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An Analysis Of General Situation Of Auditing And Auditing Profession In Turkish Insurance Sector During European Union Pre-Accession Period Of Turkey

Abstract

Nowadays, to search the accuracy of the information given in financial statements that are declared to public related to the operations and transactions companies perform and their conformity to legal regulations has become more and more important. To express in other words auditing has become an crucial task recently.

It is certain that Turkish Insurance sector, especially during the globalization period of Turkey has developed internationally and the sector is taking part in the fast changing and renovation process that is brought by the globalization.

Accordingly, with the help of global standarts that are formed by International Association of Insurance Supervisors (IAIS) related to insurance sector public auditing; we aim to clarify the meaning of terms and conditions along with the institutions on public auditing, independent auditing and internal auditing in insurance sector both in European Union and in Turkey.

The aim of our study is to examine and to discuss the professional standarts that an auditing company performing the independent audit of financial statements of insurance companies and their authorized auditors should have. In addition we will study general auditing and the development of auditing as a profession. In particular, we will discuss the international accreditation of local auditors and the Turkish perception and understanding of European Union for this subject.

Key Words: European Union, Insurance Sector, Auditing

1. Introduction

Recently, especially increasing number of corruption cases and the development of economic life and its growing complexity has increased the need for reliable knowledge. In developed economies, the information that is declared to the public by corporations related to themselves is usually checked and verified by some independent auditors.

The procedure of decision making about the accuracy and reliability of the information that is announced to the public and to the shareholders constitutes the subject of "auditing and independent external auditing". During the process of auditing the independent expert and the so called auditor has a very important role. The auditor, is the one who carries out, directs and finalizes the process of auditing. The supporting of foreign capital in Turkey and by this means the increasing investment of multinational companies in Turkey, the development of international trade, increasing international financing opportunities, and increasing number of Turkish companies that are operating abroad has created a suitable environment for the development of auditing profession in Turkey. When Turkish companies started to look for financial resources from international capital markets, they have been required to present verified and confirmed financial reports of the company; such type of requests obliged companies to have reliable auditing procedures. As a result of above mentioned developments, in Turkey, auditing process and auditing system, which were not legally established by legal authorities before, has started to arise in the country's economic body by the push of economic conditions.

It is obvious that, Turkish Insurance sector has developed internationally during the global integration process of Turkey and takes part certainly in the fast changing atmosphere brought by globalization.

Accordingly, with the help of global standarts that are formed by International Association of Insurance Supervisors (IAIS) related to insurance sector public auditing; we aim to clarify the meaning of terms and conditions along with the institutions on public auditing, independent auditing and internal auditing in insurance sector both in European Union and in Turkey.

As it is known, every country regulates its national standarts within the framework of its own rules. However, in certain sectors, standarts have to be adapted with those of other countries. Nowadays, in Turkey, which is in pre-accession period to the European Union, it is absolutely necessary that audit and the profession of auditing should be adapted to international standarts.

In parallel to the the developments cited above, the auditing operations in Turkish Insurance sector, will be examined in this study both from internation perspective or from a perspective of particular cases in th light of European Union standarts by

considering national developments. We will also try to figure out the ways for increasing efficiency on related sector and profession.

2. Generally Accepted Auditing Standards

Auditing standards was first published in 1947 by American Institute of Chartered Public Accountant: AICPA as "Generally Accepted Auditing Standards" and these standards were adopted by many countries. Auditing Standards of Board revised cited standards and published them as "Statement on Auditing Standards" after the year 1972.¹ That statement was a reinterpretation of the standards published in 1947 and although there have been some amendments in the auditing application principles, those standards achieved to stay up-to-date until today. Generally accepted standards published by AICPA which is a good guide for auditors in analyzing financial statements consists of three chapters: 1- General Standards, 2-Working Scope Standards, 3- Reporting Standards.² However, within the scope of study we will concentrate on "General Standards" due to recent important developments in independent acting standard and also we will deal with only "General Standards" cause in EU Directive No:8, merely general standards are cited.

