QUALITY CONTROL FOR AUDITING FIRMS IN TURKEY

Assist. Prof. Dr. İrem BATIBAY TÜNAYDIN

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LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
ASB	Auditing Standard Board
BDDK	Banking Regulation and Supervision Agency of Turkey
CAP	Compliance Advisory Panel
CPA	Certified Public Accountant
FEE	Federation of European Accountants
GAAS	Generally Accepted Auditing Standards
IASB	International Accounting Standards Board
IAASB	International Auditing And Assurance Standards Board
IAESB	International Accounting Education Standards Board
IAPC	International Auditing Practices Committee
ICAEW	Institute of Chartered Accountants in England and Wales
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation Of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IIA	The Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
ISQC	International Standard on Quality Control
KGK	Public Oversight Board of Turkey
MG	Monitoring Group

PCAOB	Public Company Accounting Oversight Board
PIOB	Public Interest Oversight Board
SEC	Securities Exchange Commission
SPK	Capital Markets Board of Turkey
TURMOB	The Union of Chambers of Certified Public Accountants of Turkey

ABSTRACT

The main purpose of this book is to examine the difficulties encountered by external auditors in compliance with Quality Control Standards. This research evaluates the impact of audit quality factors on audit companies in Turkey according to the Quality Control Standard. Moreover, this book analyzes auditors' perception of audit quality in Turkey and determines the factors, which are influencing audit quality. It attempts to explore auditors' opinions on difficulties that auditors experience and factors that influence audit quality.

The research method of this study is to interview auditors, who have experience in auditing over 20 years and working at audit companies, which have audited more than 95% of listed companies in 2015. Auditors have been chosen randomly. Interviews with auditors empirically examine Turkish auditors' perceptions of the audit quality and their problems with the application of standards.

According to the findings of this research, the factors influencing audit quality in Turkey have been identified and as a result, the aspects regarding the audit quality in terms of legal regulations have been determined and suggestions have been provided.

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INTRODUCTION

Some individuals believe that organizations allocate funds for audits solely due to legal obligations. While this is true in certain cases, audits have historically been employed even when not mandated by law, with their demand predating the introduction of securities laws. Costouros (1978) notes that certain forms of auditing trace back to Greece as early as 500 BC.

Up until the late 18th century, businesses were generally modest in scale, often functioning as sole proprietorships with owners directly overseeing operations. This limited the accountability to external parties. With the start of the industrial revolution, companies have become larger and the segregation of duties on the owner and the director has become vital. The evolution of modern accounting coincided with the increasing complexity of business structures. The Industrial Revolution and the resulting explosion in the growth of business activity led to the widespread adoption of auditing methods. The demand for audits arose from the imperative for accountability when business owners delegated management responsibilities, especially in contemporary corporations. Firms recognized the necessity for fraud detection mechanisms and financial accountability as they participated in the stock market, and investors increasingly relied on financial reports.

As corporations experience accelerated growth, the imperative for a clear delineation between owners and managers becomes apparent. Instead of owners (shareholders) directly overseeing operations, the responsibility for running the corporation falls upon professional managers. In essence, managers act as agents representing the interests of owners (principals). This arrangement arises from the fact that shareholders and owners entrust resources to managers with the directive of maximizing wealth. Auditors play a crucial role in mitigating agency costs between shareholders and managers.

In situations where a conflict of interest arises between shareholders and managers, shareholders desire the management to operate the company in a manner that enhances shareholder value. However, the management's priorities may lean towards expanding the company in ways that enhance their personal power and wealth, potentially diverging from the shareholders' best interests. The misalignment of goals creates an inherent conflict of interest between the manager and the absentee owner. If both parties pursue their self-interests independently, the manager may not consistently act in the owner's best interest. This underscores the necessity for auditing a company at this juncture.

When the owner hires an agent (manager), demand for monitoring exists. The conflict of interest between an agent and principal is called an agency conflict. There can be several reasons why the goals of them may not coincide.

According to Zerni (2009), “agents may be more risk averse than principals, and due to differential risk profiles, they may exhibit tendency to be more optimistic about the economic performance of an entity or their performance under a contract even more than would be justified by the real world. In the context of corporate finance, agency costs most often occur when managers and/or other firm insiders (are expected to) pursue personal benefits and power rather than the profitability of the firm (i.e. moral hazard). Given that the principals may lack trust in their agents, they need to establish some mechanisms to make sure that principals are doing what they are hired to do. This is normally attempted to achieve through two broad categories of governance mechanisms: better alignment of incentives and monitoring" (Zerni, 2009, 11).

In the early 21st century, the global economy confronted a surge in accounting scandals and bankruptcy declarations, creating a worldwide chain reaction. Prominent cases such as Enron, Lehman Brothers, WorldCom, and Parmalat raised serious doubts about the credibility of top managers and auditors. As the frequency of accounting scandals continued to escalate, a compelling need for a secure financial market emerged. This reality triggered renewed discussions on the quality of financial reporting and auditing firms.

In response to these incidents, academic researchers, regulators, and professional institutions (e.g., The SEC and the AICPA) collaborated on developing new approaches to accounting and auditing, aiming to establish a secure and realistic financial market. The recurring question of "who can identify risks at an early stage?" prompted extensive discussions, with the answer pointing to the role of the auditor. Auditors were tasked with scrutinizing the valuation of financial assets and evaluating going concern issues.

The term "watchdogs that didn't bark," coined by PCAOB and some newspapers, emphasized the auditor's responsibility.

However, an evolving trend saw rating agencies taking on an increasingly significant role by pre-announcing downgrades in credit risks for affected firms, banks, and countries. In conclusion, the European Commission published the Green Paper in 2010, outlining precautions to ensure auditors' independence and reliability, along with measures to enhance the quality of financial statement auditors' work (Tritschler, 2013).

The global financial crises have underscored the renewed significance of auditing. Auditing serves as a crucial assurance for investors and information users, forming an integral part of the regulatory and supervisory framework. Its primary objective is to furnish stakeholders with a genuine and accurate perspective on a company's annual reports (Neri, L., and Russo, A., 2014).

This book delves into the auditors' perspective on audit quality, the key determinants influencing audit quality, and the challenges faced by external auditors in adhering to quality control standards in Turkey. The findings offer valuable insights for researchers, regulators, financial statement users, and audit practitioners involved in quality control standards. Notably, there has been a lack of studies conducting interviews with auditors in Turkey on audit quality and its influencing factors. This book, reviewing pertinent literature and exploring auditor perceptions within Turkish audit firms, stands as a unique contribution. Its findings can serve as a point of reference for future accounting research in Turkey and may prove beneficial in guiding regulators and practitioners in the formulation and implementation of control and supervisory policies related to audit quality in the country.

The subsequent sections of this book are structured as follows: Section 1 delineates the significance and definitions of audit and audit quality, along with a concise history of auditing in Turkey. Section 2 elucidates standards directly linked to audit quality and presents global regulators and regulations pertaining to audit quality. Section 3 offers a comprehensive review of relevant literature, contextualizing the current study within the landscape of prior research on audit quality, with a focus on influencing factors identified throughout the literature review. Section 4 outlines the study of the book's methodology and presents its findings. The concluding section synthesizes the implications derived from these findings.

SECTION ONE

1. SIGNIFICANCE OF AUDIT AND AUDIT QUALITY

1.1.Definition of Audit

Audit as a word comes from the Latin word "audire" (auditus) which means, act of hearing (Lee & Ali, 2008). During the middle ages when manual book-keeping was in use, auditors in Britain used to hear the accounts read out for them and checked that the organization's personnel were not inattentive or manipulative (Matthews,2006).

Audit quality lacks a singular definition applicable universally; instead, it varies depending on different perspectives. The fundamental aim of an audit is to elevate the level of confidence in financial statements for the beneficiary.

Understanding the distinct meanings of accounting, auditing, and quality is essential before delving into the concept of audit quality. Accounting is booking, classifying, and summarizing all of the events with the financial consequences appropriately to provide proper financial statements. Accountants need to have a thorough understanding of the principles and rules governing the preparation of accounting information. Moreover, they should establish a cost-effective system to ensure the accurate and timely recording of all financial transactions. In the audit of accounting data, auditors concentrate on scrutinizing the recorded data to ascertain its alignment with the financial events that transpired during the accounting period. (Arens, Elder and Beasley 2012).

Given that auditing is founded on scrutinizing correctness and appropriateness, it can be asserted that it plays a pivotal role in fostering the "transparency" necessary to establish and sustain a trustworthy environment in markets. (Uçma, & Beycan, 2008)

The purpose of the audit is to enhance the confidence level of financial statements for the beneficiary. Furthermore, audit is collecting and evaluating the evidence of the information in order to determine and report the level of the correspondence between the information and established criteria. An audit should be performed by an independent person (Arens, Elder, and Beasley 2012). A common definition of auditing by the American Accounting Association Committee on Basic Auditing Concepts is as follows:

Auditing is a systematic process of objectively obtaining and evaluating the evidence of the assertions regarding the economic actions and events, in order to ascertain the level of correspondence between those assertions and established criteria and communicate the results to the interested users.

1.2.Demand for Auditing

Prior to delving into the quality of audit services, it is crucial to comprehend the necessity and the market demand for such services. Auditing plays a substantial role in influencing information risk, which refers to the likelihood that the information used in making business risk decisions is inaccurate.

Inaccurate financial statements stand out as a potential root cause of information risk, especially as society becomes increasingly complex, heightening the likelihood of decision-makers encountering unreliable information.

The primary responsibility of the regulatory authority in the capital market is to facilitate a comprehensive public disclosure process. In this context, their duties encompass ensuring sound investment decision-making, promoting the effective functioning of markets, and safeguarding the rights and interests of depositors who entrust their funds to capital markets. The purpose of auditing is to furnish precise and trustworthy information regarding the financial status of a business. This allows investors, whether considering an investment or already involved, to base their decisions on the audit report. Various stakeholders in the business, such as banks, employees, suppliers, customers, and government agencies, can access reliable information about the company and assess their connections through this report. Without auditing, the absence of accuracy and reliability in information poses a potential hazard, leading to information risk.

The factors contributing to information risk can be succinctly outlined as follows: the distance of information, conflicts of interest between users and providers of information, and an excess of complex information about a business. Information remoteness signifies the challenge of obtaining firsthand information about a business in today's economy, increasing the likelihood of misstatements when information is acquired from secondary sources. Conflicts of interest between users and information providers arise from divergent goals, potentially stemming from expectations of future events or intentional emphasis designed to influence users. The abundance of data can also contribute to information risk, particularly as organizations grow larger, making it more likely for transactions to be unintentionally misstated when not properly recorded.

In Turkey, the companies that will be subject to independent audit were determined by the Presidential Decree No. 6434 published on November 30, 2022 pursuant to the authorization granted by the Turkish Commercial Code. If the companies meet two of the requirements in two consecutive fiscal years, they should have an independent audit. The requirements for the companies are;

- The total assets of the company are equal to or above TL 60 million.
- The annual net sales revenue of the company is equal to or above TL 80 million.
- The number of employees is equal to or above 100.

Apart from the numerical criteria mentioned earlier, specific industries or companies explicitly outlined in the decree remain subject to independent audits, irrespective of the aforementioned conditions. These encompass entities regulated and supervised by the Capital Markets Board (SPK), those under the oversight of the Banking Regulation and Supervision Agency (BDDK), and media service providers possessing national TV broadcasting stations.

The advantages derived from a high-quality audit service are outlined as follows (Oktay, 2013, p.48):

- The fulfillment of responsibilities by beneficiary parties is ensured, emphasizing that audit firms and auditors, acting with a sense of social responsibility, are obligated to deliver the audit service at a high quality for the common welfare.
- The reliability of the audit firm and the associated dignity are effectively maintained and enhanced. Recognizing that market dignity is a crucial asset for audit firms (Taylor and Glezen, 1997), it is emphasized that compromising on quality can have serious consequences on dignity, as evidenced by investigations in the audit profession over the past 10-12 years.
- Increased competitive strength leads to a larger market share and improved profitability (Yerli, 1997). Notably, companies with a corporate management mindset tend to favor audit firms providing quality audit services as a significant factor in their selection criteria, whereas profit-centric audit firms may compromise in the competitive environment.
- The retention of the existing customer portfolio is emphasized (Yerli, 1997). Clients who are highly satisfied with quality audit services are less inclined to change their audit firms unless compelled by factors

such as rotation requirements or other significant reasons.

- Enhances the success of the dynamic and constantly evolving capital market. The success of the capital market relies on several factors, including the approval of financial statements following quality audit procedures, the dissemination of complete and accurate information, and the protection of investors' rights when investing in capital market instruments.
- Minimizes the risk of legal action against the audit firm. Legal suits related to alleged audit failures pose a potential threat (Ricchiute, 1982). Losing a lawsuit can result in damage to the firm's reputation, substantial compensation payments, loss of clientele, and legal expenses. A quality audit service is essential to mitigate the likelihood of legal challenges. While instances of lawsuits against audit firms are more common outside Turkey, such cases are infrequent within the country. Consequently, audit firms primarily acknowledge their responsibility to professional organizations and regulatory authorities in Turkey.
- Reduces the likelihood of sanctions imposed by professional organizations and regulatory authorities, an undesirable situation that varies in magnitude among different countries.
- Enhances the attractiveness of audit firms as employers for qualified individuals (O'Reilly et al., 1998).

> Recognizing that skilled labor is the most valuable asset for audit firms, the presence of well-qualified professionals is essential to "guarantee the quality of the audit procedure" (Sanlı, 2007). Qualified personnel are considered a prerequisite for maintaining audit quality.

Globally, it has been observed that issues encountered in the audit sector often stem from shortcomings associated with audit quality (Dünya Gazetesi, 2002).

Audit yields diverse advantages for different segments of society and orchestrates economic activities. The analysis of audit benefits is categorized into three perspectives: the viewpoint of audited businesses, other stakeholders in the business realm, and public organizations (Güredin, 2010).

1.2.1. Benefits Provided to the Audited Business

Auditing imparts several advantages to businesses, encompassing:

- Enhancing the reliability of financial statements.
- Mitigating the likelihood of fraudulent activities by business managers and employees.
- Serving as the foundation for financial statements and tax returns submitted to governmental agencies, thereby bolstering the credibility of these statements.
- Facilitating access to credit facilities through the presentation of audited financial statements.

- Auditing exposes significant errors within the accounting records of the audited company, aiding in the presentation of precise revenues and expenses.
- Audit offers assurance that the policies and procedures of holding companies are devised and implemented for the community's benefit.
- Globally, publicly traded companies are mandated to subject their financial statements to an audit.

1.2.2. Benefits Provided to the Other Members of the Business World

Each passing day economy becomes more complex. In order to determine appropriate and consistent decisions, the information used should be reliable and valid. Unreliable information prevents the efficient use of resources and damages society and decision-makers.

Each passing day economy becomes more complex. In order to determine appropriate and consistent decisions, the information used should be reliable and valid. Unreliable information prevents the efficient use of resources and damages society and decision-makers.

Audit benefits to the other members of the work-life are;

- Audited financial statements assist credit institutions in making decisions about lending credits.
- Audited financial statements shed light on the investment decisions of the present and future small-scale investors.

- In the case of selling, buying, or merger of a business, auditing provides reliable information to all sides.
- Especially according to the widespread use of Basel II criteria in the banking sector, independently audited financial statements of the companies will use low-cost loans.
- Audited financial statements provide reliable information to relevant parties about the financial structure, efficiency, and profitability of the business.

1.2.3. Benefits Provided to Public Organizations

The advantages of auditing for public organizations encompass:

- Boosting confidence in financial reports and tax returns, which are formulated on the basis of audited financial statements.
- In instances of indebtedness and bankruptcy, audited financial statements furnish impartial and dependable information to judicial authorities when regulating mandates and partnership contracts.

