

AGENDA / INFORMATION

CURRENT EVALUATION OF INDEPENDENT AUDIT SITUATION IN TURKEY

SUBJECT: Attention You May Be in the Scope of Independent Audit!

I-) INDEPENDENT AUDIT



Nowadays, the expansion of the number of companies and their fields of activity together with the increasing financial needs have caused diverse problems. One of these problems is the trust problem of the people related to the company, especially the foreign investors and the state, in the information contained in the financial statements of the companies. The increasing need for reliable and accurate information has gradually increased the importance of audit activities.

In addition to the mail articles in the Turkish Commercial Code, companies may be included in the scope of additional audit obligations according to their foreign currency or total financial liability status.

Audit activities are basically divided into internal and external audits and independent auditing, which is the main subject of our agenda, is included in the scope of external auditing. The company scandals that have taken place in recent years have caused the need for accurate and unbiased information to be felt heavier.

Due to the Covid-19 pandemic conditions we are present, it is likely that applications such as remote work and shift work will increase the necessity for the inspection and control environment to be inspected by an impartial authority.

In addition, the distrust of foreign investors in company information has increased the importance of independent auditing.

What is the Independent Audit?

Independent audit, to obtain sufficient and appropriate independent audit evidence to provide reasonable assurance on the compliance and accuracy of the annual financial statements and other financial information of the companies according to the criteria and reporting frameworks (for example, international financial reporting standards) determined for this statement and information. It refers to the application of all necessary independent auditing techniques stipulated in the accepted independent auditing standards, to be audited through books, records, and documents, and to be evaluated and linked to the report.

What is the Purpose of Independent Auditing?

Purpose of the independent audit of financial statements; to enable the independent auditor to express an opinion on whether the financial statements represent an enterprise's financial status and activity results in line with the financial reporting standards in all material respects truly and correctly.

Independent auditing represents not an obligation imposed by laws, regulations, and standards on businesses, on the contrary, it is an indispensable need for today's businesses. Transparent, explicit, and understandable information obtain the most valuable information, and this is only possible with independent auditing.

Independent audit is required to provide accurate and reliable information to the following stakeholders:

- ✔ Administration of Company
- ✔ Shareholders
- ✔ Employees
- ✔ Lenders
- ✔ Investors
- ✔ Public institutions (POA , EMRA , CMB , BRSA)

What are the benefits of Independent Audit?

Independent auditing benefits both the audited firm and the public and the state.

It provides accurate and reliable information flow to management.

It helps the management to make healthy future decisions.

Indicates whether the financial statements reflect the truth.

It helps business management and its employees to prevent cheating.

With independently audited financial statements, it becomes easier for the business to find low-cost financing.

In a company that is subject to an independent external audit, the rights of all partners are better protected.

II-) INTERNATIONAL AUDIT IN TURKEY

Institutions and Regulations Regarding Independent Audit in Turkey

We can arrange the chronological order of institutions and regulations related to independent auditing in Turkey as follows:

- ✔ Audit of Capital Markets Board (CMB) (1987)
- ✔ Law 3568 on Independent Accountant Financial Consultancy and Sworn-in Certified Public Accountant (1989)
- ✔ Union of Chambers of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey (1989)
- ✔ Insurance Audit Board and Independent Audit of Insurance Companies (1994) - Undersecretariat of Treasury
- ✔ Banking Regulation and Supervision Agency (BRSA) (1999)
- ✔ Turkish Accounting Standards Board (TMSK) (2002)
- ✔ Energy Market Regulatory Authority and Independent Audit in Energy Market (2001)
- ✔ International Audit Merely Requested in Accordance with the New Turkish Commercial Code (2011)
- ✔ Ministry of Customs and Trade
- ✔ Public Oversight, Accounting and Auditing Standards Authority (KGK) (2011)
- ✔



1. Subject to Independent Audit According to the Turkish Commercial Code

Companies of Subject to Independent Audit

- a. The current threshold for companies subject to independent audit in terms of the Turkish Commercial Code has been determined as follows in the decision numbered 2018/11597, and an auditor should be elected in the general assembly execution period specified in terms of the TCC and in any case until the end of the relevant financial year.
- b. General Criteria for Subject to Independent Audit
 - In the decision, it was stated that all companies exceeding the threshold values of at least two of the following three criteria in two consecutive accounting periods are subject to the independent audit.
 - a. Total assets are 35 million Turkish Liras. (it was 40 million and above Turkish Liras in the previous decision)
 - b. Annual net sales revenue is 70 million Turkish Liras. (in the previous decision, it was 80 million and above Turkish Liras.)
 - c. Number of Employees are **175**. (It was 200 and above in the previous decision.)