First section of Generally Accepted Auditing Standards was devoted to general standards. These standards draw a general framework for professional auditors about their characteristics, behaviours and professional education. For this reason "general standards" are often called personal standards. The standards covered in this section are education, professional proficiency, acting independently, professional self discipline and attention.³

3. International Auditing Standards:

The first international auditing standards were published by IAPC-International Auditing Practices Committee in 1991, which operates under the control of IFAC-Internatioanal Federation of Accountants and which was renamed as "International

¹ Carmichael, R. ve Willingham, J. Auditing Concepts and Methods, A guide to Current Auditing Theory and Practice, 5th Edition, Mc Graw-Hill,1989,p.15.

² Alvin A. Arens, James K. Loebbecke, *Auditing an Integrated Approach*, Prentice Hall, Eighth Edition, 2000, s.29.

³ Şerafettin Sevim, Eskişehir Anatolian University Journal of F.A.S.S., "Muhasebe Raporlarının Yasal Denetimini Yürütmekten Sorumlu Kişilere Yetki Verilmesine Yönelik AT Sekizinci Yönergesinde Belirtilen Mesleki Standartlar ile 3568 Sayılı Yasa ve İlgili Mevzuattaki Mesleki Standartların Karşılaştırılması",1990, V.VIII, S.1-2,p.198.

Auditing and Assurance Standards Board-IAASB in 2002"⁴. In 1994, all the standards were completed, brought together as a set and published together with their codes⁵. PIOB (Public Interest Oversight Board) which was established in 2005, within the reforming period of IFAC is responsible for auditing all the institutions operating under the body of IFAC and their standardization activities, in addition PIOB is responsible for providing them to make decisions for the benefit of public interest and for constructing their decision making processes⁶. There are certain institutions that are operating under IFAC body and which are being audited by PIOB and these institutions deal with standard determination. Those structures are listed below:

-International Accounting Education Standards Board (IAESB): This committee which is operating under IFAC body has constructed international professional education standards which will constitute a benchmark in auditing and accounting profession. The purpose of the standards is to standardize every stage that starts with becoming a candidate accountant and lasts with completion of active workinglife as a professional.⁷

-International Public Sector Accounting Standards Board (IPSASB): This committee focuses on financial reporting and auditing of national, regional and local public institutions, within this scope it constitutes various standards for the purpose of ameliorating public financial reporting system, it organizes education and research programs⁸.

-International Ethics Standards Board for Accountants (IESBA): develops ethical standards and guidance for use by professional accountants. It encourages member bodies to adopt high standards of ethics for their members and promotes good ethical practices globally. The IESBA also fosters international debate on ethical issues faced by accountants.⁹

-International Auditing and Assurance Standards Board (IAASB): This Committee serves the public interest by: setting, independently and under its own authority, high quality standards dealing with auditing, review, other assurance, quality control and related services, and facilitating the convergence of national and international standards. This contributes to

⁴ www.icaew.co.uk/library/index.cfm

⁵ Dönmez Adnan, P. Başak Berberoğlu, Ayten Ersoy, Mediterranean University, Journal of F.A.S.S., " *Comparison of Turkish Independent External Auditing Standards with US Generally Accepted Auditing Standards and EU 8th Directive and also with International Auditing Standards*" ,2005, V.9, p.59.

⁶ For detailed; www.ifac.org

⁷ www.ifac.org/Education

⁸ www.ifac.org/PublicSector

⁹ www.ifac.org/Ethics

enhanced quality and uniformity of practice in these areas throughout the world, and strengthened public confidence in financial reporting¹⁰.

4. International Standards In Internal Auditing

Although the history of internal auditing profession does not go back long, internal auditing has gained considerable importance since 1940's¹¹. After those years, various developments in business life caused an authority transfer towards professionals and internal auditing concept developed fast and at the beginning of 1941 Internal Auditing Institution gained a corporate identity. By the time, American Internal Auditing Institution accepted ethics rules, developed certain standards for professional internal auditing applications, constructed a programme for permanent education, established common information network and prepared a certificate and examination programme for people to be recognized as certified internal auditor¹².