1.3. Definition of Audit Quality

The term “quality” is defined as the essential asset, distinctive nature, and aspect. Quality is a level at which a set of inherent characteristics of a product or service fulfillments to its requirements. (Quality Assurance Guidelines, Pacific Association of Supreme Audit Institutions/Pacific Auditors Working Together)

Researchers have provided various definitions for audit quality. From a practical standpoint, audit quality is considered to be present when the audit aligns with the relevant auditing standards (Krishnan and Schauer, 2001; Tie, 1999). Accounting researchers, however, offer diverse perspectives on audit quality, often resulting in distinct definitions. Some commonly shared definitions of audit quality include:

(a) According to DeAngelo, audit quality is "the market-assessed joint probabilities that an auditor will both detect a breach in the client's accounting system and report the breach" (DeAngelo, 1981). This definition shows that audit quality has two parts in it. The first component is the probability that an auditor finds existing misstatements. Also, it links to the auditor's ability and talent. The second component is about acting properly on the discovery of misstatements. This component means that audit quality depends also on the auditor's objectivity, professional skepticism, and independence. According to Knechel, "These two components also suggest that different aspects of the audit can influence overall audit quality. The discovery of a misstatement requires that appropriate resources be effectively utilized in the audit process (i.e., inputs and process) while reporting a misstatement requires an auditor to take appropriate action given the current context at the end of the audit (i.e., output and context). The following problems arise from this definition, however, (1) it has not been reconciled with the audit risk model, which is used to guide the audit and reflects the auditor's perceptions, and (2) the perception of market participants can be erroneous. Despite these limitations, the

DeAngelo (1981) definition of audit quality identifies two important components of audit quality" (Knechel et al., 2013, 387).

(b) According to the Institute of Chartered Accountants in England and Wales (ICAEW), "audit quality is about delivering an appropriate professional opinion on the financial statements of a company, which is supported by the necessary evidence and objective judgments". The six key drivers of audit quality (identified in Audit Quality) are:

- Leadership, including tone at the top and audit firm strategy;
- People of competence, quality, and integrity;
- Client Relationships, including effective management of client portfolios and working with individual clients;
- Working Practices and quality control procedures;
- Internal Monitoring by audit firms of leadership, people, client relationships, and working practices; and
- External Monitoring under public oversight to encourage and assist firms to improve audit quality.

(c) The likelihood that an auditor will not issue an unqualified opinion for the financial statements, which contain material misstatements (Lee, Liu, & Wang, 1999);

(d) The accurate information provided by auditors (Titman & Trueman, 1986; Davidson & Neu, 1993);

(e) The level of assurances - the probability that audited financial statements contain no material omissions or misstatements (Dopuch & Simunic, 1982; Simunic & Stein, 1987);

(f) Fineness, bias, and noise are elements of proxies that require attention to ensure the information quality of research findings (Ashbaugh et al., 2003)

(g) Audit Quality Inspections states that "undertaking a quality audit involves obtaining sufficient and appropriate audit evidence to support the conclusions on which the audit report is based and making objective and appropriate audit judgments...A quality audit [also] involves appropriate and complete reporting by the auditors, which enables the Audit Committee and Board properly to discharge their responsibilities" (AIU - 2004/5 Audit Quality Inspections, Public Report June 2005).

In summary, defining audit quality has proven challenging, as indicated by research conducted by regulators and standard-setters. The Financial Reporting Council (FRC 2006, 16) emphasizes the absence of a universally agreed-upon definition, stating that "there is no single agreed definition of audit quality that can be used as a 'standard' against which actual performance can be assessed." Similarly, the Consultation Report of the International Organization of Securities Commissions (IOSCO 2009, 3) conveys the difficulty in defining audit quality, noting that it is specific to stakeholders, and achieving consensus is challenging (Knechel et al., 2013, 387).

Understanding the significance and applicability of audit quality is crucial for users of financial statements. The development of an audit quality framework may facilitate the establishment of a common language for discussing the factors influencing audit quality.

1.3.1. Perceived Service Quality Component / Determinants of Quality

Quality is gauged by the customer's perception of products and services. However, in this definition, the specific criteria for measurement are not explicitly identified, as customer satisfaction may not align with adherence to particular standards.

Deming tries to explain this feature of the quality by asking that metaphoric question without an answer given; “What is the definition of a pair of shoes’ quality for a random person? Long-lasting? Shining? Comfort? Waterproof? The fee paid for whatever the understanding of quality is? What is the significant characteristic of the quality for a customer? (Deming, 1998; 139)”

This question underscores the multidimensional nature of quality. A quality characteristic, without further elaboration, facilitates answering the question of "which is of higher quality?" or aids in deciding the quality of a product. Therefore, quality characteristics can be described as significant features of a product or service from the customer's perspective. Different products and services possess distinct quality characteristics.

Parasuraman, Zeithaml, and Berry have conducted focus groups with consumers that revealed 10 key categories in evaluating service quality. These were labeled service quality determinants and are described in Table 1, which provides examples of service-specific criteria. (Parasuraman, Zeithaml, and Berry, 1985)

Table 1: Determinants of Service Quality

RELIABILITY

- Involves consistency of performance and dependability
- It means that the firm performs the service right the first time.
- It also means that the firm honors its promises. Specifically, it involves:
    - ➢ Accuracy in billing;
    - ➢ Keeping records correctly;
    - ➢ Performing the service at the designated time

RESPONSIVENESS

- Concerns the willingness or readiness of employees to provide service.
- It involves timeliness of service:
    - ➢ Mailing a transaction slip immediately;
    - ➢ Calling the customer back quickly;
    - ➢ Giving prompt service (e.g., setting up appointments quickly).

COMPETENCE

- This means possession of the required skills and knowledge to perform the service.
- It involves:
    - ➢ Knowledge and skill of the contact personnel;
    - ➢ Knowledge and skill of operational support personnel;
    - ➢ Research capability of the organization.

ACCESS • Involves approachability and ease of contact. • It means: ➢ The service is easily accessible by telephone (lines are not busy and they don't put you on hold); ➢ Waiting time to receive service (e.g., at a bank) is not extensive; ➢ Convenient hours of operation; ➢ Convenient location of service facility.
COURTESY • Involves politeness, respect, consideration, and friendliness of contact personnel (including receptionists, telephone operators, etc.). • It includes: ➢ Consideration for the consumer's property (e.g., no muddy shoes on the carpet); ➢ The clean and neat appearance of public contact personnel.
COMMUNICATION • This means keeping customers informed in a language they can understand and listening to them. • It may mean that the company has to adjust its language for different consumers increasing the level of sophistication with a well-educated customer and speaking simply and plainly with a novice. • It involves: ➢ Explaining the service itself; ➢ Explaining how much the service will cost; ➢ Explaining the trade-offs between service and cost; ➢ Assuring the consumer that a problem will be handled.

CREDIBILITY

- Involves trustworthiness, believability, and honesty.
- It involves having the customer's best interests at heart.
- Contributing to credibility are:
  - Company name;
  - Company reputation;
  - Personal characteristics of the contact personnel;
  - The degree of hard sell involved in interactions with the customer.

SECURITY

- Is freedom from danger, risk, or doubt.
- It involves:
  - Physical safety
  - Financial security
  - Confidentiality

UNDERSTANDING/KNOWING THE CUSTOMER

- Involves making the effort to understand the customer's needs.
- It involves:
  - Learning the customer's specific requirements;
  - Providing individualized attention;
  - Recognizing the regular customer.

TANGIBLES

- Include the physical evidence of the service:
  - Physical facilities;
  - Appearance of personnel;
  - Tools or equipment used to provide the service;
  - Physical representations of the service, such as a plastic credit card or a bank statement;
  - Other customers in the service facility.

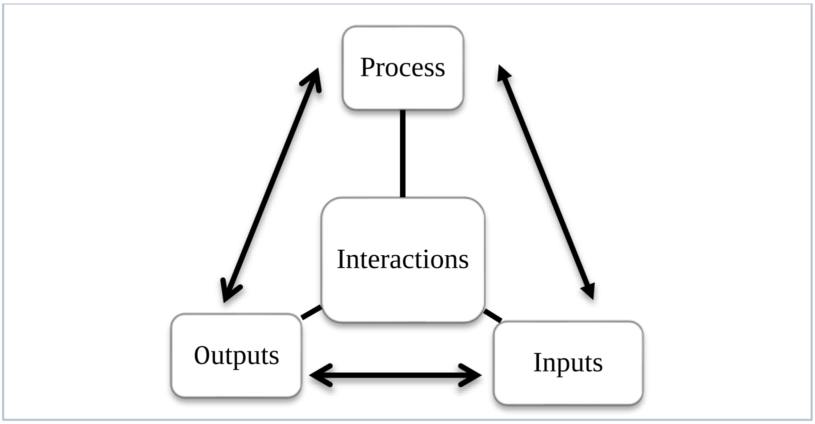
1.3.2. Indicators of Audit Quality

While auditors bear the responsibility for quality audit, achieving audit quality necessitates the active participation, interaction, and support of all stakeholders in the financial reporting environment. Several regulators have introduced varying frameworks for assessing audit quality.

In February 2014, the International Auditing and Assurance Standards Board (IAASB) established a framework for audit quality. This framework was designed to increase awareness of the crucial elements of audit quality, encourage stakeholders to explore avenues for enhancing audit quality, and facilitate dialogues among stakeholders.

The IAASB's framework aims to raise awareness about key elements of audit quality and assist stakeholders in finding ways to improve audit quality. The factors influencing audit quality, as identified by the IAASB, are categorized into three groups: (1) Inputs, (2) Processes, and (3) Outputs. Input factors encompass the values, ethics, and attitudes of auditors, as well as their knowledge, skills, and experience. Outputs include formal reports and information, often influenced by legislative requirements and contextual considerations. While some stakeholders can exert influence over the nature of outputs, others have limited impact.

Figure 1: IAASB' Perspective on Audit Quality



Engagements among essential stakeholders encompass both formal and informal communications. These interactions are shaped by the audit's contextual environment, fostering a dynamic relationship between the elements of inputs and outputs within the framework.

The Framework of IAASB distinguishes the following elements:

a) Inputs

b) Process

c) Outputs

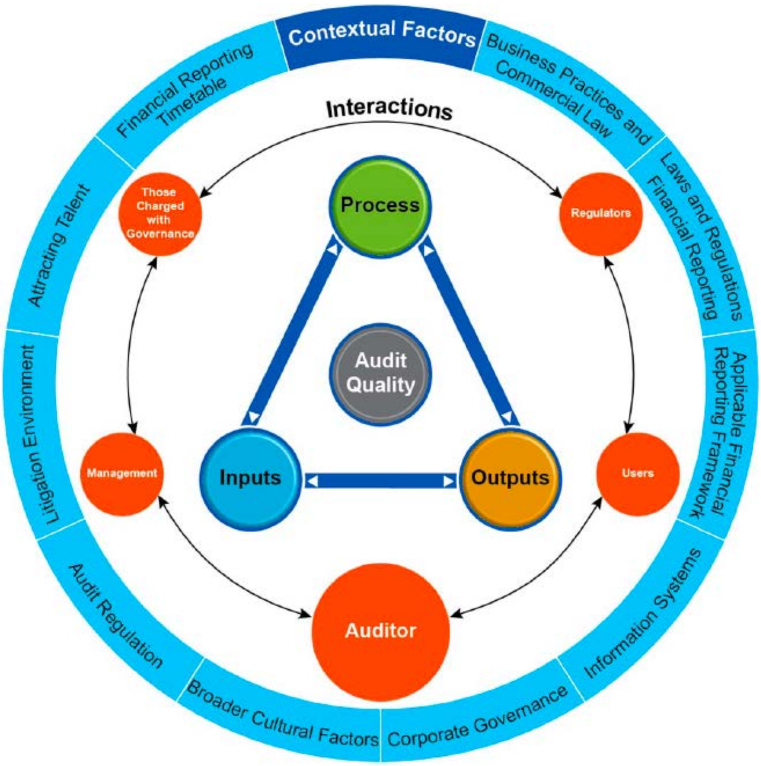
d) Key Interactions within the Financial Reporting Supply Chain

e) Contextual Factors

Several environmental or contextual factors, including laws, regulations, and corporate governance, have the potential to influence the character and quality of financial reporting and, directly or indirectly, audit quality. Auditors appropriately adapt to these factors when determining the most effective approach to gather sufficient and appropriate audit evidence.

It's crucial to recognize that audit quality indicators can be applicable at various levels, such as the individual audit level, the firm level, and potentially the network or global firm level. For an audit committee, indicators at the individual audit level may be the most pertinent, while for an audit inspector, indicators at the firm level may carry more relevance. In a simplified view, an audit involves inputs (the people), the process (systems, policies, and procedures), and outputs (reports and other communications). Each of these elements of an audit could have audit quality indicators, with some being more easily quantifiable than others. (Source: https://www.cpacanada.ca/en/connecting-and-news/blogs/audit-quality-blog/2013/November/made-to-measure-using-indicators-to-enhance-audit-quality)

Figure 2: IAASB's Framework for Audit Quality



The IAASB's Framework encompasses the following attributes, with key attributes supporting audit quality detailed in Table 2. These attributes are applicable at the audit engagement level, the audit firm level, and the national (or jurisdictional) level, each described separately.

In the realm of values, ethics, and attitudes at the engagement level, the audit engagement partner holds direct responsibility for audit quality. Apart from overseeing the audit's execution, the audit engagement partner plays a pivotal role in ensuring that the engagement team upholds the necessary values, ethics, and attitudes for a quality audit. Key attributes for this level are presented in Table 2.

At the firm level in terms of values, ethics, and attitudes, the culture of the audit firm significantly influences the mindset of audit partners and engagement team members. The firm's environment materially affects how partners and staff discharge their responsibilities, with each firm's culture being a critical factor in determining the extent to which its members prioritize the public interest over commercial goals. Key attributes are outlined in Table 2.

Regarding values, ethics, and attitudes at the national level, national audit regulatory activities exert a substantial influence on the culture within firms and the values, ethics, and attitudes of audit partners and the engagement team. Key attributes are detailed in Table 2.

Concerning knowledge, experience, and time at the engagement level, the audit engagement partner is responsible for ensuring that the engagement team collectively possesses the necessary competences and has adequate time to obtain sufficient appropriate audit evidence before issuing the audit opinion.

At the firm level in terms of knowledge, experience, and time, the audit firm's policies and procedures impact the required knowledge and experience of audit engagement partners and the engagement team, as well as the time available for necessary audit work.

At the national level for knowledge, experience, and time, national activities can influence auditors' competences and the time spent in the engagement process.

In the audit process and quality control procedures at the engagement level, audits must adhere to auditing standards and comply with the audit firm's quality control procedures, aligned with the IAASB's ISQC1. These procedures establish a disciplined approach to risk assessment, planning, performing audit procedures, and ultimately forming and expressing an opinion. Occasionally, audit firms' methodologies and internal policies and procedures offer more specific guidance on activities, internal consultation requirements, and documentation formats.

At the firm level in the audit process and quality control procedures, the audit firm's policies and procedures impact the audit process.

At the national level in the audit process and quality control procedures, national audit regulatory activities can impact the audit process.

Table 2: Input and Process Factors of IAASB's Framework of Audit Quality

	Engagement Level	**Firm Level**	**National Level**
Input Factors			
Values, Ethics, and Attitudes	*The engagement team recognizes: that the audit	*Governance arrangements are in place that establish the appropriate	*Ethics requirements are promulgated that make clear both the

	is performed in the wider public interest; and the importance of complying with ethical requirements. *The engagement team exhibits objectivity and integrity. *The engagement team is independent. *The engagement team exhibits professional competence and due care. *The engagement team exhibits professional skepticism	"tone at the top". *Necessary personal characteristics are promoted through appraisal and reward systems supporting audit quality. *Financial considerations do not drive actions and decisions that impair audit quality. *The firm emphasizes the importance of providing partners and staff with continuing professional development opportunities and access to high-quality technical support. *The firm promotes a culture of consultation on	underlying ethics principles and the specific requirements that apply. *Regulators, national standard setters, and professional accountancy organizations are active in ensuring that the ethics principles are understood and the requirements are consistently applied.

		difficult issues. *Robust systems exist for making client acceptance and continuance decisions.	
Knowledge, Skills, Experience, and Time	*Partners and staff have the necessary competences. *Partners and staff understand the entity's business. *Partners and staff make reasonable judgments. *The audit engagement partner is actively involved in risk assessment, planning, supervising, and reviewing the work performed.	*Partners and more senior staff provide less experienced staff with timely appraisals and appropriate coaching or "on-the-job" training. *Sufficient training is given to audit partners and staff on audit, accounting, and, where appropriate, specialized industry issues.	*Robust arrangements exist for licensing audit firms/individual auditors. *Education requirements are clearly defined and training is adequately resourced and effective.
Process Factors			
Audit Process and	*The engagement team complies	*The audit methodology is adapted to	*Auditing and other standards are promulgated

Quality Control Procedures	with auditing standards, relevant laws and regulations, and the audit firm's quality control procedures. *The engagement team makes appropriate use of information technology. *There is effective interaction with others involved in the audit. *There are appropriate arrangements with management so as to achieve an effective and efficient audit process.	developments in professional standards and to findings from internal quality control reviews and external inspections. *The audit methodology encourages individual team members to apply professional skepticism and exercise appropriate professional judgment. *The methodology requires effective supervision and review of audit work and audit documentation.	that make clear the underlying objectives as well as the specific requirements that apply. *Bodies responsible for external audit inspections consider relevant attributes of audit quality, both within audit firms and on individual audit engagements. *Effective systems exist for investigating allegations of audit failure and taking disciplinary action when appropriate

In June 2015, the Public Company Accounting Oversight Board (PCAOB) released a total of 28 potential audit quality indicators. They have been identified in the concept covering three broad categories:

Audit Professionals — measures dealing with availability, competence, and focus.

