rotations should be adopted,
  - Special emphasis should be put on legal responsibilities of auditors and board of directors.
  - Audit committees should work more effectively.

In contrast to above similarities, there are some major differences between the two, in that SOA is an act, while 8th directive is a regulatory framework and the directive is more resilient than SOA (www.8th-company-law-directive.com). However, both SOA and reviewed 8th directive constitute major expansions particularly for the scope of auditing profession and practices and no one can foresee to what extend it will continue in time and place.

- **International Basel Criteria will affect independent auditing:** In addition to regulations about banks, Basel I and II criteria will directly affect accounting and auditing practices in the real sector. Basel II, last form of which was given in June

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2004 and estimated to be put into practice in EU in the early 2007’s in Turkey in the early 2009’s, brings about some changes after Basel I. The major change is the utilization of new methods in credit risk assessment and the adoption of rating grades provided by independent rating enterprises (such as Standart & Poors, Moody’s and Fitch) when determining credit risk weight. Rating is the grade by which risk level of companies is displayed. In order to obtain good grades in ranking, the enterprisers should prepare their financial statements in compliance with “International Financial Reporting Standards” (IFRS), record their unrecorded transactions, strengthen their capital structures and put great emphasis on their management and organization structures. However, transition to Basel II will contribute to the development of auditing sector in Turkey and conduction of independent audits on financial statements of thousands of companies which are formerly not subjected to independent auditing.

**The Draft TCC Brings New Innovations to Independent Auditing Profession:** The new TCC Draft, studies of which started in 2000, abolished “comptroller mechanism” which fails to meet the expectations in the existing system. The new regulation requires that independent audits of incorporated companies will be conducted by external auditors. The draft introduces a classification between Large Scale Equity Company – Small Scale Equity Company. This difference is based on three criteria: a) Net Assets Decrease in Balance Sheet Total, b) Annual sales of incorporation in the last one year and c) number of employees. The companies fulfilling two of the three criteria are classified as Large Scale Equity Companies (TCC Draft, Article 1501). While the opportunity to assign two CPAs or Sworn-in CPAs as auditors is granted to Small Capital Companies by the draft, the large scale ones will be audited by independent audit firms (TCC Draft, Article 400/1). In addition, the statement in the draft as “The financial statements and annual reports which are not subjected to such audits will be classified as non-arranged (TCC Draft, Article 397/1). Briefly, auditing services became wide-spread with the new TCC draft and the discrimination between accountant and auditor is diminished.

Pursuant to Turkish Commercial Draft Code, estimated to be enacted within 2008 and Basel II criteria, to be put into practice in the early 2009’s nearly 300.000 SMSEs will arrange their financial statements in compliance with IFRS and subject these statements to independent audits. Independent audits will be performed by independent audit company and CPAs or Sworn-in CPAs. Towards this aim, many CPAs aggregated to establish audit companies (Referans Gazetesi, 20.2.2008).

5.3. Further Assessments and Result

In the next periods the scope of financial auditing sector will be extended and current regulations will be restructured in accordance with international standards due particularly to above mentioned developments. Therefore, existing weaknesses and deficiencies of independent auditing must be fixed immediately. In this context, some suggestions and foresights are listed below:

**The coordination among regulatory institutions must be promoted:** In Rosc (2006) Report, it is criticized that there is a multi-headed approach (separated structure) in the legal regulations relevant to independent external auditing in Turkey. It’s additionally suggested that individuals and companies authorized with independent auditing of financial statements should adhere to international education standards issued by IFAC and have essential qualifications, including education, internship etc. listed in EU 8th Company Law Directive. In contrast, the regulatory institutions of financial auditing in
Turkey are in lawsuit because of “independent auditing certification exam” conducted by the CMB (Referans Gazetesi, 20.2.2008).

- **The number of audit firms in Turkey must be increased:** Developments in Turkish economy, globalization, reliable information, governance, transparency raised the importance of financial auditing profession. Recently, the number of foreign direct and indirect investments has increased more and more in Turkey. Independent audit firms have crucial role in the establishment of collaboration between Turkish companies and foreign companies and bank and company purchases from Turkey.

- **The Profile of financial auditing sector in Turkey must be outlined:** Apart from engineers, professional organizations don’t pay much attention to profiling activities. Detailed information may be gathered about the structure of audit companies and auditors and existing problems and expectations will be discovered by means of a comprehensive profiling study by the Association of Independent Auditors or TÜRMOB.

- **Sworn-in CPAs must be more actively involved management consultancy:** Pursuant to current legal arrangements, Sworn-in CPAs perform tax audits in particular. However, some companies having contracts with a Sworn-in CPA in Anatolia are on the verge of bankruptcy due to cash management, capital insufficiency, intensive competition and economical crises and also because they can’t get sufficient management consultancy from the Sworn-in CPAs.

- **More importance should be attached to the education of candidate auditors:** According to CMB regulations; the results of education to be provided for auditor deputies are assessed with examination conduct by independent audit companies or relevant professional organizations. These courses cannot be less than 200 hours on the whole. (SPK, SeriX/22 Teblış, İkinci Kısm, Md.9). In order for this provision to be operative, the pertinent evaluation exams must be conducted and training programs must be scheduled.