The Institution for Internal Auditors, a quite important international professional association performing activities on the development of auditing profession published "Scope of Professional Applications" which is accepted as a global guide for the profession of internal auditing. The set of pre-requested conditions for a complete activity of internal auditing consists of the following clauses¹³:

- International Ethical Rules
- Standards for Internal Auditing Professional Application Standards (Qualification Standards and Performance Standards)¹⁴
- Practice Suggestions
- Development and Practice Aids
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5. International Standards In The Field Of Public Auditing In Insurance Sector

It is essential to audit institutions or companies in order to check their activities to see if they operate in accordance with legal regulations or in pursuance of public interest. Unfortunately there is not any global rules or regulation related to public auditing to be valid for all the countries. However, 1994 International Association of Insurance Supervisors (IAIS) was established for the purpose of developing global standards

¹⁰ www.ifac.org/IAASB

¹¹ Gürbüz, *ibid*, p.74.

¹² Taylor-Glezen., *ibid*, p.1970. For a More Comprehensive, See: www.tide.org.tr ve www.theiia.org.

¹³ www.theiia.org/?doc_id=1499

¹⁴ For a More Comprehensive, See TİDE, *International Internal Audit Standart Professional Framework*, TİDE Publications No:3, İstanbul, p.3-4.

relating to public auditing and public auditors; setting regulations for public auditors in insurance sector; and of promoting co-operation among them. IAIS is setting international and globally accepted standards to guide actors in the sector.¹⁵

6. Requested Standards For European Union

Adaptation of the EU regulation in auditing sector has a considerable importance for domestic market in EU. For this reason, auditing subjects are executed by General Directorate of Internal Market under the heading of "Corporate Law". Some studies are conducted in the Union in independent auditing sector under the body of European Federation of Accountants with the aim of adapting the global standards that are set by IAASB. In addition European Commission builds various regulations on the cited issue. No common author has been set forth for public auditing. On the other hand, internal auditing standards have not been adapted yet.¹⁶

The institutions and foundations setting external and internal auditing standards in European Union are as follows:

- **The Internal Market and Services Directorate General (DG MARKT)**: is one of the Directorates General and specialised services which make up the European Commission. Its main role is to coordinate the Commission's policy on the European Single Market and to seek the removal of unjustified obstacles to trade, in particular in the field of services and financial markets. It established Audit Regulatory Committee (AuRC) and European Group of Auditors' Oversight Bodies (EGAOB to have technical support while executing its operations.

Due to the new Sarbanes-Oxley Law launched by the USA to regain the trust of investors that had been lost during the post-Enron period and due to recent financial reporting problems in Europe, as a part of European Commission's initiatives related to enforce its corporate governance, it has become crucial to revise the priorities of legal auditing. For this reason European Commission presented to the Parliament The Commission's Communication of 21 May 2003 on "Modernising Company Law and Enhancing Corporate Governance in the European Union" modernizing the 8th Company Law Directive.¹⁷

¹⁵ www.iaisweb.org

¹⁶ Suna Oksay & Onur Acar, *Audit in EU and Turkey Insurance Sectors*, TSRŞB Publications No:9, İstanbul, p.103.

¹⁷ *Communication From The Commission To The Council and The European Parliament Reinforcing The Statutory Audit In The EU*, Official Journal of the European Union, C 236, 2.10.2003, p. 2, http://europa.eu.int/eurllex/pri/en/oj-dat/2003/c_23620031002en0020013.pdf

- **Federation of European Accountants (FEE):** The Federation operation in a wide range of sectors covering the interests of European accounting profession. Among these are auditing, banking, insurance and capital markets, ethical taxation, corporate law and environmental problems. Above mentioned activities of FEE are executed by work groups.

It was cited in the report that was published by FEE in June 1998 that national auditing standards in the Union are very parallel to international auditing standards. In another report published in June 2000 it was indicated that the way of writing of audit reports differs among members within the Union. Another report of de federation published in May 2002, starting from 1st January 2005, it was recommended to follow International Financial Reporting Standards (IFRS) in accounting field and International Standards of Auditing (ISA) in the field of auditing. In addition, it has become compulsory upon 1606/2002 numbered bylaw and 2006/43/EC numbered directive for publicly open companies to prepare their consolidated financial statements in accordance with IFRS and to perform their auditing in accordance with ISA.

FEE strongly believes that international standards have an important role in eliminating auditing process differences among EU member countries and other countries. In this respect, FEE supports, in its press release published in 2006 in Brussels, the 26th article of the directive 2006/43/EC which sets forth auditing of all companies in compliance with international standards and FEE desires to follow the auditing standards set by IAASB in all over Europe.