Audit Process — measures concerning an audit firm's tone at the top and leadership, incentives, independence, investment in infrastructure needed to support quality auditing, and monitoring and remediation activities.

Audit Results — measures relating to financial statements (such as the number and impact of restatements, and measures of financial reporting quality), internal control over financial reporting, going-concern reporting, communications between auditors and audit committees, and enforcement and litigation.

Table 3: PCAOB's Audit Quality Framework on Audit Professionals

Audit Professionals		
Availability	**Competence**	**Focus**
*Senior auditor's time in total audit jobs *Workload of audit partner *Workload of audit manager and other members of the audit team	*Experience of auditors • Sectorial experience of auditors • *Hours of training received by the audit staff • *Turnover rate of audit staff	*Expendable audit hours and risk areas *The distribution of the different stages of the audit of the audit hours

Table 4: PCAOB's Audit Quality Framework on Audit Process

Audit Process				
Audit firm's tone at the top and leadership	**Incentives**	**Independence**	**Investment in infrastructure**	**Monitoring and remediation activities**
*The results of the survey conducted with audit firm staff	*Quality ratings and fees *Audit costs, endeavoring, and customer risk	*Compliance with the independence requirement	*Infrastructure investments to support audit quality	*Internal quality assessment results of the audit firm *PCAOB monitoring results *Technical competency exams

Table 5: PCAOB's Audit Quality Framework on Audit Results

Audit Results				
Financial statements	**Internal Control**	**Going-concern reporting**	**Communications between auditors and audit committees**	**Enforcement and litigation**
*The prevalence of the condition to publish again due to failures of the financial statements and their effects *Abuse or other financial reporting frauds *Make conclusions about audit quality regarding the quality of the financial reporting	*Timely reporting of internal control weaknesses	*Timely reporting on going-concern	*The results of an independent survey conducted by the members of the Audit Committee	*PCAOB and SEC lawsuits against the audit firm *Private lawsuits against the audit firm

Framework related to audit quality includes also DeAngelo’s (1981a; 1981b) seminal model for audit services as well as a more recent description of determinants of audit quality by Watkins et al. (2004). DeAngelo's (1981a;1981b) framework defines determinants of perceived audit quality with a particular focus on auditor independence. More recently, Watkins et al. (2004) developed DeAngelo's definition further. In comparison to DeAngelo's definition, which is concerned with perceived audit quality, Watkins at al. (2004) make a distinction between actual and perceived audit quality (Miettinen, 2008).

Figure 3: Perceived Audit Quality of DeAngelo

Perceived Audit Quality	
Auditor Competence The probability that the auditor discovers material errors in the financial statements	**Auditor Independence** The probability that the auditor will report discovered errors in the financial statements

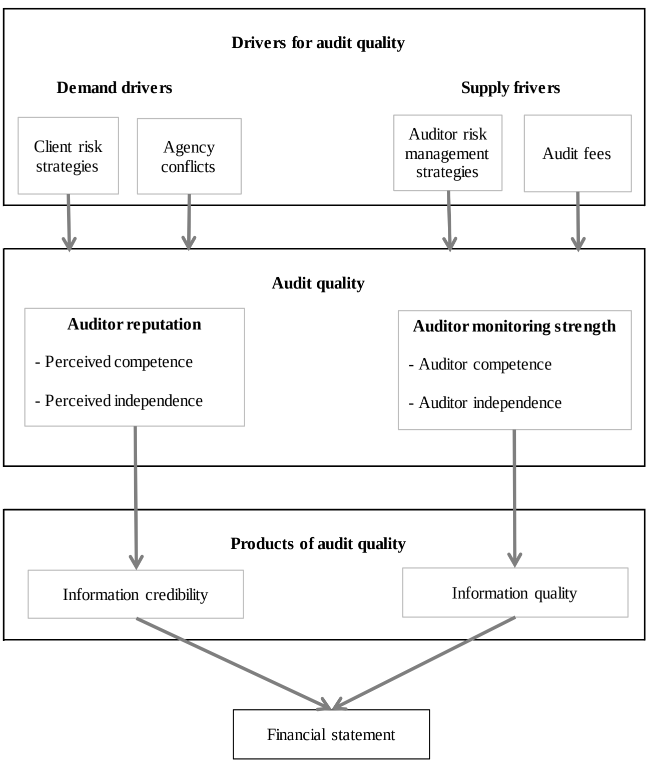
DeAngelo's (1981a; 1981b) conceptualization of perceived audit quality is illustrated in Figure 3. As previously discussed, DeAngelo defines audit quality as the market-assessed probability that, given material errors in financial statements, they will be discovered and reported. The likelihood of discovery hinges on the auditor's competence, while the probability of reporting pertains to the auditor's independence from the auditee. The framework posits that independence is compromised if the auditor permits the client to adopt a reporting policy deemed an audit failure. DeAngelo contends that an auditor's decision to maintain independence may be jeopardized if the auditor fears termination, as losing a client implies forfeiting economic revenue derived from recurring audits. This revenue results from acquiring client-specific knowledge, fostering a bond between the auditor and the client over time (DeAngelo 1981a; DeAngelo 1981b).

Nevertheless, the potential damage to reputation due to perceived non-independence is considered a counterforce to the bond between auditor and client. Consequently, an auditor's loss of reputation may diminish the size of the auditor's client portfolio. The decision to remain independent is ultimately a comparison of the gains from choosing to lose independence with those achievable by remaining independent (DeAngelo 1981a; DeAngelo 1981b). Additionally, DeAngelo argues that large audit firms are inclined to benefit more from maintaining independence due to their broader client base compared to small audit firms. Economic revenues from one client are typically less significant for large audit firms than for smaller ones (Miettinen, 2008).

Watkins et al.'s (2004) framework expands upon DeAngelo's definition of audit quality, addressing drivers, dimensions, and outcomes. Figure 4 presents this framework, which categorizes drivers into demand and supply drivers. Demand drivers encompass client risk strategies and agency conflicts, while supply drivers encompass auditor risk management strategies and audit fees. Audit quality is further divided into auditor reputation and auditor monitoring strength. Auditor reputation reflects perceptions of audit quality, whereas auditor monitoring strength represents actual audit quality.

Consistent with DeAngelo, both auditor monitoring strength and auditor reputation can be subdivided into dimensions of competence and independence. Thus, the monitoring strength (reputation) of auditors relies on their actual (perceived) competence and actual (perceived) independence. Monitoring strength and reputation are anticipated determinants of information credibility and information quality. Information credibility pertains to perceptions of financial reporting quality, while information quality relates to the actual quality of financial reporting in the framework (Miettinen, 2008).

Figure 4: Determinants of Audit Quality (Watkins et al, 2004)



Common ingredients of the quality indicators published by the World 9 different authorities:

Table 6: Other Audit Quality Indicators

Indicators	How many Frameworks has it?
1. Hours of training received by the audit staff	8
2. Views on audit quality	6
3. Number of auditors per audit partner	6
4. Length of experience	6
5. The regulatory bodies examination	6
6. Workload of audit partner	5
7. Industry experience of auditors	5
8. Workload of audit staff	5
9. Investments to develop new audit methodologies and tools	4
10. Auditors turnover rate	4
11. Independence	4
12. Surveys on audit staff satisfaction	3
13. Technical resources support	3
14. The approach of the board of management	3

1.4.Audit History of Turkey

From 1923 to 1929, Turkey implemented a fully liberal economic policy. The country's first public company during this period was the Turkish National Import and Export Corporation, known as TEMAVAŞ in Ottoman language. Funded by government officers, TEMAVAŞ became a sizable entity engaged in import and export activities. However, due to inadequate management procedures and a lack of auditing, Turkey's inaugural publicly traded company faced bankruptcy in 1938, highlighting the need for auditing (http://tmud.org.tr).

The initiation and progression of the audit profession in Turkey were significantly influenced by the demand from banks and other financial institutions operating in the financial markets. Starting in the mid-1960s, financial institutions and entities seeking funds from abroad began conducting audits of their financial statements in response to the requirements of foreign funding sources. Initially, independent auditing firms from abroad performed these audits, but since the late 1960s, audits in Turkey have been carried out by resident member firms of international audit companies (www.tbb.org.tr). In 1967, the international audit firm Touch Ross established its presence in Turkey under the name MUHAŞ, with Turkish partners. Four years later, the first global audit firm, AR-İŞ, was established.

The Capital Market Board (CMB) played a pivotal role in regulating auditing activities. In 1987, the "Regulations on External Auditing in Capital Market" came into effect. Subsequently, the "Notification on Auditing in Capital Market" and, in 2006, the "Communiqué on Auditing Standards in Capital Market" were published in the Official Gazette (Turkey Public Oversight Board). Turkish translations of International Auditing Standards were completed and issued in 2004. In 2011, the Public Oversight, Accounting, and Auditing Standards Authority (POA) was established. By 2015, 42 Turkish Accounting/Financial Reporting Standards (TASs/TFRSs), 24 TASs/TFRSs

Interpretations, and the Conceptual Framework for Financial Reporting had been published in the Official Gazette. These standards are regularly updated in accordance with amendments made by the International Accounting Standards Board (IASB), preserving the original effective dates as declared by the IASB.

SECTION TWO

2. STANDARDS AND REGULATORS RELATED TO AUDIT QUALITY

This section focuses on two standards directly associated with audit quality: ISQC 1 - Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and ISA 220 - Quality Control for an Audit of Financial Statements. Additionally, regulatory bodies overseeing accounting/auditing on a global scale and in Turkey are discussed. The objectives of these regulatory bodies are outlined in this research segment, emphasizing the importance of comprehending the roles of regulators and their diverse rules for effective implementation.

2.1. Standards Pertaining to Audit Quality

Two standards directly linked to audit quality are ISA 220, "Quality Control for an Audit of Financial Statements," and ISQC 1, "International Standard on Quality Control."

For an audit firm, it is imperative to establish a quality control system explicitly designed to offer adequate assurance, ensure the compliance of its employees with legal requirements and regulations, and generate reliable financial statements. Individuals assigned to uphold quality standards must possess sufficient and relevant experience, along with the necessary skills and competence.

Within IFAC, particularly concerning audit quality standards, all audit firms bear the responsibility of implementing and sustaining quality control systems throughout audit periods in accordance with ISQC 1. ISA 220 outlines specific responsibilities for audit firm staff, complemented by corresponding IFAC professional ethics norms.

Quality control standards serve as procedural support for audit firms to adhere to generally accepted audit standards consistently during each audit period. Published under the title "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements," ISQC 1 places the responsibility on the audit firm to establish a quality control system. This system aims to provide adequate assurance, ensure compliance with occupational standards, regulatory and legal requirements, and maintain consistency in reports published by the audit firm and its contractors. The individual overseeing the quality control system is also mandated to possess sufficient and appropriate experience, capability, and authority.

ISA 220 outlines the quality rules to be followed throughout the audit process. These rules encompass leadership responsibilities for quality on audits, adherence to relevant ethical requirements, acceptance and continuance of client relationships and audit engagements, assignment of engagement teams, engagement performance, and monitoring. ISQC 1 also addresses similar subjects, establishing quality control rules for adoption by audit firms. While both standards cover analogous topics, they delineate their scopes as the audit firm and audit practice, respectively.

Table 7: Comparison of contents of ISQC 1 and ISA 220

ISQC 1: International Standard on Quality Control 1	**ISA 220: Quality Control For Audits Historical Financial Information**
Content: The firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements:	**Content:** The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on specific responsibilities of firm personnel regarding quality control procedures for audits of historical financial information, including audits of financial statements.
1) Leadership responsibilities for quality within the firm 2) Relevant ethical requirements a) Independence 3) Acceptance and continuance of client relationships and specific engagements 4) Human resources a) Assignment of Engagement Teams 5) Engagement performance a) Consultation b) Engagement Quality Control Review	1) Leadership responsibilities for quality on audits a) Relevant ethical requirements b) Independence 2) Acceptance and continuance of client relationships and specific engagements 3) Human resources 4) Engagement performance a) Consultation b) Differences of Opinion c) Engagement Quality Control Review 5) Monitoring

c) Criteria for the Eligibility of Engagement Quality Control Reviewers d) Documentation of the Engagement Quality Control Review e) Differences of Opinion f) Engagement Documentation i) Completion of the assembly of final engagement files ii) Confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation iii) Retention of engagement documentation 6) Monitoring a) Monitoring the firm's quality control policies and procedures b) Evaluating, Communicating, and Remedying Identified Deficiencies c) Complaints and Allegations d) Documentation of the System of Quality Control	

In practice, audit firms have established systematic workflows to execute quality control procedures. During the final stage, a series of quality control measures are applied to the draft report. This involves a review conducted by an individual, typically a financial reporting specialist or an experienced auditor not involved in the audit work. The emphasis is on creating forms that discuss best practice examples related to quality control, audit procedures, work ethics, education, etc.

As mentioned earlier, audit firms must adhere to ISA and comply with the quality control standards outlined in ISQC 1. They also need to develop internal monitoring programs. In the realm of audit activities, the management in charge (usually the audit partner) is responsible for accepting projects in accordance with ISA, assembling a suitable audit team for the relevant business sector, ensuring team members adhere to codes of conduct, and overseeing the execution of audit procedures aligned with ISA during the client acceptance process. The preparation of reliable audit reports hinges on the high-quality execution of the work, and the audit team is expected to be fully aware of this.

Effective communication networks should be established among audit firms, and audits should be conducted by well-qualified and appropriately compensated individuals. Labor should not be neglected, even with the implementation of a perfect system, as the system's success depends on the diligence and performance of the workforce. Therefore, work ethic remains a crucial aspect. Conducting an audit in accordance with ISA is a process, and to achieve success in presenting a reliable report, a robust infrastructure must be implemented, along with the commitment, objectives, codes of conduct, and quality of the audit team members. In practice, ISA guidance is a valuable resource throughout the audit process, starting with client acceptance. ISA contributes to establishing audit quality and common sense by providing rules supported with examples and practical guides.

2.2. International Standard on Quality Control (ISQC I)

The guidelines for quality control applicable to firms engaged in audit, examination, compilation, agreed-upon procedures, and similar services have been established under the framework of ISQC 1 (Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements). ISQC 1 mandates that firms and their personnel adhere to professional standards, regulations, and legal requirements, and implement a quality control system to ensure the reliable completion of audit reports. The engagement team executes these quality control procedures, which may be tailored to individual audit agreements, unless an alternative proposal is put forth by the firm or other parties.

Initially formulated and published by the AICPA in 1978, quality control standards are mandatory for audit firms to observe. These standards hold comparable significance to generally accepted auditing standards ("GAAS"), with GAAS pertaining to the completion of audit work and quality control standards encompassing the entire audit process.

Quality control standards encompass comprehensive policies and procedures designed to conduct research and investigations into client companies, enhancing audit efficiency throughout the engagement. Additionally, these standards aid the firm in determining whether to continue providing audit services to existing client companies.

The significance of quality control standards in enhancing audit efficiency cannot be overstated. Auditors play a crucial role in this process by adopting Generally Accepted Auditing Standards (GAAS) and incorporating them into audit procedures. The implementation of quality control standards involves establishing a system within the audit firm. This system is structured in accordance with quality control standards, aligning with the audit firm's organizational framework, policies, and procedures. Variations in quality control systems among audit firms are attributed to differences in their organizational structures.