- **Sufficient importance should be attached to continuous professional development and in-service training programs:** The programs listed in IES 7 (IES- International Education Standard, Continuing Professional Development) must be scheduled and conducted by TÜRMOB, a professional organization and member of IFAC, in relation with continuous professional development of members of this profession. On the other hand, colleagues must give importance to continuous development not just for stipulation of laws, but for respect to themselves and profession itself.

- **Uniformity must be established in auditing standards:** Expansion of international accounting standards’ field of application (scope) is a positive improvement for financial auditing in Turkey. This is because a well-defined accounting standard is important since it will reduce the points open to auditor’s comment. A similar development has long been awaited for auditing standards as well. There must be a single body for the establishment of Turkish Auditing Standards (Türkiye Denetim Standartları-TDS) as is in Turkey Accounting Standards, that’s to say these standards must be established by TÜDESK.

- **“A Public Oversight Board” must be established in Turkey:** One of the most crucial developments in the field of financial auditing in the new process beginning with the enactment of SOA, is the assignment of an independent oversight board to monitor auditing enterprises in view of the fact that it would be inadequate for the profession to control and regulate itself, and to raise and control quality for public benefit. In the
U.S. PCAOB (Public Company Accounting Oversight Board) started providing service as an independent board in 2002 as well as in the U.K. POBA (Professional Oversight Board) in 2003. On the other hand, it’s required in 8th Directive for EU member countries must implement an oversight system in order for the statutory auditors and audit firms to perform their activities in compliance with laws and in a qualified way. The studies for the establishment of such a board in Turkey must be launched in subsequent periods (Uzay, 2006: 204).

- A “Quality Assurance System” must be established for members of this profession in Turkey: It’s certain that quality control activities, auditing and discipline have an integral role in the promotion of quality in independent auditing. Activities towards quality assurance system are maintained by TÜRMOB in our country.

- “Internal Control System Assessment Report” must be widely practiced in Turkey: According to SOA the managers of public companies in the USA have to sign financial statements and submit a written statement as “our company’s internal control system is working effectively and efficiently” in relation with financial reporting. In addition, this statement must also be attested by independent auditors and a report must be arranged about it. Along with international developments, a similar practice must be implemented in Turkey starting from publicly traded companies.

- The general deficiencies of economy must be fixed: The fact that there is a great amount of unrecorded economy in Turkey negatively affects accounting and auditing professions. Since financial statements prepared by companies having unrecorded activities are unreliable, accountants can’t get the ascendance they deserve and the assurance of auditor examining these statements will be limited. The below two considerations are still valid today and this shows how urgent the matter is:

  In a letter written by an expert who made a research in Turkey in 1962 (Aysan, 1971: 14); “…I have concluded that the main challenge of banks in this field is unreliability and invalidity of information given by the customer to the bank rather than the shape of information.” Another example is the below statement of Minister of Finance and Customs of the time in a symposium held in January 1989 with a topic “Audit Function in Enterprises”; “There is still no order of documentation in Turkey and purchases are still made without receipt and invoice”.

In conclusion, as it is further detailed in this study, as a result of endeavors and struggles exerted in the field of accounting auditing in Turkey, there has been major improvements in some fields such as practices, education, professional organization and regulatory rules. It can easily be foreseen that if economical problems are solved including unrecorded economy, deficiencies in both accounting and auditing professions are fixed and collaboration is established among institutions, Turkey will become a country with a strong accounting and auditing environment.

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### Appendix A. List of Abbreviations

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<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>AAFA</td>
<td>Association of Accounting and Finance Academicians</td>
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<td>AICPA</td>
<td>The American Institute of Certified Public Accountants</td>
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<td>BRSA</td>
<td>Banking Regulation and Supervision Agency</td>
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<tr>
<td>CMD</td>
<td>Capital Market Board of Turkey</td>
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<tr>
<td>CPA</td>
<td>Certified Public Accountants</td>
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<td>CPA</td>
<td>Certified Public Accountants</td>
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<tr>
<td>EAA</td>
<td>Expert Accountants’ Association of Turkey</td>
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<tr>
<td>EC</td>
<td>European Community</td>
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<td>EGAOB</td>
<td>European Group of Auditors’ Oversight Bodies</td>
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<td>EMRA</td>
<td>Energy Market Regulatory Authority</td>
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<td>EU</td>
<td>European Union</td>
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<td>IASB</td>
<td>The International Accounting Standards Board</td>
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<td>IFAC</td>
<td>The International Federation of Accountants</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>MÖDAV</td>
<td>The Turkish Foundation for Collaboration of Accounting Academician</td>
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<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
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<td>POBA</td>
<td>Professional Oversight Board</td>
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<td>SMEs</td>
<td>Small and Medium Sized Enterprises</td>
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<td>SOA</td>
<td>Sarbanes Oxley Act</td>
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<td>TCC</td>
<td>Turkish Commercial Code</td>
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<td>The Union of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey</td>
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<tr>
<td>USAID</td>
<td>The United States Agency for International Development</td>
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