The European Confederation of Institutes of Internal Auditing (ECIIA) is the professional representation of 32 national Institutes of Internal Audit in the wider European region. ECIIA's objective is to support the position of internal control professionals in the EU and ECIIA's member countries and to promote the application of the global Institute of Internal Auditing (IIA) Standards and Code of Ethics to all Internal Audit activity in the public and the private sector¹⁸.

7. Overview Of European Union Regulations In Insurance Sector

In European Union, The Internal Market and Services Directorate General (DG MARKT) is the responsible authority for preparing and supervising the directives regulating the insurance sector.

Insurance unit, on the other hand is the responsible entity for legal regulations related to life insurance and other insurances. Among these regulations there is no unique framework layout for public auditing of insurance sector. However, in various directives citing life insurance and other insurance issues, there exists certain

¹⁸ <http://www.eciia.org/eciia/overview/profile.html>:10.08.2009

principles on auditing of insurance sector including the cooperations among national auditing authorities. These are:

- 2002/83/EC Life Insurance Directive
- 73/239/EEC, 88/357/EEC and 92749/EEC Directives for Other Insurances
- 98/78/EC Additional Insurance Auditing Directive
- 2000/64/EC Information Exchange Directive

In spite of the fact that International Financial Reporting Standards has started to be applied in accounting field in European Union, adaptation studies in independent auditing issues still continue. European regulations relating to EU independent auditing legislation which is closely related to independent auditing of insurance sector and which is handled under the title of "corporate law" are as follows:

- 78/660/EEC 4th Corporate Law Directive (Article 51)
- 83/349/EEC 7th Corporate Law Directive (Article 37)
- 84/253/EEC 8th Corporate Law Directive (Mülga)
- COM 1996/338 The Role, Position and Responsibility of legal auditor in EU (Green Book)
- OJ-C 143 dated Quality Assurance for legal auditing: Minimum Requirements Declaration
- 2002/590/EC Recommendation Decision related to independence of legal auditors in EU
- 2006/43/EC 4th and 7th Directive related to legal auditing of annual accounts and consolidated accounts, modifying Corporate Law and removing 8th Corporate Law Directive

In European Union in insurance sector there is no unique framework layout for public auditing of insurance sector. But ECIIA, is conducting studies to apply the internal auditing standards set by IIA in all over Europe.

8. Legal Regulations Related To Auditing And The Profession Of Auditing In Turkey

Latest developments in the world and especially company scandals experienced in USA and in Europe stimulated regulatory institutions in Turkey and they launched new regulation in the light of recent developments.

Institutions guiding and supervising auditing and the profession of auditing in Turkey are as follows:

- Ministry of Finance
- Capital Markets Board (SPK)
- Banking Regulation and Supervisory Board (BDDK)
- Chamber of Accountants and Financial Consultants (TURMOB)
- Accounting and Auditing Standards Board of Turkey (TMUDESK)

- Auditing Standards Board of Turkey (TÜDESK)
- Accounting Standards Board of Turkey (TMSK)
- Association of Independent Auditing
- Undersecretariat of Treasury

We will now summarize briefly the regulations made in Turkey within the operational scope of the authorities cited above.

After the years 1970's due to the reasons such as increasing level of international relations of Turkish companies, increasing investments of foreign enterprises, and increasing opportunities of Turkish firms for borrowing abroad, independent auditing has become a compulsory issue to focus on¹⁹.

The first legal act on independent external auditing was enacted in 1987 about auditing of banks. In parallel to this development, Central Bank of Turkey published in 24th December 1987, "Declaration on Independent Auditing" explaining the essential framework for bank audits executed by independent auditing institutions²⁰.

Following the auditing issues of the banks, compulsory auditing of affiliated joint venture companies under supervision of Capital Markets Board of Turkey (CMBT) pursued the process. CMBT, published "Independent External Auditing Code in Capital Markets" for the purpose of regulating the auditing of joint venture companies under its supervision, on 13th December 1987. Independent auditing institutions were established according to this code. CMBT, set forth general rules related to auditing and to the profession of auditing, auditing standards, general principles and rules of financial reporting in various declaration that it published afterwards. (Series: X, Declarations No:1-19). In parallel to Sarbanes-Oxley Law which had been published to prevent auditing scandals that arose in those days, CMBT published 02.11.2002 dated Declaration No: 19, Series:X "Declaration on assuring the independence of Auditors". With this declaration, some of the articles of Declaration Series:X No: 16 was changed and some new articles were added.