The primary objective of an audit is to increase the reliance of financial statement users. Auditors aim to form an opinion on the financial statements by acquiring sufficient and appropriate audit evidence to ascertain whether the statements are free from material misstatement. A quality audit is achieved when the engagement team:

Demonstrates appropriate values, ethics, and attitudes;

- Possesses adequate knowledge, skills, and experience, with allocated time for performing audit work;
- Applies a rigorous audit process and quality control procedures that adhere to legal, regulatory, and applicable standards;
- Generates useful and timely reports; and

- Engages appropriately with relevant stakeholders.

A high-quality audit instills increased reliability and credibility in audit reports for stakeholders and financial statement users. Quality is defined as the extent to which inherent characteristics of a product or service fulfill its requirements.

2.2.1. Objective of Quality Control

The primary goal is to guarantee that companies with a quality control system offer reasonable assurance that both the company and its personnel adhere to professional standards, regulations, and legal requirements, and issue appropriate reports under the given circumstances.

According to ISQC I there are six areas that should be in the firm's quality control policies and procedures:

- Leadership responsibilities for quality within the firm,
- Ethical requirements,
- Acceptance and continuance of client relationships and specific engagements,
- Human resources,
- Engagement performance and
- Monitoring.

2.2.2. Key Factors Influencing the Quality Control Standard

Several of the stipulations outlined in ISQC 1 are not novel; rather, they align with the existing Professional Standard No. 1 (PS-1), in effect since 1998. As per ISQC 1, audit companies are required to establish a quality control system. This system is designed to provide reasonable assurance regarding the adherence of the audit firm and its personnel to established standards. The audit company and its employees are expected to conduct themselves in accordance with regulations and legal requirements (ISQC, Sec. 11).

Table 8: Key Drivers of the Quality Control Standard

KEY DRIVERS OF QUALITY CONTROL STANDARD
1. Leadership Audit company forms procedures and policies to promote a corporate culture that accepts quality as an indispensable element in the execution of audit. These policies and procedures require to general managers of the audit company (or equivalent person) or if appropriate the board of directors (or equivalent) to assume ultimate responsibility for the quality control system. An audit company creates policies and procedures to ensure that the appointed person or people have sufficient and appropriate experience, skills, and authority. Audit companies should identify leadership responsibility for the quality control system.
2. Ethical and Professional Requirements An audit company creates policies and procedures to provide reasonable assurance regarding the compliance of itself and its personnel to relevant ethical requirements. Audit company in accordance with the relevant ethical provisions creates policies and procedures to provide reasonable assurance regarding the independence of itself, its personnel, and any other persons subject to distinct provisions (including other company personnel involved in the auditing network).

3. Acceptance and Continuance of Client Relationships and Specific Engagements

Audit company creates policies and procedures intended for acceptance of the client relationship and audit contracts. The audit company creates those policies and procedures to provide reasonable assurance as long as it fulfills the following statements.

- Client integrity,
- Competence to perform the engagement, and availability of time and appropriate resources for the engagement,
- Ability to comply with relevant ethical requirements.

4. Human Resources

Maintain human resources appropriate to engagements the firm undertakes.

Determination of the Audit Team;

- Forward the responsible auditor's identity and mission to the responsible key manager and senior manager of the customer,
- Ensure that the responsible auditor has the authority, ability, and competence to fulfill its mission,
- Ensure the responsible auditor's responsibilities are clearly defined and communicated to the responsible auditor,
- Conduct audits in accordance with current laws and professional standards,
- Ensure the audit company or responsible auditor issues the audit report in accordance with the conditions.

5. Engagement Performance

Perform engagements to a high-quality standard. Ensure proper consultation occurs on difficult or contentious matters and when differences of opinion arise.

• Consultation • Matters relevant to promoting consistency in the quality of engagement performance • Supervision responsibilities • Differences of opinion
6. Monitoring • Monitoring the quality control procedures and policies of the audit company. • Evaluation of deficiencies detected, reported, and corrected. • Complaints and claims.

2.3. ISA 220 Quality Control for an Audit of Financial Statements

ISA 220 specifically outlines the auditor's responsibilities regarding quality control procedures for auditing financial statements. It also covers, where applicable, the duties of the engagement quality control reviewer. The standard encompasses leadership responsibilities for quality in audits, relevant ethical requirements, acceptance and continuation of client relationships and audit engagements, assignment of engagement teams, engagement performance, monitoring, and documentation. The audit firm holds the responsibility for quality control systems, policies, and procedures.

The standard aims to establish principles, methods, and fundamentals for controlling audit quality. Audit firms are required to establish a monitoring system that includes an adequate and efficient quality control policy and procedures to ensure the quality of audit work. This standard delineates the responsibility of both the responsible engagement partner to ensure the overall quality of the audit work and the auditor to monitor whether the audit work meets the required quality.

In essence, audit quality entails providing a sound opinion on the audited company's financial statements, supported by necessary evidence and objective judgments. A quality audit service is achieved when auditors present reports supported by independent, reliable, sufficient, and appropriate audit evidence.

The engagement team executes quality control procedures applicable to individual audit agreements, unless an alternative proposal is presented by the firm or other parties. The engagement audit partner carries responsibilities that include overseeing the general quality in every audit engagement and setting an example for the audit quality of each section in the audit contract.

Engagement partners must assess whether engagement team members comply with ethical requirements. Ethical requirements for audit engagements generally encompass national regulations, which are more restrictive, and IFAC rules requirements. IFAC rules outline five fundamental elements of basic occupational ethics requirements:

Integrity

Objectivity

Professional competency and due care

Confidentiality

Professional behavior

Consequently, quality control systems based on ISQC 1 and ISA 220 reduce auditors' audit risks by mitigating operational risks faced by audit firms and enhance the credibility of financial statement users. Audit firms should thoroughly consider these implementations that yield positive effects in risk reduction, leading to the inevitable development and improvement of existing control systems.

2.4.International Regulations Related to Audit Quality

Since the latter half of the 20th century, there has been a notable acceleration in the enhancement of auditing functions. The advent of globalization led to the internationalization of entities, prompting a corresponding need for accounting to adopt an international framework. As accounting systems transitioned into international systems, there arose a necessity for auditing systems to achieve international recognition. The challenge of harmonizing the practices of accounting and auditing emerged due to differences in systems across countries. In order to comprehend the accounting and auditing practices of diverse nations, a common language became imperative for use across various platforms. Consequently, it became essential to establish professional committees to facilitate collaboration and form international accounting and auditing associations aimed at eliminating inter-country disparities in the application of the accounting and auditing profession (Uçma & Beycan, 2008).

In the era of globalization, the world shrinks, facilitating easier business operations and global investments. The adoption of a shared set of international standards in accounting and auditing yields benefits for business owners seeking international expansion, investors, regulators, and auditors alike. Investors, aiming to broaden their business internationally, can leverage international standards for interpreting global investment opportunities and assessing the performance of a global portfolio. A better understanding of the financial information of companies empowers investors to make informed choices in their investments.

For international regulators, aligning domestic standards with international ones becomes simpler, ensuring consistency in regulatory frameworks. International auditing firms find efficiency in applying a common audit approach, providing assurance that their practices comply with relevant standards.

The establishment of international regulatory institutions in accounting and auditing serves as a guide toward creating a unified language across national boundaries. Understanding the interconnections between these organizations and their respective rules is crucial in grasping their roles in convergence projects.

In this part of the book, from the global side of the regulatory, the duties of the Monitoring Group (MG), Public Interest Oversight Board (PIOB), The International Federation of Accountants (IFAC), The International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA), International Accounting Education

Standards Board (IAESB), Compliance Advisory Panel (CAP), International Accounting Standards Board (IASB), Federation of European Accountants (FEE), The International Forum of Independent Audit Regulators (IFIAR), The Securities and Exchange Commission (SEC), American Institute of Certified Public Accountants (AICPA), Auditing Standard Board (ASB), Green Paper, International Organization of Supreme Audit Institutions (INTOSAI), Public Company Accounting Oversight Board (PCAOB). From the Turkish regulatory institutions, the duties of Capital Market Law, The Union of Chambers of Certified Public Accountants of Turkey (TURMOB), and the Public Oversight Board of Turkey (KGK) have been mentioned.

2.4.1. MG - The Monitoring Group

The monitoring group (MG), is an organization of international financial institutions and administrative branches (regulatory bodies) committed to progressing the public interest among international audit standard setting and audit quality (https://www.iosco.org/about/?subsection=monitoring_group).

MG oversees the standardization activities in auditing and accounting conducted by the International Federation of Accountants (IFAC). It monitors the activities of the Public Interest Oversight Board (PIOB), facilitates discussions through meetings, and provides diverse perspectives on international audit quality and regulations to enhance auditing for market development.

The Monitoring Group's members include the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, the International Forum of Independent Audit Regulators, the International Organization of Securities Commissions, and the World Bank.

The mission of the Monitoring Group is to:

- Support the establishment of high-quality international auditing and assurance, ethical, and educational standards for accountants;
- Observe the implementation and impact of IFAC reforms, concurrently initiating capability appraisals of IFAC Reforms and other aspects of IFAC's operations relevant to the public interest;
- Appoint members to the Public Interest Oversight Board (PIOB) through the Nominating Committee;
- Monitor the mandatory actions of PIOB;
- Provide consultation and advice to the PIOB for the implementation of administrative, legal, and procedural developments relevant to PIOB's public interest oversight; and
- Facilitate meetings to discuss topics and contribute diverse opinions on international audit quality and regulations to enhance auditing for market development.

2.4.2. PIOB – Public Interest Oversight Board

As per the Public Interest Oversight Board (PIOB), it is an organization dedicated to enhancing the quality and public interest orientation of international standards formulated by the Standard Setting Boards supported by the International Federation of Accountants in areas such as audit and assurance, education, and ethics. Independently monitoring the entire standard-setting process, PIOB's primary responsibility is to ensure that standards are developed transparently and in accordance with the needs of stakeholders (http://www.ipiob.org).

The paramount goal of oversight is to cultivate investors' trust in financial markets. Before making investments, investors seek assurance regarding the reliability of the information they receive. Through its oversight role, PIOB instills confidence in financial statements, allowing people to invest with certainty.

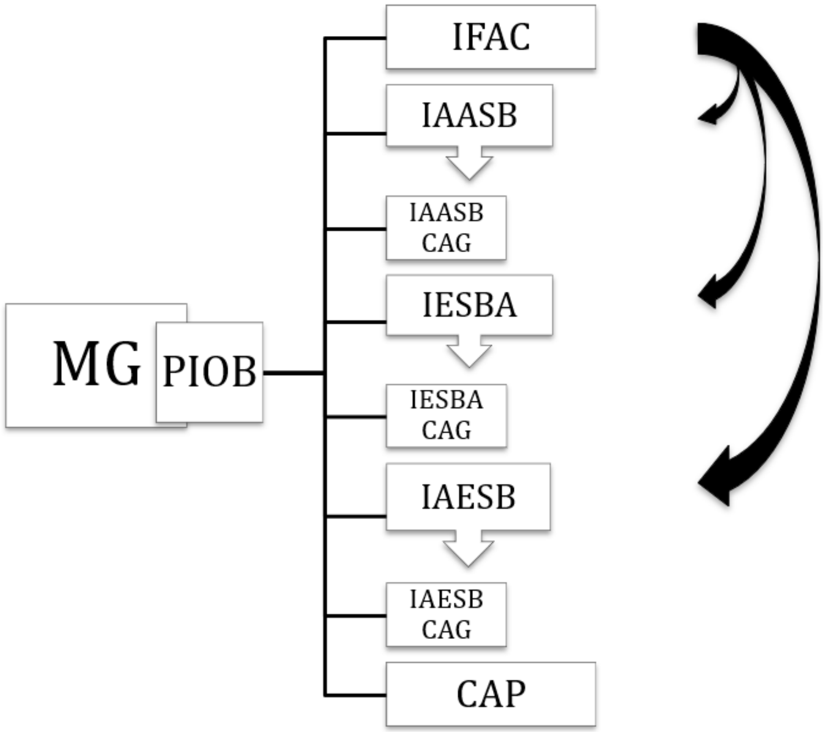
PIOB is actively expanding its global reach by standardizing and improving the comparability of financial statements worldwide. As illustrated in Figure 1, the Monitoring Group (MG) oversees PIOB, which, in turn, supervises the International Federation of Accountants (IFAC), the International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB), the International Ethics Standards Board for Accountants (IESBA), and IFAC's Compliance Advisory Panel (http://www.ipiob.org).

2.4.3. IFAC – The International Federation of Accountants

IFAC serves as the global organization for the accountancy profession, with a primary responsibility to fortify the accounting profession and contribute to the advancement of robust international economies (www.ifac.org). The most impactful approach to fortify the accounting profession is the development of high-quality international standards on auditing and assurance, public sector accounting, ethics, and education. IFAC actively promotes collaboration and cooperation among its member bodies and with other international organizations.

Comprising 175 members and associates across 130 countries, IFAC has represented 3 million professional accountants in public practice, education, government service, industry, and commerce since its establishment in 1977. A critical aspect of IFAC's role is to support the enhancement of international standards through independent and expert standard-setting boards (www.ifac.org).

Figure 5: Relationship of Organizations with PIOB



The Monitoring Group; PIOB= Public Interest Oversight Board; CAP= Compliance Advisory Panel, IFAC= International Federation of Accountants; IAASB= International Auditing and Assurance Standards Board; IESB= International Ethics Standards Board for Accountants; IAESB= International Accounting Education Standards Board; CAG= Consultative Advisory Group

IFAC members are professional accounting organizations like; AICPA in the United States, the Confederation of Asian and Pacific Accountants, the Federation of European Accountants (FEE), and the Pan African Federation of Accountants.

The independent standard-setting boards established by IFAC include the International Auditing and Assurance

Standards Board (IAASB), the International Public Sector Accounting Standards Board (IPSASB), the International Accounting Education Standards Board (IAESB), and the International Ethics Standards Board for Accountants (IESBA).

The final set of clarified standards comprises 36 International Standards on Auditing (ISAs) and International Standards on Quality Control (ISQC) 1. A full list of the ISAs and ISQC 1 is below.

Table 9: List of ISAs and ISQC 1

INTERNATIONAL STANDARDS ON QUALITY CONTROL	
ISQC 1	*Quality Controls for Firms that perform audits and Reviews of Financial Statements, and Other Assurance and Related service engagements*
AUDITS OF HISTORICAL FINANCIAL INFORMATION	
ISA 200	*Overall Objectives of Independent Auditor and the Conduct of an Audit in Accordance with International Standards Auditing*
ISA 210	*Agreeing the Terms of Audit Engagements*
ISA 220	*Quality Control for an Audit of Financial Statements*
ISA 230	*Audit Documentation*
ISA 240	*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*
ISA 250	*Consideration of Laws and Regulations in an Audit of Financial Statements*
ISA 260	*Communication of Audit Matters with Those Charged with Governance*
ISA 265	*Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Risk Assessment and Response to Assessed Risks	
ISA 300	*Planning an Audit of Financial Statements*
ISA 315	*Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*
ISA 320	*Materiality in Planning and Performing an Audit*
ISA 330	*The Auditor's Responses to Assessed Risks*
ISA 402	*Audit Considerations Relating to an Entity Using a Service Organization*
ISA 450	*Evaluation of Misstatements Identified During the Audit*
Audit Evidence	
ISA 500	*Audit Evidence*
ISA 501	*Audit Evidence - Specific Considerations for Additional Items*
ISA 505	*External Confirmations*
ISA510	*Initial Audit Engagements - Opening Balances*
ISA 520	*Analytical Procedures*
ISA 530	*Audit Sampling*
ISA 540	*Audit of Accounting Estimates Including Fair Value Accounting Estimates and Related Disclosures*
ISA 550	*Related Parties*
ISA 560	*Subsequent Events*
ISA 570	*Going Concern*
ISA 580	*Written Representations*
Using the Work of Others	
ISA 600	*Special Considerations – Audits of Group Financial Statements*
ISA 610	*Using the Work of Internal Auditors*
ISA 620	*Using the Work of an Auditor's Expert*

Audit Conclusions and Reporting	
ISA 700	*Forming an Opinion and Reporting on Financial Statements*
ISA 705	*Modifications on the Opinion in the Independent Auditor's Report*
ISA 706	*Emphasis of Matter Paragraphs and Other Matte Paragraphs in the Independent Auditor's Report*
ISA 710	*Comparative Information – Corresponding Figures and Comparative Financial Statements*
ISA 720	*The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*
Specialized Areas	
ISA 800	*Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*
ISA 805	*Special Considerations – Audits of Single Financial Statements and Specifics Elements, Accounts, or Items of a Financial Statement*
ISA 810	*Engagements to Report on Summary Financial Statements*

2.4.4. IAASB - The International Auditing and Assurance Standards Board

The International Auditing and Assurance Standards Board (IAASB) operates as an independent standard-setting body, appointed and functioning under the authority of the International Federation of Accountants (IFAC). IAASB is subject to oversight by the International Public Interest Oversight Board (PIOB) in the field of accountancy.