- c. Companies subject to independent audit, regardless of the criteria, are included in the attached (I) and numbered list; public companies or companies with PIE status are subject to the independent audit without any criteria.
- d. Companies whose capital market instruments are not traded in an exchange or other organized markets but are deemed public under the CMB Capital market instruments are untraded in an exchange or other organized markets but are considered public under the CMB and exceed the threshold values of at least two of the following three criteria in two consecutive fiscal periods. Companies are subject to independent audits.
- Total assets are 15 million Turkish Liras.
 - Annual net sales revenue of 20 million Turkish Liras.
 - Number of Employees 50
- e. Companies listed in the attached list (II)

Among the companies listed in the list (II) attached to the decision, those that exceed the threshold values of at least two of the following three criteria in two consecutive accounting periods are subject to the independent audit.

- Total assets are 15 million Turkish Liras.
- Annual net sales revenue of 20 million Turkish Liras.
- Number of Employees 50

f. Other Matters

- If the company subject to the independent audit because it exceeds the threshold values, remains below the threshold values of at least two of the three criteria in two consecutive accounting periods, or if it is 20 percent or more below the threshold values of at least two of these criteria in an accounting period, leaves the scope of the independent audit as of the following accounting period.
- In determining whether the threshold values are exceeded; in terms of combined assets and annual net sales revenue, the financial statements of the last two years prepared following the legislation that the company is subject to, and in terms of the number of employees, the average number of employees for the last two years are taken as the basis.
- Companies are considered together with their subsidiaries and affiliates in determining whether the threshold values are exceeded.

Companies can inquire whether they are within the scope of independent audit in terms of TCC by following the link below.

<https://dtsorgu.kgk.gov.tr/giris.aspx>

You can access both KGK announcements and audit status query from the links below.

<https://kgk.gov.tr/Home/>
<https://dtsorgu.kgk.gov.tr/>



2. Subject to Independent Audit Accounting Banks Credit Transactions

Article 11/A of the Regulation on Credit Transactions of Banks published in the Official Gazette dated 01.11.2006 and numbered 26333 was rearranged with the Official Gazette dated 16 August 2019. Pursuant to the "Regulation on Amendments to the Regulation on Credit Transactions of Banks" published in the Official Gazette, companies have been obliged to audit companies whose total risk in the banking sector (including the requested loan) is 100 million TL and above, according to the most up-to-date information at the Banks Association of Turkey Risk Center. The regulation is valid as of August 16, 2019.

The summary of the Regulation on the amendment of the regulation on credit transactions of banks is as follows:

According to the most up-to-date information at the Banks Association of Turkey Risk Center, including the loan requested in the banking sector; it is obligatory to obtain the analysis report by the banks in accordance with the following articles, during the loan allocation phase, from credit customers other than banks and financial institutions. In other words, companies that have a cash or non-cash risk of over 100 million TL will be included in the scope of the independent audit in accordance with this legislation, even if they are not within the scope of the mandatory audit in terms of TCC and will obtain Assurance Report from an authorized independent audit company in the Annex-4 Analysis form. They will prepare a Corporate Principles Compliance report as an annex to the Annual Reports.

In accordance with the legislation, the report must be submitted to the banks for every new loan allocation and in any case until the end of the following sixth month.

- ✔ For those who are naturally obliged to prepare consolidated financial statements within the framework of the accounting and financial reporting standards published by the Public Oversight, Accounting, and Auditing Standards Authority, those who are not obliged to prepare consolidated financial statements; banks must obtain the most up-to-date financial statements that have been audited by auditors.
- ✔ As defined in the accounting and financial reporting standards published by the Public Oversight, Accounting and Auditing Standards Authority, it is obligatory to obtain the most up-to-date consolidated financial statements of the parent companies, which are the subsidiaries of another enterprise, which comply with the definitions in the aforementioned standards, which have been audited by independent audit institutions authorized by the Public Oversight, Accounting and Auditing Standards Authority.
- ✔ Each of the jointly controlling businesses, which are not under the control of other enterprises alone but jointly controlled, are prepared in accordance with the accounting and financial reporting standards published by the Public Oversight, Accounting and Auditing Standards Authority and are consolidated in the most up-to-date form. If any, audited by independent audit institutions authorized by Public Oversight, Accounting, and Auditing Standards Authority. Otherwise, unconsolidated financial statements must be obtained by banks.