Turkey, has already started accession negotiations with European Union. In this direction, Turkey, promised in the Letter of Intent dated 30.07.2002 presented to IMF that CMBT will apply International Financial Reporting Standards in Turkey. For the purpose of achieving this goal CMBT published 15.11.2003 dated series:XI No: 25 "Declaration on Accounting Standards in Capital Markets and Series:XI No: 27 "Declaration on Modification of Accounting Standards in Capital

¹⁹ Y. Göksel, "The Difficulties in Finalcial Statement Analysis in Turkey", Journal of Accounting, 1992, V.31,p.13.

²⁰ B. Akgül, *Turkish Audit Instutions*, Türkmen Publishing, Ankara, 2000, p.5.

Markets". These declarations provided conformity with international financial reporting standards and starting from 01.01.2005, it became compulsory to apply these declarations in Turkey for all the companies quoted in Istanbul Stock Exchange, all trust companies, all broker companies, portfolio management companies and their affiliated companies or their sharing companies or their partner companies.²¹

Although above mentioned standard is not directly related with independent external auditing, it is very important for independent auditing cause it will help to adapt to international financial reporting standards. Application of international financial reporting standards in all over the country will help to reduce the discrepancies in financial statements, will provide preparation of tables with more attention and gain a transparent structure. New applications will in addition simplify independent auditing and will help to conduct auditing in an easy and simple procedure. In addition, in terms of preparation of statements and financial table it will provide a common basis to make comparisons easily and this also will increase the credibility of the auditing done. Furthermore, it is obvious that from all the points cited above internationally accredited financial reports will facilitate global integration of Turkish financial system to the rest of the world.

9. Independent Auditing In Turkey Within The Scope Of Turkish Law No: 3568

One of the important developments in Turkey in the field of auditing is the law of "Accountants, Public Accountants and Certified Auditors" number 3568 published on 13th June 1989, some other codes and declarations following mentioned law.²² According to this law in Turkey there exists three types of profession such as Accountants, Public Accountants and Auditing. Additionally in the law, different members of those professional fields who are executing accounting transactions and who are conducting the auditing of operational results are defined separately.

10. Regulations On Auditing Standards In Turkey

As implied before, legal status of auditing principles and rules in Turkey starts first with declarations published in 1988 by Capital Markets Board of Turkey (CMBT). Those regulations was accepted for the purpose of validating the auditing done by companies under Capital Markets Board's supervision within the scope of capital

²¹ Dönmez et al, *ibid*, p.62.

²² Akgül, *ibid*.p.5.

markets legislation. Most of the principles and rules regarding independent auditing in capital markets appears in Declaration Number: 16 Series:X.²³

Some certain auditing standards are also mentioned inside the “Code on Working Procedure and Principles of Accountants, Public Accountants and Certified Auditors” which had been prepared according to the article number 50 of the law of “Accountants, Public Accountants and Certified Auditors” number 3568 accepted on 1st June 1989.

The duty of developing accounting and auditing standards was given to Accounting and Auditing Standards Board of Turkey (TMUDESK) by Chamber of Accountants, Public Accountants and Certified Auditors (TÜRMOB) on 9th February 1994. The aim of TMUDESK is to define national accounting and auditing standards considering international standards and publish them.²⁴ However, the duty of setting accounting standards of TMUDESK was transferred to Accounting Standards Board of Turkey which was recently founded by an amendment of Article 27 of the law dated 15.12.1999 numbered 4487. At the moment, although mentioned board achieved to make a considerable progress on its studies for setting new standards in the field of accounting, it has not published any standard yet.

One of the most important developments in auditing issues in Turkey is the establishment of “Auditing Standards Board of Turkey” (TÜDESK) on 22nd January 2003. TÜDESK was established by TÜRMOB with an aim of determining and publishing international standards to provide that auditing processes are done properly and in a disciplined manner.

The first activity of TÜDESK was to translate into Turkish International Auditing Standards which had been published by International Auditing and Assurance Standards Board functioning under the supervision of IFAC. The translation text of International Auditing Standards realized by TÜDESK was published by TÜRMOB.²⁵

- **Professional Education and Proficiency Standard:** These standards are explained in the 4th, 7th, 8th and 9th articles of “Declaration on Independent Auditing in Capital Markets” published by Capital Markets Board of Turkey.