IAASB's core responsibility is to promulgate high-quality international standards on auditing and assurance, as well as standards on quality control and related services. It plays a pivotal role in fostering the alignment of national and international standards, thereby elevating the quality and consistency of practices globally and reinforcing public confidence in the auditing and assurance profession on a worldwide scale.

Established in 1978, IAASB was initially known as the International Auditing Practices Committee (IAPC) until 2002. The IAPC primarily focused on matters related to financial statements audits, commitment letters, and general auditing guidelines. In 1991, the instructions laid out by the IAPC were classified as International Standards on Auditing (ISAs).

In a bid to enhance the comprehension and application of standards, IAASB launched the Clarity Project in 2004, successfully concluding the initiative in 2008. This project involved the application of new conventions to all ISAs, either as part of a comprehensive revision or through limited redrafting to incorporate the new conventions and improve overall clarity (http://www.ifac.org/news-events/2006-01/iaasb-proposes-enhanced-requirements-auditors-consider-related-parties).

2.4.5. IESBA – International Ethics Standards Board for Accountants

"International Ethics Standards Board for Accountants (IESBA) is an independent standard-setting body that serves the public interest by setting robust, internationally appropriate ethics standards, including auditor independence requirements, for professional accountants worldwide. These are compiled in the Code of Ethics for Professional Accountants" (http://www.ethicsboard.org/about-iesba).

IESBA and its Consultative Advisory Group (CAG) operate under the oversight of the International Public Interest Oversight Board (PIOB).

IESBA's primary function is to set ethical requirements for professional accountants, known as the Code of Ethics for Professional Accountants. Additionally, the Board plays a crucial role in advancing international ethical practices and supporting professionals globally in the implementation of these standards (http://www.ethicsboard.org/about-iesba).

2.4.6. IAESB – International Accounting Education Standards Board

"The International Accounting Education Standards Board (IAESB) is an independent standard-setting body that serves the public interest by establishing standards in the area of professional accounting education that prescribe technical competence and professional skills, values, ethics, and attitudes" (http://www.iaesb.org/about-iaesb).

IAESB and its Consultative Advisory Group (CAG) are subject to monitoring by the International Public Interest Oversight Board (PIOB) to ensure that IAESB's activities adhere to due process and are responsive to the public interest.

IAESB is dedicated to implementing International Education Standards aimed at enhancing education. This approach contributes to the increased competence of the global accountancy profession. The IAESB undergoes a rigorous process to enhance its formal announcements, seeking input from various sources including the IAESB's Consultative Advisory Group (CAG), regulators, IFAC member organizations and their members, other professional accountancy organizations, and the general public.

2.4.7. CAP- Compliance Advisory Panel

The Compliance Advisory Panel (CAP) is a member of the IFAC Board and is tasked with overseeing the practice and activities of the IFAC Member Body Compliance Program (Program), which is monitored by the Public Oversight Board.

Despite being monitored by the Public Oversight Board, CAP's primary responsibility is to monitor and provide consultation to the IFAC Compliance staff (http://www.ifac.org/about-ifac/membership/compliance-program/compliance-advisory-panel/terms-reference). CAP's activities can be categorized into three groups: membership activities, compliance activities, and activities related to regional organizations and accountancy groupings.

Membership activities of CAP include:

- Facilitating the implementation of membership to IFAC.
- Conducting periodic reviews of the criteria for admission to IFAC membership and providing related recommendations to the IFAC Board.

Compliance activities of CAP encompass:

- Employing a self-evaluation process to determine whether IFAC members comply with applicable SMOs.
- Confirming action plans of IFAC members.
- Disclosing compliance self-assessments and action plans.
- Activities related to regional organizations and accountancy groupings involve:
- Assessing applications for the recognition of Regional Organizations and the acknowledgment of Accountancy Groupings and offering related recommendations to the IFAC Board.
- Formulating recommendations to the IFAC Board for the withdrawal of recognition or acknowledgment for Regional Organizations and Accountancy Groupings that fail to meet their obligations to IFAC.
- Engaging IFAC Recognized Regional Organizations and Acknowledged Accountancy Groupings in the implementation of the compliance program, as deemed appropriate.

2.4.8. IASB – International Accounting Standards Board

The IASB operates as an "independent, not-for-profit private sector organization working in the public interest. Its primary goals include developing a unified set of high-quality, comprehensible, enforceable, and globally accepted international financial reporting standards (IFRSs) through its standard-setting body, the IASB, and promoting the use and rigorous application of those standards" (International Financial Reporting Standards).

As a member of the IFRS Foundation, the International Accounting Standards Board (IASB) serves as the independent standard-setting body of the IFRS. The operations of the IASB are monitored by the IFRS Foundation. Since 2001, the organization has been known as the International Accounting Standards Board, replacing the former name, the International Accounting Standards Committee.

2.4.9. FEE - Federation of European Accountants

Established in 1987, the Federation of European Accountants (Fédération des Experts-comptables Européens – FEE) is an international non-profit organization that has represented the accountancy profession in Europe since its inception. FEE comprises 50 institutions of professional accountants and auditors from 37 European countries, boasting a collective membership of over 875,000 professional accountants affiliated with various institutions across Europe, contributing to a more efficient and transparent European economy (www.fee.be).

FEE is committed to informing European public policy, offering technical expertise and a regulated perspective to enhance the European economy. The organization actively supports the professional practice undertaken by accountants on a daily basis, while also advocating for the public interest in Europe.

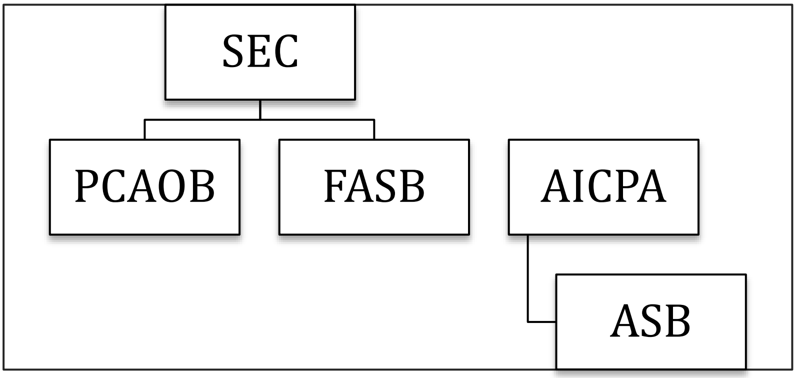
Functioning as both a Regional Organization and a member of the International Federation of Accountants (IFAC), FEE welcomed TURMOB as a member in 2013.

2.4.10. IFIAR - The International Forum of Independent Audit Regulators

Since 2006, The International Forum of Independent Audit Regulators (IFIAR) has been dedicated to serving the public interest and enhancing global audit quality for the protection of investors. IFIAR serves as a platform where members can exchange experiences and knowledge related to audit and audit oversight. This forum facilitates communication among accountants and stakeholders on matters pertaining to audit quality.

IFIAR has seen a steady increase in global membership since its establishment, bringing together audit regulators worldwide. The primary focus of IFIAR is to share insights into the audit market environment and practical experiences in independent audit regulatory activities, particularly in the realm of auditor and audit firm inspections. The organization actively promotes collaboration and consistency in regulatory efforts and provides a forum for dialogue with other international organizations interested in audit quality.

Figure 6: Organizations Affecting Financial Statement Audits in the United States



2.4.11. SEC – The Securities and Exchange Commission

In 1929, the US stock market faced a catastrophic collapse, leading to a transformation in investor perceptions and a loss of confidence in capital markets. This period, known as the Great Depression, resulted in substantial financial losses for investors, companies, and banks. In an effort to revive the market, a shift in investor sentiment was essential, and regulatory measures were sought to reinstate trust in the capital market. Congress took action to rectify the situation and explore solutions.

The Securities and Exchange Commission (SEC) was established in 1934 through the Securities Exchange Act, aiming to restore investors' confidence in the stock markets. The primary focus of this legislation was to ensure the provision of reliable information in the markets. The key responsibilities outlined in these laws can be summarized in two points:

Companies, particularly public limited ones, must offer transparency in their statements, clearly disclosing the value of their securities. This transparency allows investors to assess the risks associated with their investments.

When selling securities, sellers must conduct themselves fairly towards investors, providing clear and comprehensive information.

The Commission bears the responsibility of interpreting and enforcing federal securities laws, formulating new rules and amending existing ones, overseeing inspections of securities firms, brokers, investment advisers, and rating agencies, as well as supervising private regulatory organizations in the securities, accounting, and auditing domains. Additionally, the SEC collaborates in coordinating U.S. securities regulation with federal, state, and foreign authorities.

2.4.12. AICPA – American Institute of Certified Public Accountants

Established in 1887, the American Institute of Certified Public Accountants (AICPA) serves as the national professional association for Certified Public Accountants (CPAs), boasting approximately 330,000 members.

AICPA plays a crucial role in representing the accounting profession on a national scale. The foundation's mission revolves around the development of standards for company audits. Additionally, it offers educational guidance materials to its members, aiding in their preparation for the CPA Examination. Another significant mission of AICPA involves overseeing and enforcing compliance with the profession's technical and ethical standards.

2.4.13. ASB - Auditing Standard Board

Established in 1978, the Auditing Standard Board (ASB) operates as the senior committee of the American Institute of Certified Public Accountants (AICPA), with a mission to establish standards for auditing and prescribe procedures for AICPA members.

As the authoritative body within the AICPA, the ASB is tasked with determining standards for auditing, attestation, and quality control, as well as providing practical guidance for proper performance and reporting. The ASB operates autonomously, with no requirement for authorization from the Council and Board of Directors to publish statements addressing issues related to audit, attestation, and quality for the public.

The primary objective of the ASB is to advance, update, and issue standards for public benefit. The board also offers guidance to practitioners, enabling them to deliver high-quality, objective audit and attestation services to non-issuers in an effective and efficient manner.

To fulfill its mission, the ASB engages in the following activities:

- Developing auditing, attestation, and quality control standards that instill public trust.
- Contributing to the development of high-quality international auditing and assurance standards.
- Responsively addressing the need for guidance and communicating it clearly to the profession and users.

Recognizing the importance of standards harmonization, both domestically and internationally, the ASB promotes closer alignment of audit and attest services. Given the prevalence of international business activities, the ASB actively seeks collaborative discussions and projects with regulators and other standard-setting bodies to enhance the quality and efficiency of audit services and strengthen the integrity of financial information reporting.

2.4.14. PCAOB - Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board (PCAOB) is a non-profit corporation established by Congress to supervise the audits of public companies, safeguarding the interests of investors and advancing the public interest in the creation of informative, accurate, and independent audit reports. Additionally, the PCAOB extends its oversight to audits of broker-dealers, including compliance reports filed in accordance with federal securities laws, with the goal of enhancing investor protection.

Created as a private sector, non-profit corporation by the Sarbanes-Oxley Act of 2002, the PCAOB's primary mission is to oversee auditors of public companies, ensuring the protection of investors and the public interest by encouraging the preparation of informative, fair, and independent audit reports.

All PCAOB rules undergo adoption by the Board and subsequent approval by the Securities and Exchange Commission.

2.4.15. ICAEW – Institute of Chartered Accountants in England and Wales

ICAEW is a globally renowned professional membership organization dedicated to advancing, fostering, and assisting over 144,000 chartered accountants in 160 countries. Their commitment involves equipping members with knowledge and guidance while ensuring that ICAEW Chartered Accountants uphold the highest ethical and technical standards. In their capacity as financial experts, they operate in the public interest, providing valuable insights into business and the economy that contribute to shaping government policy and regulation.

2.4.16. Green Paper

A green paper, as released by the European Commission, serves as a discussion document designed to initiate debate and commence a consultation process at the European level on a specific topic. Typically, a green paper presents a range of ideas with the intention of inviting contributions from interested individuals or organizations.

The Green Paper puts forth the following considerations for public consultation:

- Assessing whether there are potential avenues to narrow any gap between investor expectations from auditors and the actual delivery by auditors, and whether a reevaluation of the auditor's role is warranted.
- Exploring potential enhancements to auditors' communication to stakeholders and regulators

regarding the work conducted and the findings during audits.

- Examining potential conflicts of interest in the current system, such as when a firm both audits a company's results and provides consultancy services; determining appropriate measures to eliminate such inherent conflicts to ensure complete auditor independence.
- Ensuring effective and independent supervision throughout the EU.
- Identifying whether the current system poses any systemic risks, particularly those considered too big to fail, due to concentration in the audit market; assessing the impact of the failure of a major audit firm on the broader financial system and proposing ways to address such risks.
- Enhancing the internal audit market by facilitating greater mobility for audit professionals and firms within the EU, potentially by establishing a European Passport in this domain.
- Addressing the proportionality of the application of regulatory requirements to reduce administrative burden for SMEs where feasible.

2.4.17. INTOSAI - International Organization of Supreme Audit Institutions

The International Organization of Supreme Audit Institutions (INTOSAI) acknowledges the significance of harmonizing auditing standards across different professional bodies, both at regional and international levels. In collaboration with the International Federation of Accountants (IFAC) and other professional organizations, INTOSAI strengthens its commitment to this goal by adopting various IFAC standards. Under this collaboration, INTOSAI has embraced the quality standards issued by IFAC, encompassing aspects related to the quality of audits.

2.5. Regulations Related to Audit Quality in Turkey

In Turkey, despite the fact that auditing has been known for many years, the application of auditing has existed for a short time. In this part regulations guiding the relevant application of the quality control system in Turkey are explained.

The most important regulations regarding auditing in Turkey are The New Turkish Commercial Code (No:6102), Capital Market Law, Law no.3568, Regulations of the Union of Chambers of Certified Public Accountants of Turkey, Regulations of Public Interest Oversight Board, Regulations of Banking Regulation and Supervision Agency and Regulations of Undersecretariat of Treasury. (Turkish Commercial Code)

2.5.1. The New Turkish Commercial Code (No: 6102)

The New Turkish Commercial Code (No: 6102) was promulgated in the Official Gazette on 14 February 2011.

Since July 1, 2012, Turkey has implemented a new accounting and auditing system through the enactment of the new Turkish Commercial Code. Initially, there was uncertainty and unfamiliarity with the procedures, but over time, companies and practitioners have gained a better understanding, leading to increased market transparency. The new Turkish accounting standards closely align with International Financial Reporting Standards (IFRS) rules.

The Turkish Commercial Code, numbered 6102 ("TCC"), introduces two mandatory organs, namely the general assembly and the board of directors. Under the TCC, the statutory auditor is no longer considered a mandatory organ, and audit activities are entirely entrusted to independent professionals external to the company's structure.

In joint-stock companies, audits can be conducted through two different approaches. The first is internal audit, where the board of directors may establish internal audit committees for financial auditing. The TCC allows the board of directors to form committees to supervise the company's affairs, prepare reports, and conduct internal audits.

The second type of audit is external audit, performed by independent and objective third parties not affiliated with the company. Amendments to the TCC introduced the principle that companies subject to independent audit would be determined by the Council of Ministers. A resolution outlining the determination of such companies and the standards for independent audit was established in accordance with the law.

In compliance with the new Turkish Commercial Code, companies are obligated to maintain their commercial books and prepare financial statements according to regulations set by the Ministry of Finance.

Corporate governance emerges as a central concept in the New Turkish Commercial Code, encompassing a system of rules applicable to all enterprises. The code introduces significant changes in corporate governance, addressing aspects such as shareholder democracy, board of directors' responsibilities, group of companies, information technology usage, internal controls, internal audit, risk management, and adherence to international standards in accounting, auditing, and financial reporting.