You can access the relevant legislation provision from the link below.

https://www.bddk.org.tr/ContentBddk/dokuman/mevzuat_0864.pdf

3. Subject to Independent Audit According to the T.R. Energy Market Regulatory Authority

At the meeting of the Energy Market Regulatory Authority on 26.09.2019; Following subparagraph (j) of the seventh paragraph of Article 5 and paragraph (e) of the second paragraph of Article 9 of the Law on the Organization and Duties of the Energy Market, Regulatory Authority numbered 4628, "Regarding the Auditing of the Activities of Real and Legal Persons Operating in the Energy Market to Independent Auditing Firms" The provisions of the first and second articles of the authority decision dated 03/03/2015 and numbered 5507 were amended and the scope of the independent audit was narrowed.

Operating in the Energy Market and stated below:

- A. In the Electricity Market;
 - a. Electricity Generation License,
 - b. Distribution License,
 - c. Procurement License Subject to Tariff Regulation,

- B. In the Natural Gas Market;
 - a. Distribution License,
 - b. Storage License subject to tariff regulation,
 - c. Transmission License (Pipeline),

Owner legal entities ensure that their activities, practices, transactions, accounts, and financial statements are audited by independent audit institutions following the relevant legislation, the regulations of the obligations put into effect by the Energy Market Regulatory Authority, and the general and special provisions that form an integral part of their licenses and the report issued as a result of the audit within the following accounting period, until the 15th of May. Notifications are made within the scope of the Energy Market Notification Regulation published in the Official Gazette dated 27.05.2014 and numbered 29012.

The license holders who have independent audit obligations are excluded from the following independent audit obligation.

1. Among the generation license holders operating in the electricity market, the legal entities holding a Generation License with an installed capacity of 100 megawatts (mechanical) and less on a facility basis.
2. Legal entities holding Organized Industrial Zone (OIZ) Production and OIZ Distribution Licenses operating in the electricity market.

The Electricity Market Activity Monitoring and Evaluation Form regulated by Annex-1 part of the said Board Decision has been changed as follows.

	SUBJECT	Performed of Determination
1	Changes in the capital structure of the auditee and Paid-in Capital Requirement	
2	By-product activities and non-market activities	
3	The annual production / purchase and sales amount of the licensee and the cost of production and buying and selling amounts	
4	Account segregation	
5	Obligation to secure facility assets	
6	Connection and / or system usage agreements	
7	Obligation to register with the Market Financial Settlement Center (PMUM)	
8	Annual Reports	
9	Annual license fee	
10	Other matters	

The items specified in the form above will be evaluated in light of the explanations made with the following sequence number.

1. As a result of the comparison between the partnership structure in the license of the auditee and the existing partnership structure, the shares representing 10% (five percent in public companies) or more of the capital are acquired directly or indirectly by a natural or legal person, ten percent of the legal entity capital of the shares of a partner In case of detection of share acquisitions/share transfers that result in exceeding and/or falling below the aforementioned ratio, it covers the examination and determination studies on whether the license has been amended or demanded a license amendment upon the approval of the Board. Even if there is no share transfer, it will be investigated whether there has been any privilege, abolishment of privilege or dividend shares without the approval of the Board. (Article 57 of the Electricity Market Licensing Regulation). In addition, it is the determination of whether the company's paid-in capital obligation has been fulfilled.

2. If the auditee engages in activities that complement and/or required the relevant activity and by-product activities in addition to the market activity, it covers the necessary examination and determination studies on whether there is a provision in the license (Electricity Market Licensing Regulation, Article 44). If it is available, in addition, it will be investigated whether the auditee is engaged in any non-market activity and information will be provided.
3. For the auditee engaged in production activity: the determination of production/purchase and sales quantities separately based on facilities, activities that complete and/or necessary activities and by-products resulting from market activity, and examination of the determination of the purchase and sales quantities of other audited ones, and It includes determination studies. In addition, the cost of production and the number of purchases (if any) and sales will also be specified.
4. Licensed official entities operate more than one activity in the market and/or carrying out the same activity in more than one facility or region, with each activity subject to license or each facility or region in which the activity is carried out, and/or the side that occurs as a result of the activities and market activities that are required. It defends the necessary examination and determination studies on whether they fulfill separate account and record-keeping obligations for their activities related to the products (Electricity Market Licensing Regulation, Article 44).

You can use the links below for the relevant change.

<https://www.epdk.gov.tr/>

<https://www.resmigazete.gov.tr/eskiler/2019/10/20191001-8.pdf>

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Regards,



Your closer experts...