- **Independent Acting Standard:** The issue of independence has always been handled under a separate heading in both generally accepted auditing standards and professional ethic regulations. The issue is defined by Capital Markets Board of Turkey such as: “Having an understanding that will assure to conduct one’s professional activities in an unbiased and honest way.” (Series: X, No:16 Declaration: M.10.

²³ C.,Küçüksözen, Z., Sayar, , “Independent Audit Report Standards in Share Market”, Journal of Accounting and Audit Views, 2002, Y.I:2, V.6, p.51.

²⁴ www.turmob.org.tr/TMUDESK

²⁵ TÜRMOB News, 2004, p.1.

Besides, on the article number 11 of the “Declaration on Independent Auditing in Capital Markets”, circumstances causing elimination of independency is listed. On the article number 13 of the same declaration a list of jobs which is forbidden for Independent Auditing Firms was indicated.

In parallel to regulations and precautions taken following the Sarbanes-Oxley Law, Capital Markets Board of Turkey published “Declaration on Assurance of Auditor Independence” Series: X, Number: 19. Three clauses were added to the first article of the declaration to this declaration and to the 11th article of the “Declaration on Independent Auditing (Series :X, Number: 16) of Capital Markets Board of Turkey containing the circumstances taking away auditor’s independence in conformity with the regulations in Sarbanes-Oxley Law. Within first clause the jobs which can not be performed by the auditors of independent institutions under paid or unpaid conditions was indicated clearly. In the second clause added to the 11th article, within the scope of the “Accountants, Public Accountants and Certified Auditors Law”, it is said that “the activities of controlling the suitability of financial statements and tax declarations, approving them, making written declarations and preparing reports on the issue are excluded from the activities prohibited in 1st article. As for the 3rd clause, it is indicated that a consulting firm which directly or indirectly hold by an independent auditing company can not give any consultancy service during the period in which auditing firm is conducting independent auditing. To this scope, consultancy services of independent auditing company’s real or corporate shareholders are included. The aim of this 3rd clause is to remove interest conflicts.”²⁶

- **Professional Attention and Care Standard:** Issues handled as professional attention in generally accepted auditing standards, is handled under the scope of “professional attention and neutrality” in the regulations of Capital Markets Board of Turkey. Explanations regarding professional attention and neutrality is explained in the article number 12 of the “Declaration on Independent Auditing in Capital Markets.”²⁷. Regarding professional attention and neutrality standard, in the 6th article of the regulatory statute cited above, it is said: “ Professional members of the field, stay away from conflicts of interest during execution of their studies and they show the most attention and neutrality while performing their duties”

- **Planning and Observation Standard:** Planning is explained in the 25th article of the Declaration on the Independent Auditing in Capital Markets, while observation and coordination principles are explained on the 27th article of the same regulation. While it is clearly indicated in the 25th article that auditing activities should be planned efficiently, in the 27th article scope of the responsibilities of the chief auditor is drawn.

²⁶ Dönmez et al, ibid. p.65.

²⁷ Dönmez et al, ibid. p.67.

There are also some brief explanations about planning and observation standards in the 53rd and 54th articles of the Code on Working Procedure and Principles of Accountants, Public Accountants and Certified Auditors.

- **Information Taking Standard about Internal Control System:** Explanations about the inspection of internal control system takes place in the article 28 of the Declaration on Independent External Auditing in Capital Markets. In the mentioned article definition of the internal control system is stated. Within the same article it is said that, in order to determine the auditing technics that the auditor will use, the timing and scope of the auditing, the auditor has to evaluate and check whether the internal sytem works efficiently or not (Series: X, No: 16 Declaration : m.28). On the other hand there is no explanation on this standart in the law number 3568.

- **Evidence Gathering Standard:** The 29th, 30th, and 31st articles of the Declaration on Independent Auditing in Capital Markets are about evidende gathering standard. 29th article is about the proof gathering of auditor during auditing process; 30th article is about the purposes of proof gathering; 31st article is about the auditing techniques that will be helpful while proof gathering. Proof gathering is not mentioned separately in the Law Number 3568.