2.5.2. CMB - Capital Market Board

Capital Markets Board of Turkey (CMB) is the governing and supervisory board of the Turkish stock exchange market. The Board has been authorized by the Capital Markets Law (CML). Since 1981, the board has prepared regulations to develop and organize the securities market in Turkey.

The Board has a liability to protect invertors' rights and establish a reliable and impartial stock market. The main aim of the board is to assist in the development of capital markets and protect the investors' rights.

The Board possesses the authority and competence to:

- Identify the financial statements and reports of capital market institutions, organizations, and partnerships subject to capital market law for the audit process in accordance with Turkish audit standards.

- Specify the necessary additional conditions for audit firms authorized by the Public Oversight, Accounting, and Audit Standardization Board, and the Capital Market Board.
- Conduct quality control and audit investigations on audit firms listed as authorized in the capital market.
- Collaborate with both national and international firms on audit-related matters.

2.5.3. The Law No. 3568

The most important legal regulation, which has been accomplished regarding the proficiency of Accounting and Audit in Turkey is the law numbered 3568 “Law on Certified General Accountancy, Certified Public Accountancy, and Sworn-in Certified Public Accountancy” and was accepted on July 1st, 1989.

The primary objectives of this law are to ensure the reliable and sound operation and evaluation of transactions within enterprises in compliance with relevant legislation. It aims to present accurate facts to concerned parties and authorities, establish and regulate the fundamentals of "Certified Public Accountancy" and "Sworn-in Certified Public Accountancy," as well as the Chambers of Certified Public Accountants and Sworn-in Certified Public Accountants.

The specific purposes of this law include:

- Ensuring reliable operations.
- Objectively presenting the current situation to beneficiaries and authorities after auditing and

evaluating operational results within the scope of related legislation.

- Organizing the establishment of chambers for Certified Public Accountancy and Sworn-in Certified Public Accountancy, an association of these chambers, along with defining the professions and services of Certified Public Accountancy and Sworn-in Certified Public Accountancy. This includes regulating their operations, audits, and the selection of their units to uphold high occupational standards.
- Designating the title of the profession as "Certified Public Accountant and Sworn-in Certified Public Accountant."

The law outlines the duties of a Certified Public Accountant as follows:

- Maintaining the books of individual and corporate enterprises in accordance with generally accepted accounting principles and related legislation.
- Finalizing the balance sheet, profit-loss statements, declarations, and other documentation.
- Establishing and developing accounting systems for corporations.
- Organizing management, accounting, finance, and fiscal legislation in practice. Examining, analyzing, and auditing based on evidence related to these subjects.

- Providing opinions on financial statements and declarations.
- Organizing reporting.
- Offering arbitration, expertise, etc.

Sworn-in Certified Public Accountants, in addition to the above duties, handle approval contracts, a type of compliance audit. However, they are exempted from bookkeeping, opening an accountant firm, or establishing partnerships with accountancy firms. Turkish legislation, particularly Law No. 3568, grants authorization for auditing to individuals qualified as Certified Public Accountants and Sworn-in Certified Public Accountants. The legislation outlines regulations regarding auditor qualifications, including education levels, exam and internship obligations, and the general framework of rules for members of the accounting profession.

2.5.4. TURMOB - The Union of Chambers of Certified Public Accountants of Turkey

TURMOB (the Union of Chambers of Certified Public Accountants of Turkey) stands as a distinctive organization in Turkey, holding the authority to grant professional licenses. Its fundamental objective is to impart skills to individuals with the potential and aspirations for careers in accountancy, tax, or management. The Association provides support to around 93,000 members throughout Turkey, aiming to assist individuals in pursuing successful careers in accounting, auditing, or related business fields.

In Turkey, individuals can be recognized as Certified Public Accountants (CPA) and Sworn-in Certified Public Accountants. CPA Chambers represent professional accountants who hold the CPA designation, while Sworn-in CPA Chambers consist of professionals with expertise in tax auditing. To attain the Sworn-in CPA designation, individuals must already be CPAs, possess ten years of experience, and successfully pass additional examinations.

TURMOB, along with its Chambers, employs a total of 755 staff members. The primary mission of the union includes providing professional qualifications, conducting licensing processes, organizing professional examinations, and undertaking activities that contribute to the development of the profession. Additionally, TURMOB is committed to safeguarding the legitimate interests of its members, upholding professional dignity, ethics, order, and traditions.

The Association's responsibilities extend to practical training, licensing procedures, development and enforcement of professional rules and regulations, publishing initiatives, and active participation in the activities of international professional organizations.

2.5.5. POA (in Turkish – KGK) - Public Oversight Board of Turkey

In recent years, audit oversight bodies have become more active and internationally cooperative. Public Oversight, Accounting and Auditing Standards Authority is established by "Public Oversight, Accounting and Auditing Standards

Authority's Organization and Responsibilities Decree Law" numbered 660, issued on November 2, 2011.

KGK's vital duty is to be responsible for setting and issuing Turkish Accounting Standards. The Board's eventual objective is to regulate and actualize highly qualified and trustable financial reporting and auditing in Turkey concerning investors and the public interest.

The other duty of the POA in Turkey is to issue Turkish Accounting Standards compliant with international standards, to ensure uniformity, high quality, and confidence in statutory audits, to set the auditing standards, to approve statutory auditors and audit firms and to inspect their audits, and perform public oversight in the field of statutory audits.

Another responsibility of the Public Oversight, Accounting, and Auditing Standards Authority (POA) is to determine Turkish Standards on Auditing (TSAs) in accordance with international standards. The auditing standard-setting process has been directed on the basis of IFAC's Policy for Translating Reproducing Standards and consultation commissions and a review committee has been composed for the adaption of the standards.

The responsibilities of the Public Oversight Board are as follows:

a) The vital role of the Board is to develop and issue Turkish Accounting Standards in accordance with international standards. The Board should be sure about the applicability, comparability, and flexibility of prepared financial statements.

b) Taking important decisions on the application of Turkish Accounting Standards and affirming regulations to be arranged by authorities, which are competent in their own fields.

c) To determine and establish national auditing standards in accordance with international standards.

d) It's also the duty of the board to authorize independent auditors and audit organizations.

e) To perform exams for accountants for registering profession.

SECTION THREE

3. LITERATURE REVIEW

Researchers have examined audit quality either through direct or indirect approaches in their studies.

In the article titled '10 Years of Research on Auditing in Turkey: Literature Review,' authored by Selimoğlu & Uzay (2007), and in a research review of Turkish academic search providers, it was found that only four studies had been conducted on audit quality in Turkey between 1995 and 2006 (Ergun, Ü. (1999), Selimoğlu, S. K. (2000), Sayarı, M. (2002), Kavut, L. (2002)). Over the past decade, significant developments have taken place in global and local auditing practices, leading to an increase in research efforts. To gain a comprehensive understanding, it is essential to analyze both past and present studies collectively.

This section offers a literature review on audit quality, identifying influencing factors based on the existing body of research. The current study contributes to this line of inquiry by emphasizing auditor independence, audit fees, mandatory rotation, employee turnover, auditor tenure, provision of non-audit services, size of audit firms, knowledgeability, experience, and audit effort.

Figure 7: Indicators of Audit Quality

3.1.Independence And Audit Quality

In accordance with ISQC 1, an audit firm is required to establish policies and procedures to reasonably ensure that both the firm and its personnel, subject to independence requirements, maintain independence as mandated by relevant ethical standards.

Independence, impartiality, and honesty are essential characteristics expected of auditors during their professional endeavors, distinguishing the audit profession from other occupations. The reliability and precision of an audit report directly correlate with the auditor's independence, impartiality, and honesty. Any uncertainties regarding an auditor's possession of these traits may raise doubts about the reliability and accuracy of the audit report. The assurance of audit quality is intricately tied to the delivery of an accurate and reliable audit report. In recent years, auditor independence has become a focal point in auditing law discussions.

Growing concerns over auditor independence have prompted increased attention. Pike (2003) notes the difficulty in disentangling independence and quality, emphasizing that weakened auditor independence diminishes the incentive to conduct a high-quality audit, as detected misstatements may not be reported. Regulatory bodies implement rules to safeguard the independence of auditors. In Turkey, the new Commercial Code introduced a rotation requirement for audit firms in April 2014, necessitating a change in auditors after seven consecutive years of service, with a mandatory three-year interval.

Auditor independence significantly influences audit quality. The primary reason is that an auditor's compromised independence makes them less likely to report irregularities, thereby disrupting the quality of the audit. Given the critical nature of auditor independence, numerous studies have been conducted in this area.

Literature reviews on auditor independence commonly explore issues related to client importance, economic dependence, non-audit services, and auditor tenure. Economic dependence on a single client, particularly if it constitutes a substantial portion of the auditor's portfolio, poses a risk to auditor independence due to financial reliance. Providing non-audit services to clients can impact auditor independence by increasing economic dependence. Additionally, joint provision of audit and non-audit services by the same auditor may create a conflict of interest and reduce skepticism. Simunic (1984) found that there could be knowledge spillover between these services.

Long auditor tenure has the potential to compromise independence, as extended relationships with clients may lead to increased proximity and potential oversight of errors or biased actions in favor of the client, thereby reducing objectivity.

Table 10 shows the literature review on auditor independence and the summary of those articles.

Table 10: Articles on the Independence of Auditor and Audit Quality

Name of the Author(s) / Year of Publication	Name of the Article	Summary of the Article
David Lavin / 1976	Perceptions of the Independence of the Auditor	This paper investigates the concept of independence by examining particular client-auditor relationships. The research verifies how an informed third party, such as present and prospective investors, creditors, employees, and governmental agencies perceive the auditor's independence. According to the Securities and Exchange Commission, an

		accountant cannot objectively audit books and records, which he or she has maintained for a client. The AICPA has an opposite opinion about auditing and recording books. According to AICPA a member can and will objectively audit books and records regardless of the fact that he has maintained them for a client. The result examines that the consensus of the users and CPAs participating in the study agrees more with AICPA than with the SEC and that the authorities, at times, characterize relationships as not independent that the consensus considers independent.
Kurt Pany, Philip M. J. Reckers / 1980	The Effect of Gifts, Discounts, and Client Size on Perceived Auditor Independence	This paper investigates the factors, which may influence actual and/or perceived auditor independence. This research investigates the perceptions of stockholders on the effect of relative client size, gifts, and purchase discount arrangements on auditor independence. The

		findings indicate that gifts and discount arrangements of even a minimal amount (3$) significantly affected users' perceptions of auditor independence. The effect of client size was not significant.
Michael Firth / 1980	Perceptions of Auditor Independence and Official Ethical Guidelines	This research is about the perception of the role and importance of auditor independence as perceived by various interested parties in the United Kingdom. The questionnaires, which are about their thought on auditor independence, were asked to the preparers and the users of financial statements. The results of this study showed that for respondents being independent has an impact on investment and lending decisions. It was also found that the responses of preparers and the users of financial statements have differences in their perception of auditor independence. The results also show that the view of users of financial statements is more

		skeptical than the view of accountants working in professional practices.
Randolph A. Shockley / 1981	Perceptions of Auditors' Independence: An Empirical Analysis	This research investigates the perceived effects of competition, management advisory services, audit firm size, and tenure on audit independence. According to the results of the research, auditing has a highly competitive environment. If an audit firm provides management advisory services, they are perceived as having a higher risk of losing independence. An overall analysis ranks competition as the most important factor, followed by audit firm size and management advisory services.
DeAngelo / 1981	Auditor Independence, 'Low Balling', and Disclosure Regulation	This research investigates the allegations of the Commission on Auditors' Responsibilities and the Securities and Exchange Commission that 'lowballing' on initial audit engagements impairs auditor independence. According to the paper, 'lowballing' does not have a negative effect on independence. The results

		show that 'lowballing' is a competitive response to the expectation of future quasi-rents to auditors.
Hans J. Dykxhoorn and Kathleen E. Sinning / 1982	Wirtschaftsprüfer Perception of Auditor Independence	This research is about the perception of German auditors (Wirtschaftsprüfer) on auditor independence. The result of the research shows that most German auditors take a less strict view of auditors' independence than the SEC does (U.S. Securities and Exchange Commission).
Dan A. Simunic /1984	Auditing, Consulting, and Auditor Independence	Clients who also purchase management advisory services as a non-audit service from their auditors pay higher audit fees than those who do not. One of the results of the research is companies, that purchase management advisory services are similar to companies that did not purchase. The second result shows that the purchase of management advisory services from the auditor is associated with a significant increase in the audit fee. The third result is

		the purchase of management advisory services from the auditor is not significantly associated with the cost of audit substitutes employed by the company.
Michael A. Pearson / 1985	Enhancing Perceptions of Auditor Independence	The paper points out that the users of financial statements should know that auditors are independent of company management. According to this research, many individuals and groups perceive that auditing firms are not independent of their corporate clients. This research suggests making an auditor-administered educational program, complemented by corporate audit committee involvement to lend credibility to auditors' claims.
Timothy A. Farmer, Larry E. Rittenberg, and Gregory M. Trompeter / 1987	An Investigation of the Impact of Economic and Organizational Factors on Auditor Independence	This paper searches if non-accounting variables such as the potential of litigation and the loss of a client influence auditing judgments or not. The result shows that non-accounting variables can have an impact on audit judgments concerning

		accounting principles. The result shows three points. One of the results indicates that auditors' decisions can be affected by the threat of losing clients. Another result shows that the treatment of litigation has a great effect on auditors' decisions when they want to give an unqualified opinion. The last result is acculturation effect exists only in mind support.
Nicholas Dopuch and Ronald R. King / 1991	The Impact of MAS on Auditors' Independence: An Experimental Markets Study.	The paper is on the effect of management advisory services. It investigates the effect of this service on the demand and supply of audit services. The results indicate that if an auditor does not procure both management advisory services and audit services, it does not mean to improve efficiencies.
Vivien Beattie, Richard Brandt, and Stella Fearnley / 1999	Perceptions of Auditor Independence: U.K. Evidence	This research focuses on the reality and perception of auditor independence in line with financial reporting. It investigates U.K. interested parties' perceptions of the influence on auditor independence. 153 U.K. listed company finance

		directors, 244 audit partners of U.K. listed companies, and 18 financial journalists were participants in the survey. The principal threat factors relate to economic dependence and non-audit service provision, while the principal enhancement factor is the existence of an audit committee. Perceptions regarding many independence factors are found to be contingent upon characteristics of the respondents' ongoing audit relationships (in particular, audit firm type and company size). According to the results, genetic factors also have a significant impact on perceptions of auditor independence for all groups.
Tong Lu / 2004	Does Opinion Shopping Impair Auditor Independence and Audit Quality?	This article searches companies's way of threats to dismiss auditors. It also investigates how companies' engagement in opinion shopping influences auditor independence and audit quality. The result shows

		that switching decreases potential understatements and increases potential overstatements in financial statements, and the capital market's and the successor auditor's reactions to auditor switching reduce the benefits of opinion shopping to companies.
Allen D. Blay / 2005	Independence Threats, Litigation Risk, and the Auditor's Decision Process	This paper is on auditors' evaluation of information, which can be affected by independence threats and litigation risk. According to this research auditors, who have a fear of losing their clients, were more likely to suggest an unmodified audit report, consistent with client preferences. The relation between risk and auditor decision is fully moderated by financial assessment of the evidence.
Sarowar Hossain / 2013	Effect of Regulatory Changes on Auditor Independence and Audit Quality	This research is about the impact of the Corporate Law Economic Reform Program on auditor independence and audit quality. The results show a significant and positive association between auditor-provided non-audit services fees and the

		propensity to issue a going-concern opinion for a financially distressed company post-Corporate Law Economic Reform Program, but an insignificant association pre-Corporate Law Economic Reform Program.
Abdul Halim, T. Sutrisno, Rosidi, M. Achsin / 2014	Effect of Competence and Auditor Independence on Audit Quality with Audit Time Budget and Professional Commitment as a Moderation Variable	This paper investigates the effect of auditors' competence and independence on audit quality. The research also tests whether audit time budget could moderate the effect of auditors' competence and independence on audit quality. Another aim of the study is to test whether professional commitment moderate effect on an auditor's competence and independence in audit quality. It means the smaller the audit time budget, the greater the effect of the auditor's competence and independence on audit quality. As the third aim, professional commitment strengthens the effect of an auditor's competence and

		independence on audit quality. It means the stronger the professional commitment, the higher the effect of an auditor's competence and independence on audit quality.
Ling Li and Nopmanee Kong Tepalagul / 2015	Auditor Independence and Audit Quality: A Literature Review	This paper is a review study of the literature on auditor independence and audit quality. The topic of the study is based on four main threats to auditor independence. These are client importance, non-audit services, auditor tenure, and client's affiliation with CPA firms.
Bryan K. Church, J. Gregory Jenkins, Susan A. McCracken, Pamela B. Roush, and Jonathan D. Stanley / 2015	Auditor Independence in Fact: Research, Regulatory, and Practice Implications Drawn from Experimental and Archival Research	This paper provides research on selected academic studies. The studies are related to auditor independence. This research analyzes specific experimental and archival research. Auditors' judgment and audit process are the main effects of independence, that have been explored in the research. The examination of experimental studies suggests that cognitive and motivational biases have

		the potential to impair independence and, consequently, weaken the audit process. According to the results, although judgmental biases may hinder the audit process, such biases do not necessarily degrade audit outputs.

3.2.Provision of Non-Audit Services and Audit Quality

Researchers have varied opinions on the impact of providing additional non-audit services on audit quality. Some argue that such services enhance auditor competence and reduce dependence on audit clients (Grout, Jewitt, Pong, & Whittington, 1994). Contrary to this perspective, Barkess & Simnet found that auditors maintain their independence when offering both audit and non-audit services to the same client (1994).

The potential impact of non-audit services on audit quality raises concerns about possible conflicts of interest. Regulatory bodies such as the Securities and Exchange Commission (SEC) and The International Federation of Accountants (IFAC) code of ethics have expressed significant apprehension on this matter. Researchers, including Lindsay (1989), Lowe & Pany (1995), and Canning & Gwilliam (1999), have contended that providing additional non-audit services to audit clients may result in lowballing prospective clients and compromise the independence of audit firms. They suggest that initial audit fee reductions might be recouped through subsequent lucrative non-audit services, potentially compromising the independence of the audit firm (Pham, et.al., 2014, pp.76).

Table 11: Articles on Provision of Non-Audit Services and Audit Quality

Name of the Author(s) / Year of Publication	Name of the Article	Summary of the Article
Mark L. DeFond, K. Raghunandan, And K. R. Subramanyam / 2002	Do Non-Audit Service Fees Impair Auditor Independence? Evidence from Going Concern Audit Opinions	According to this article, there is no significant relationship between non-audit service fees and the independence of auditors. The results show that there is no relationship between going concern opinions and audit fees.
Duane M. Brandon, Aaron D. Crabtree, and John J. Maher / 2004	Non-audit Fees, Auditor Independence, and Bond Ratings	This paper is about the perception of auditor's independence in the bond markets. The research investigates the effects of non-audit services of an auditor on his/her independence. The results show that the amount of non-audit services provided by the auditor is negatively related to the client's bond rating.
William R. Kinney Jr., Zoe-Vonna	Auditor Independence, Non-Audit	This research is about the association of non-audit services fees provided by audit firms

Palmrose, and Susan Scholz / 2004	Services, and Restatements: Was the U.S. Government Right?	between the years 1995 and 2000, and the restatement of previously issued financial statements. The results show that there is not any positive relationship between fees of financial information systems design and either restatements or implementation. The research also finds that there is a significant negative association between tax services fees and restatements.
Chee Yeow Lim, David K. Ding, and Charlie Charoenwong / 2013	Non-audit fees, institutional monitoring, and audit quality	This paper points out that non-audit fees of auditors are on the extent of institutional monitoring. According to the findings of the research, when non-audit fees increase, audit quality decreases, only for clients with low institutional ownership.

3.3.Audit Fee and Audit Quality

The level of audit quality can be influenced by the adequacy of the fee received for the audit service. Typically, audit fees are computed by multiplying the time spent on audit tasks by the predetermined hourly rate, with potential adjustments for travel, out-of-pocket, and extraordinary expenses. Clearly defining the responsibility for such expenses during the audit agreement preparation helps prevent conflicts.

When the client's offered fee surpasses the audit firm's expectations, the auditor's behavior, especially in terms of effort and legal responsibility, may be affected. This situation could raise concerns about independence and impartiality. Financial dependency on the client due to substantial payments might incentivize the auditor to align with the client on reporting decisions, even risking reputation damage and potential lawsuits. Such behavior ultimately leads to a decline in audit quality.

Conversely, if the fee falls below the auditor's expectations, auditors may become risk-averse, rejecting all client requests related to reporting. While this could enhance audit quality by ensuring objectivity, a low fee may also hinder the auditor's focus on the audit work and lead to decreased effort in the field, negatively impacting audit quality.

Table 12: Articles on Audit Fee and Audit Quality

Name of the Author(s) / Year of Publication	Name of the Article	Summary of the Article
Dan A. Simunic / 1980	The Pricing of Audit Services: Theory and Evidence	Competition among auditors is the subject of this research. This paper is about a model of audit fees, which has variables such as auditee size, auditee complexity, and audit risk. The results of the test show that there is competition among auditors on audit fees and well-known audit firms are getting less fee than unknown audit firms.
Charles Piot / 2001	Agency costs and audit quality: evidence from France	This study is about the effects of agency conflicts on audit quality at listed companies in France. There are two hypotheses tested. One of them is a conflict of interest

		between the owner as a shareholder and the manager. The other one is leverage in high-investment-opportunity-set companies, supposing an increased expropriation risk for debt holders. Auditors of big audit companies, national majors, and local audit firms have been investigated. The results show that there is no conflict between owner and manager and there is no corroboration between debt holders and high-investment-opportunity-set companies.
Allen Craswell, Donald J. Stokes, Janet Laughton / 2002	Auditor Independence and Fee Dependence	This research is about the effects of fees on auditor independence. The findings show that auditor fees are not dependent on the auditor's propensity to issue unqualified audit opinions.
Bin N. Srinidhi, Ferdinand A. Gul / 2007	The Differential Effects of Auditors' Non-audit and Audit Fees on Accrual Quality	This research contains empirical evidence on the association between fee variables and the quality of accruals. ER-based and fee magnitude-based economic bond variables have been used to measure auditors' economic dependence on their clients. According to findings, non-audit fee has a significant negative effect while audit fee has a significant positive effect on accrual quality. Both expected and unexpected non-audit fees have significant negative effects on accrual quality, but only expected audit fees result

		in a significant improvement effect in accrual quality.
Rohaida Basiruddin / 2011	The Relationship Between Governance Practices, Audit Quality and Earnings Management: UK Evidence	The research analyzed two empirical associations. The first analysis was on three models of audit quality which are; audit fees, non-audit service fees, and industry specialist auditors. This analysis examined the association between the effective monitoring characteristics of the board and audit committee on audit quality. The result shows that there is a positive relationship between audit fees and the independent non-executive directors on board. The second analysis was on the roles of the board of directors, audit committee, and auditor quality in constraining opportunistic earnings. The findings show that firms paying higher audit fees and engaging industry specialist auditors are likely to be associated with lower levels of discretionary accruals, suggesting that a higher quality auditor constrains opportunistic earnings.
Sharad C. Asthana and Jeff P. Boone / 2012	Abnormal Audit Fee and Audit Quality	This paper is about the relationship between abnormal audit fees and audit quality. This research analyzes the effect of below-normal audit fees on the relationship of auditor and client. This situation can have a direct effect on audit quality.

		The findings of the research show that audit quality, proxied by absolute discretionary accruals and meeting or beating analysts' earnings forecasts, declines as negative abnormal audit fees increase in magnitude, with the effect amplified as proxies for client bargaining power increase.
Dechun Wang and Jian Zhou / 2012	The Impact of PCAOB Auditing Standard No. 5 on Audit Fees and Audit Quality	The research is about the impact of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 5 on audit fees and audit quality. Using a large sample of accelerated filers subject to Auditing Standard No. 5, it has been found that audit fees decrease upon the adoption of the standard. As a conclusion, the standard improves the efficiency of internal control audits.
Ely Suhayati /2012	The Influence of Audit Fee, Audit Time Budget Pressure and Public Accountant Attitude on The Public Accountant Dysfunctional Behavior and Its Implication On Audit	The study is about the effect of audit fees, audit time budget pressure, and the attitude of public accountants on public accountants' dysfunctional behavior and how they impact audit quality. Descriptive methods have been used in this applied research. 167 public accounting firms have been made questionnaire. The findings show that audit fees and audit time budget pressure have an impact on the behavior of public accountants. Also, the audit time budget pressure and the public accountant's

	Quality Survey On "Small" Scale Public Accounting Firms In Java	behavior had an impact on the public accountant's dysfunctional behavior and this can lead to an increase in audit quality.
Nicole V. S. Ratzinger-Sakel / 2013	Auditor Fees and Auditor Independence - Evidence from Going Concern Reporting Decisions in Germany	The research is on the relationship between auditor independence and the existence of non-audit services in Germany. According to results on manufacturing companies, there is no significant relationship between German auditors' non-audit fees and their independence.
Ariel Markelevich, Rebecca L. Rosner / 2013	Auditor Fees and Fraud Firms	This research is about auditor fees and fraud firms. Fraud firms are detected by the SEC for having materially misstated/ fraudulent financial statements. The data are derived from the years between 2000 and 2005. The findings show that if a firm pays more money on non-audit services, it is likely to have materially/ fraudulent financial statements.
Karla M. Johnstone, Chan Li, and Shuqing Luo / 2014	Client-Auditor Supply Chain Relationships, Audit Quality, and Audit Pricing	This research is about the relationship between the decisions of auditors on supply chain, audit quality of companies, and price of audit. The results indicate that when an auditor has knowledge of the supply chain, there can be high audit quality and low audit fees. . Such effects are stronger for supplier companies that derive a

		high proportion of revenue from their major customers, and when the revenue cycle for the supplier companies is more important.
Bin N. Srinidhi, Shaohua He, Michael Firth / 2014	The Effect of Governance on Specialist Auditor Choice and Audit Fees in U.S. Family Firms	Family firms are characterized by less separation between ownership and control (Type 1 agency problem), but greater conflict of interest between controlling insiders and non-controlling outside investors (Type 2 agency problem). Although strong board governance is known to decrease the Type 1 agency problem, its effectiveness in mitigating the adverse consequences of the Type 2 agency problem has not been well documented in the literature. We show that strongly governed family firms are more likely to choose specialist auditors and exhibit higher earnings quality than nonfamily firms. Weakly governed family firms demand lower audit effort and exhibit earnings quality that is no different from that of nonfamily firms. Within family firms, we show that strongly governed family firms choose higher quality audits in the form of greater use of specialist auditors and higher audit efforts, and exhibit higher earnings quality than other family firms. These findings provide consistent evidence that strong board governance can

		effectively mitigate the adverse consequences of the Type 2 agency problem on financial reporting and transparency in family firms.
Steven F. Cahan and Jerry Sun / 2015	The Effect of Audit Experience on Audit Fees and Audit Quality	This study conducts an archival study to examine the effect of audit experience on audit fees and audit quality. Using unique data from China, where the signees of the audit report can be identified and linked with a government database containing personal information about certified public accountants, we find that experience is positively associated with audit fees and negatively associated with absolute discretionary accruals. The results suggest that the auditors' personal characteristics may serve as a signal of the level of care that will be exercised during the audit process.

3.4.Rotation and Audit Quality

The rotation of auditors or audit firms has been a crucial aspect discussed for nearly 30 years, significantly impacting audit quality. Rotation plays a pivotal role in enhancing audit quality by safeguarding independence and impartiality in audit activities. It is mandatory in certain countries for auditors and in others for audit firms.

For example, the Sarbanes-Oxley Act of 2002 in the USA regulates auditor rotation, mandating a 5-year period for rotation. The SEC law, passed in 2003, requires a 5-year interval for reappointing audit firms that undergo rotation, with exemptions for firms with fewer than 5 clients and 10 audit partners (Tanrıkulu, 2003). In Turkey, the Capital Market Board regulations necessitate rotation based on audit firms, with some exemptions, within a 7-year timeframe. The initial implementations occurred in 2010, resulting in approximately 150 companies changing their audit firms (Yurdakul, 2010). Reappointment of the same audit firm for the same client requires a 2-year interval (Şehsuvaroğlu, 2002).

Table 13: Articles on Rotation and Audit Quality

Name of the Author(s) / Year of Publication	Name of the Article	Summary of the Article
Brian E. Daugherty, Denise Dickins, Richard C. Hatfield, and Julia L. Higgs /2012	An Examination of Partner Perceptions of Partner Rotation: Direct and Indirect Consequences to Audit Quality	This paper contains a study on the perceptions of audit partners on mandatory partner rotation and cooling-off periods. Interviews and surveys have been used for analyzing the research. According to findings mandatory rotation increases partners' workloads and the likelihood of relocation. Additionally, results suggest that in response to accelerated rotation (and an extended cooling-off period), partners would rather learn a new industry than relocate. Importantly, partners perceive audit quality suffers from

		retraining, but not from relocating. Thus these results suggest an indirect, negative impact, and unintended consequence, of accelerated rotation/extended cooling-off periods on audit quality.
Kabiru Isa Dandago, Nur Diyana Binti Zamro / Dec2012/Jan2013	Effects Of Rotation On Auditor Independence Quality Of Audit Service In Malaysian Banking Industry	The aim of the study is to analyze the auditor rotation in the Malaysian banking industry. The effects of auditor rotation on auditor independence and audit quality have been highlighted. The data from two banking institutions and one audit firm have been analyzed. The results demonstrate that there has not been any significant change in the annual appointment of auditors in Malaysian banking institutions over the last ten years.
Brian E. Daugherty, Denise Dickins, Richard C. Hatfield, and Julia L. Higgs /2013	Mandatory Audit Partner Rotation: Perceptions of Audit Quality Consequences	This paper summarizes the study, "An Examination of Partner Perceptions of Partner Rotation: Direct and Indirect Consequences to Audit Quality" (Daugherty et al. 2012). Audit partners' perceptions of mandatory rotation and cooling-off periods have been investigated. The study examines also how the more stringent partner rotation rules mandated by the

		Sarbanes-Oxley Act may negatively impact audit partners' quality of life at the expense of audit quality. According to findings mandatory partner rotation increases partners' workloads, as well as the likelihood of partner relocation. The audit partners who participated in the research agreed that learning a new industry rather than relocating is a better option. Importantly, partners perceive that audit quality suffers from retraining, but not from relocating. Taken together, the study's results suggest that the partner rotation provisions create an unintended consequence—specifically an indirect, negative impact on audit quality.
Corinna Ewelt Knauer, Anna Gold & Christiane Pott / 2013	Mandatory Audit Firm Rotation: A Review of Stakeholder Perspectives and Prior Research	The paper contains the view of stakeholders on mandatory rotation. The results indicate that the impact of mandatory rotation of audit firms on audit quality and auditor independence is inconclusive. There are some opinions about the impact of rotation. One of them is that the rotation has a positive impact on auditors' independence, but most of the

		investigation fails to have this finding. Some researchers even found out that rotation has a negative effect on auditors' independence. Because of inadequate evidence on the effect of mandatory audit firm rotation on audit quality, the regulatory has to explain the long-term aim of the mandatory rotation requirement.
Barri Litt, Divesh S. Sharma, Thuy Simpson, and Paul N. Tanyi /2014	Audit Partner Rotation and Financial Reporting Quality	The effect of mandatory rotation on financial reporting quality has been examined. The evidence shows that in the U.S. lower financial reporting quality following an audit partner change. According to findings lower financial reporting quality during the first two years with a new audit partner relative to the final two years with the outgoing partner.
Ahmed Anis / 2014	Auditors' Perceptions of Audit Firm Rotation Impact on Audit Quality in Egypt	The research is about auditors' perception of audit firm rotation in Egypt. At first, the study tries to find out the benefits and determining factors of mandatory rotation. The results provide positive evidence for the effect of mandatory rotation on audit quality and on auditors' independence.