- **Conformity with Generally Accepted Accounting Principles Standard:** This standard requires explaining in the audit report whether the financial statements are in conformity with GAAP. Explanations on this standard take place in the Declaration on Independent Auditing in Capital Markets, in article 36/a. The standard states that if some deviations from GAAP are found, the effect of these deviations on financial statements should be calculated properly and should be written in the auditing report.

- **Permenance on Generally Accepted Accounting Principles Standard:** Explanations on this standard take place in the Declaration on Independent Auditing in Capital Markets, in article 36/b. Within the scope of this article, it is indicated that the independent auditing report should state whether the accounting policy applications are coherent with the previous year. If there is any accounting policy change the report should explain it completely. Regarding this standard, in the 44th article of the Declaration on Principles and Rules about Financial Statements and Reports in Capital Markets it is said that "Applying accounting policies consistently is compulsory."(Series: XI, No:1 CMBT Declaration m.44)

- **Adequacy of Explanations in Financial Statements Standard:** Explanations on this standard take place in the Declaration on Independent Auditing in Capital Markets, in article 36/c. In this article it is cited that "any financial statement which is not appropriate for the complete explanation concept of generally accepted accounting concepts should be indicated in the report including its reasons".

- **Announcement of Opinion Standard:** Article 34 of the Declaration on Independent Auditing in Capital Markets is about auditing reports and announcement of opinion.

Besides in the 39th article of the cited declaration various circumstances that may affect the auditor's opinion are stated. On the other hand, within the 58th and 59th articles of the "Code on Working Procedure and Principles of Accountants, Public Accountants and Certified Auditors" under the Law Number 3568, there are some explanations about this standard. While article number 58 talks about the form of the audit report, article number 59 explains types of audit reports and opinion announcements.²⁸

Evaluation Of Turkish Regulations In Terms Of Insurance Sector

Real financial position of Turkish insurance companies has to known for both correct insurance preferences of individuals, and for providing investors to invest on insurance companies and also for construting partnerships with foreign insurance companies.²⁹ At this stage, accuracy of financial statements and the information on the financial statements of insurance companies comes into discussion.³⁰ Auditing of insurance sector and insurance companies, especially is done for the purpose of protecting the interest of insurees and for providing the positive contribution of insurance funds to the whole economy. With the aim of preventing weaking of financial power of insurance and reinsurance companies in order not to endanger insurees' rights and benefits, some capital adequacy regulations are set in the sector. For this point of view, public auditing assures obedience of insurance companies to the regulations and penalizations of the ones who does not follow the regulations.

Institutions conducting public auditing in Turkey are as follows³¹:

-Undersecretariat of Tresasury (General Directorate of Insurance Sector, Directorate of Insurance Auditing Board).

-Ministry of Finance Auditing Organs (Directorate of Financial Supervision Board, Directorate of Account Experts Board, Directorate of Income Management Board, Directorate of Income Inspectors Board, Directorate of Taxes)

When we look at the regulations on the insurance sector in Turkey, we see that "guide tariff period" and "tariff auditing period" have already ended which was applied until the end of the 1980's. Some certain standards were broght to the sector with regulations of uniform chart of account and one style financial statements and these regulations enabled more accurate comparison of the companies in the sector.

²⁸ Dönmez et al., *ibid*, p.68.

²⁹ www.finanskulup.org.tr/html/makale/erdem_esenkaya.html

³⁰ Esenkaya,İ.E.,*ibid*.,p.134.

³¹ Suna Oksay, Onur Acar, *ibid*, s.127.

Public auditing over insurance and reinsurance companies in Turkey is executed by permission system accompanied by physical inspection system. Routine audits done by Insurance Auditing Board over insurance companies are financial position auditing, guarantee auditing, legislation auditing, damage auditing, and auditing of mathematical provisions.

When it comes to independent auditing in insurance sector, in addition to independent auditing authorities cited before, is performed according to legal regulations published by Undersecretariat of Treasury.

As for setting the legislation of internal auditing in insurance sector, there is not only one authority as it is the case for independent auditing as well. For this reason legislation developed by General Directorate of Insurance Sector under Undersecretariat of Treasury, is used as a guide for internal auditing in insurance sector. However, benefiting from standards published by Turkish Institution of Internal Auditing will help to increase the quality level of internal auditing in insurance sector, although cited standards has no legal sanction.³²

Some other studies in the sector on the discussed issue are as follows:³³

- Code on settlement of independent auditing in insurance and reinsurance companies (Official Newspaper of the Government dated 08.09.2003)
- Code on the principles of independent insurance sector auditing (Official Newspaper of the Government dated 08.09.2003)
- Code on the Accounting System of Insurance Companies (Official Newspaper of the Government dated 31.12.2004)
- Circular on Internal Auditing Systems of Insurance and Reinsurance Companies (2004)
- Circular on Data Processing Systems of Insurance and Reinsurance Companies
- Insurance Auditing Board – Auditing Guide (2002)
- Insurance Auditing Board - Electronical Pursuit of Damage Compensation Performance and Agency Systems of Insurance Companies (2004)
- Insurance Auditing Board – Data Backup Systems of Insurance Companies and Disaster Management (2005)

Although important studies were completed on auditing and supervision in the sector, there some other important tasks to be done. The most important part of these tasks

³² Özlem Aykaç, Internal Audit and Regulations in Insurance Sectors in During European Union Pre-Accession Period of Turkey, *1. National Insurance Symposium Proceedings*, 24 May 2005, p. 453.

³³ İbrahim Taşbaşı, Audit and Supervision in Insurance Sector, *1. National Insurance Symposium Proceedings*, 24 May 2005, p. 407.

is to bring into force a new consistent and compatible legislation which will have concrete legal sanctions as soon as possible.

Despite of the fact that in EU, a specific directive was accepted regarding reinsurance sector in the year 2006, in Turkey no special act has been accepted for reinsurance transactions.

In the routine report of European Commission, it was cited that the legislative conformity of Turkish insurance sector is limited and that there is not any remarkable improvement for this issue.

Certain subjects to develop and critiques made on the subject listed in the report can be summarized as follows:

- Lack of legislative conformity in general
- Restrictions on the presentation of service in insurance sector
- Lack of complete independence of insurance auditing and supervision from political authorities.
- Restrictions on foreign investment in the sector.
- Reinsurance Monopoly in confliction with EU legislation or protection privileged position of certain companies
- Essentials of rate setting
- Lack of law on insurance auditing which is in conformity with EU legislation

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11. Conclusion

When we examine insurance sector, problems faced and probable problems in the sector are mostly structural problems. In order to find a solution for structural problems modifying legislation is compulsory but this is not sufficient enough. It is also essential to realize the necessary groundwork supporting legal changes. In addition following points need to be achieved urgently:

- Providing economic stability and stable economic growth rate
- A new legal system which will facilitate to solve conflicts in a short time
- Starting to apply internationally accepted standards and adaptation of national standards to global standards.
- Professional ethic, proficiency, continuous education and informing
- Providing auditor independence
- Assuring common trust by increasing transparency

When we look at the EU, the regulations made and precautions taken in the Union are multinational whereas adaptations are national. From this point of view it can be said that Turkey is not on the losing part.

In Turkey, it can be claimed that preparation of standards about independent external auditing by separate laws instead of professional bodies as done in developed countries prevents the quick development of the profession. We believe that it is essential for Turkey to construct a unique professional body to prepare to start to apply nationally accepted auditing standards which is in conformity with EU standards and with international standards with the help of internationally accepted standards.

Turkey, which is in preaccession period to the EU, should make necessary regulations to comply with EU Directives. Furthermore, international accreditation of Turkish auditing professionals is an important task during preaccession period. EU candidacy should be seen as a big opportunity for the recognition and validity of auditing profession in Turkey, as well. In today's market structure in Turkey, biggest market share in auditing profession belongs to foreign companies. During EU negotiations, studies should focus on international accreditation.

When we take into account the long negotiation process of Turkey, to talk about transition period is a very optimistic view. For this reason to realize adaptation step by step and completely without any missing point as soon as possible is very important. This activity is crucial because besides the new regulations to come up, adaptation of the market to these new regulations is another important point.

In the globalization period, Turkish insurance sector should define the problems it faces, detect reasons for the problems and find ways to solve these problems as soon as possible in order to achieve to survive in global competition environment. Necessary precautions should be taken for the aim of increasing Turkish Insurance Sector's competition power during EU preaccession period and sector agent should fully support all the new regulations to be made.

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