Eugen Nicolaescu / 2014	The Effects of Audit Firm Rotation on Earnings Quality	The paper is about the effects of audit firm rotation on earnings quality. The objects of the study are the cost of mandatory auditor rotation, earnings management and auditor rotation in the public sector, and the effects of audit firm rotation on financial accounting and audit quality. According to the findings, there is a positive relationship between mandatory rotation audit engagement hours, and audit fees.
Yu-Shan Chang, Li-Lin (Sunny) Liu & Dana A. Forgione / 2014	The Effects of Mandatory Auditor Rotation on Audit Quality In Taiwan: A Hierarchical Linear Modeling Analysis	This research conducts a study to examine the effects of mandatory auditor rotation on audit quality with the Hierarchical Linear Modeling (HLM) technique. The aim of the study is to understand whether there is a relationship between mandatory audit rotation and audit quality. The results show that prior to rotation audit partner tenure is not significantly associated with discretionary accruals. Comparing the results of HLM with Ordinary Least Squares (OLS) results it has been discovered that the relationship between audit firm tenure and audit quality has changed from significant negative to

		insignificant due to the rotation adoption. The results provide evidence for the mandatory rotation on audit quality.

3.5.Employee Turnover and Audit Quality

Table 14: Articles on Employee Turnover and Audit Quality

Name of the Author(s) / Year of Publication	Name of the Article	Summary of the Article
Wuchun Chi, Linda Hughen, Chan-Jane Lin and Ling Lei Lisic / 2013	Determinants of Audit Staff Turnover: Evidence from Taiwan	Frequent changes in the position of professional staff can have a negative effect on audit quality. The turnover of entry-level auditors has been analyzed from the data of Big Four accounting firms in Taiwan. The results show that female auditors are more likely to depart the accounting firm. The results do not change after controlling for macroeconomic factors.

3.6.Auditor Tenure and Audit Quality

There are divergent viewpoints on the impact of auditor tenure on audit quality, focusing on two dimensions: auditor competence and auditor independence. Some argue that long-term relationships with audit clients can jeopardize auditor independence, as it may compromise the impartiality of auditors due to close ties with client management (Hoyle, 1978). Extended audit firm-client relationships might result in overly routine audit work and a lax attitude, negatively affecting auditor competence (Arrunda & Paz Ares, 1997) (Pham, et.al., 2014, pp.78).

Contrastingly, studies by St. Pierre and Anderson (1984) and Stice (1991) suggest that long-term audit tenure is associated with fewer lawsuits compared to short-term tenure. Myers, Myers, and Omer (2003) propose that extended auditor tenure limits managerial discretion regarding accounting accruals, implying higher-quality audits (Pham, et.al., 2014, pp.78).

Table 15: Articles on Auditor Tenure and Audit Quality

Name of the Author(s) / Year of Publication	**Name of the Article**	**Summary of the Article**
Josep Garcia Blandon, Josep Maria Argiles Bosch / 2013	Audit Tenure and Audit Qualifications in a Low Litigation Risk Setting: An Analysis of the Spanish Market	The main threat to conserving auditor independence is viewed as the long-time audit agreements. Therefore in many countries regulators establish mandatory rotation rules. According to the results of this study, the likelihood of audit qualifications decreases with audit tenure.
Chee-Yeow Lim, Hun-Tong Tan / 2010	Does Auditor Tenure Improve Audit Quality? Moderating Effects of Industry	This study is about the relationship between auditor tenure and audit quality. It investigates whether the relation is conditional on auditor specialization and fee dependence or not. The results show that

	Specialization and Fee Dependence	companies audited by industry specialists have higher audit quality according to the non-specialists. The findings set out that the relation is negatively moderated by auditors' fee dependence on clients.

3.7.Size of Audit Firms and Audit Quality

Previous studies (DeAngelo, 1981; Dopuch & Simunic, 1982; Deis & Giroux, 1992; Nichols & Smith, 1983; Wyer, White, & Janson, 1988) have presented varied findings regarding the relationship between audit firm size, audit competence, and audit quality. These findings encompass actual quality differences, perceived quality differences, and instances where no quality difference is observed. DeAngelo (1981) proposed that larger audit firms deliver superior audits due to their enhanced reputation. Dopuch and Simunic (1982) suggested that audit quality is influenced by the number and scope of audit procedures, with larger audit firms possessing more resources, thereby contributing to higher audit quality. Deis and Giroux (1992) discovered that larger audit firms maintained more efficient working papers than their smaller counterparts (Pham, et.al., 2014, pp.76).

However, some studies have contradicted the notion of audit quality disparities based on audit firm sizes. These studies argued that there is no significant association between audit quality and audit firm size. For instance, switching from a small audit firm to a Big Eight audit firm did not yield any stock return benefits for the audit client making the switch (Nichols & Smith, 1983). Additionally, it was deemed unlikely for small audit firms to issue inappropriate audit opinions (Wyer, White, & Janson, 1988) (Pham, et.al., 2014, pp.76).

In October 2012, the IAASB released a document titled "Applying ISQC1 proportionately with the nature and size of a firm." This document highlighted that, generally, the organizational structure of a smaller firm tends to be simpler compared to that of a larger firm. For instance:

- Smaller firms may utilize less structured means and simpler processes and procedures to achieve their objectives.
- Communications within smaller firms may be more informal.

As a result, the implementation of ISQC 1 in a smaller firm is likely to be simpler than in a larger firm.

3.8.Being Knowledgeable and Audit Quality

Over time, reputation has consistently wielded significant influence over employees and customers alike. Consequently, effective human resources management plays a crucial role in the success of audit firms. Another contributing factor to the success of audit firms is rooted in the satisfaction of their professional staff (Belkaoui, 1989). Large audit firms typically boast robust employee training programs, enhancing the knowledge and expertise of their personnel (Wooten, 2003).

3.9.Having Experience and Audit Quality

An auditor's sector-specific knowledge and experience are among the most critical factors influencing independent audit quality. Research on this matter has consistently demonstrated a direct correlation between an auditor's sector-specific knowledge and experience and the quality of independent audits (Kavut, 2002). According to various studies (Titman and Trueman, 2002; Dunn and Mayhew, 2004; Lys and Watts, 1994; Krishnan, 2005; Krishnan, 2003), as an auditor's specialization within the client's industry increases, so does the ability to identify and address specific issues within that industry, leading to a clearer reflection in financial statements and, consequently, higher-quality audit services (Reisch, 2000). Additionally, research supports the idea that an auditor's knowledge of the client company, especially regarding its operational business, potential risks, and the impact of risk changes, is crucial for audit quality (PWC, 2002).

Industry knowledge plays a significant role in audit quality, leaving a substantial impact (Solomon, Shields, & Whitting, 1999; Hogan & Jeter, 1999). Audit firms benefit from industry specialization, as suggested by various studies (Okeefe, Simunic, & Stein, 1994; Craswell, Francis, & Taylor,1995; Hogan & Jeter, 1999), with industry specialization being identified as one of the most influential factors contributing to high audit quality (Carcello, Hermanson, & McGrath, 1992). There is an observed relationship between audit pricing and auditor industry specialization. Craswell, Francis, & Taylor (1995) reported that auditors with industry knowledge earn a 34% premium over non-specialist auditors. A similar study conducted by Defond, Francis, and Wong in 2000 found that auditors with industry knowledge earn a 29% premium over non-specialist auditors. These findings underscore the association between industry expertise and auditors' earnings (Pham, et.al., 2014, pp.76).

3.10.Other

Francis (2011) and Knechel et al. (2013) conducted a synthesis of academic research to construct a comprehensive framework outlining the factors influencing audit quality. In this framework, Francis proposed that audit quality is shaped by six key factors: audit inputs, audit process, accounting firms, audit industry and markets, and the institutional and economic consequences resulting from audit outcomes. On a similar note, Knechel et al. (2013) introduced a balanced scorecard for audit quality that categorizes factors into four dimensions: input, process, outcomes, and context.

3.10.1. Auditor Competence

An auditor's professional competence is a crucial factor influencing audit quality. This competence encompasses professional and technical knowledge, experience, adaptability to new conditions, and technological expertise acquired through education and internships. All stakeholders have the right to expect auditors, responsible for conducting and completing audits, to possess proficiency and qualifications in the audit profession. Both audit firms and auditors must be aware of providing quality audit services and meet client expectations in fulfilling this responsibility.

Auditors should stay informed about legislation related to the audit profession, national and international developments, and participate in relevant activities such as publications, courses, seminars, and conferences to maintain professional competency. Research on this subject indicates a direct correlation between an auditor's professional competency and audit quality (Kavut, 2002; Jaffar et al., 2005; Catanach and Walker, 1999). Achieving a certain level of professional competency is crucial for providing quality audit services. The primary responsibility in this regard lies with the individual auditor, while audit firms, professional organizations, and regulatory authorities indirectly share responsibility. Auditors possessing professional competency can effectively handle the increasingly complex and extended audit tasks, as success and quality are expected from auditors with this proficiency.

The study of auditors' competency is relatively rare, primarily because mandatory audits are not widespread in most countries. Where auditing is legally required, competent auditors are typically chosen, especially for companies with critical management. Competence is a vital aspect of maintaining service and product quality across various industries, reflecting the requisite skill sets, expertise, and ability acquired through adequate education. Auditor competence is a fundamental precondition for auditor independence (Lee & Stone, 1995).

Auditors should possess the necessary professional skills and knowledge to execute audit engagements successfully. According to the International Federation of Accountants (IFAC), members of audit teams must demonstrate competence in performing audit assignments. The definition of competency may vary among audit firms (Pham et al., 2014, pp. 76).

3.10.2. Professional Care and Accurateness of the Auditor

The auditor is obligated to exercise the necessary professional care and precision throughout audit activities. Professional care and precision entail the effort and attention that a prudent auditor would apply under similar circumstances. Compliance with Generally Accepted Auditing Standards is essential for ensuring professional care and accuracy without exceptions (Aytekin, 2003). Generally Accepted Auditing Standards constitute the set of criteria aimed at maintaining the quality of audit work. In this context, the impact of professional care and accuracy on audit quality is evident, and a robust correlation exists between the two (Kavut, 2001). Unquestionably, the provision of quality audit services hinges on the meticulous application of professional care and accuracy in audit activities (Özel, 2000).

SECTION FOUR

4. RESEARCH ON DIFFICULTIES ENCOUNTERED BY EXTERNAL AUDITORS IN COMPLIANCE WITH QUALITY CONTROL STANDARD

This chapter encompasses an examination of potential challenges that could emerge during the execution of International Standards on Auditing (ISAs).

4.1.Objective of the Study

This book primarily aims to shed light on the challenges faced by auditors in Turkey when adhering to quality control standards. It adopts a descriptive research approach to gather information about these challenges. The specific objectives of this descriptive study are to identify potential difficulties auditors may confront while applying quality control standards. The research explores various aspects related to potential challenges, including:

- Auditor Independence
- Provision of Non-Audit Services
- Audit Fee
- Employee Turnover
- Auditor Tenure
- Size of Audit Firms

- Professional Judgment / Having Experience
- Being Knowledgeable
- Audit Effort

The above-mentioned purpose of the research is intended to provide a realistic and descriptive picture. The data collected for validity and reliability of research results; presented as much as possible detailed and surveyed the experts' views and experiences unchanged as possible and directly.

4.2.Importance of the Study

This study has been intended to show how an audit can be intended in accordance with ISAs. It is expected the findings obtained in this study to provide guidance primarily to auditors and the relevant institutions and individuals.

4.3.Methodology

The research employs a qualitative methodology. In essence, qualitative research is a scientific investigation that seeks to answer a question, systematically utilizes a predefined set of procedures for this purpose, collects evidence, produces findings that were not predetermined, and generates results applicable beyond the immediate confines of the study. Compared to other methods, qualitative research is more flexible, allowing for greater spontaneity and adaptation in the interaction between the researcher and the study participants. Its strength lies in providing intricate textual descriptions of how individuals experience a specific research issue, offering insights into the complex and often contradictory behaviors, beliefs, opinions, emotions, and relationships of individuals. When used in conjunction with quantitative methods, qualitative research aids in interpreting and gaining a deeper understanding of the multifaceted reality of a given situation and the implications of quantitative data.

In this study, in-depth interviews, a prevalent qualitative method, are utilized. In-depth interviews prove optimal for collecting data on perspectives and experiences, particularly when delving into sensitive topics. The data generated by this method include field notes, audio recordings, and transcripts.

The qualitative approach is chosen due to the limited availability of in-depth data directly obtained from audit clients. In-depth interviews are preferred over mailed surveys, as the latter may have constraints in eliciting substantial amounts of in-depth and rich data (Beattie and Fearnley 1998; Paulin et al. 2000).

4.3.1. Pilot Study

The pilot study was carried out as follows. Five auditors, each possessing a minimum of 5 years of auditing experience, were invited to provide responses to open-ended questions. The participants were inquired about their views on audit quality, and feedback was sought regarding any challenges they encountered in answering the questions. The questionnaire was refined based on the suggestions received, ensuring its effectiveness in eliciting responses. The feedback further indicated that respondents comprehended the questions well and believed that they accurately assessed their perspectives on audit quality and the challenges faced in adhering to quality control standards.

4.3.2. Sample and Data Collection

Determining the appropriate participants for the study was carried out by criterion sampling method.

According to the preferred qualitative research methods; identification of experts to be interviewed, communicating, taking appointments, carrying out an effective meeting, preparation of meeting materials, and writing the audio records are time-consuming and costly. For that reason, interviews have been made with 6 auditors, who specialize in quality audit and work in Istanbul. The participants, who were purposefully chosen, fit the criterion of full-time professional financial audit employees at audit firms in Turkey. Participants were interviewed in their offices by appointment only. The auditors have at least 20 years of experience in auditing. In a purposeful sample, the goal is to select the participants who are likely to provide a deeper understanding of the phenomena being studied. Data for this study were gathered from six different audit firms in Turkey.

Interviewees were selected based on purposive sampling and six audit partners were chosen representing auditing firms in Istanbul, which represents the main business center in Turkey.

Subsidiary companies of the 6 biggest groups in Turkey consist of more than half of the Turkish Stock Exchange market value of which there are (in 2015) 569 companies listed to the public. Big 4 audit firms have audited approximately 57 percent of these companies in 2015. In Turkey, there are 133 Audit firms, which have the qualification for independent audit but not all of them are active. Only 61 of them are working with listed companies. Due to their technical as well as professional capabilities, the big audit firms offer the highest attainable audit services. Choosing the Big Audit Firms not only helps to answer targeted research questions but also increases the reliability and validity of this research.

The audit revenue of 6 audit companies, that have been interviewed, also covers 79.3% of total market revenue.

The type of interview used for data collection was a semi-structured interview. Open-ended questions were asked of the interviewees. These types of questions allow the interpreter to ask more questions during the questioning part. Also, the interviewer usually has some latitude to ask further questions in response to what are seen as significant replies.

In order to ensure all relevant information is captured during the interview, when participants allow, a tape recorder is used to record the conversation throughout the interview sessions or if there was not any allowance to record the conversation, notes were taken by the researcher during the interview.

The firms of the interviewed participants is presented below:

- DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of Deloitte)
- Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of KPMG)
- Kapital Karden Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. (a member firm of RSM)

- Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of Ernst&Young Global Limited)
- Ulusal Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş.
- Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of PricewaterhouseCoopers)

4.3.3. Constraints of Research

The primary purpose of qualitative research is rather than measure to determine the variables in the totality. Therefore detected difficulties are relative and these determinations reflect the views of participants only in terms of time and circumstances exploration is done.

In assessing the results of interviews, generalization of detections and suggestions have been avoided. It should be noted that in different times and circumstances, different premises could exist.

4.3.4. Interpretation of Research Data

The data obtained from the interviews reveal the views of practitioners and they revised to highlight the differences. The obtained results have been interpreted through the question forms, which have been prepared before. Descriptive analysis has been applied to the data collected for the study.

In this analysis, without including the researcher's interpretation, data obtained from interviews have been submitted in the words of the participants. In the analysis of data, this process has been followed:

- All discussions with the expression of the participants were decrypted.
- Each interview questions are written in the form of headings and each participant's responses to the questions were brought together under the corresponding headings.
- Data are grouped by theme revealed by the survey objectives, and similar and repetitive responses to each question were eliminated. Thus, different responses to the questions were obtained.
- Conclusions were reached from the responses into groups.

4.3.5. Evaluation of Research Findings

The purpose of this part is to set out the results of the interviews that were conducted with auditors to expose their views concerning the meaning of audit quality, frameworks of audit quality, and difficulties encountered in compliance with audit quality standards.

In this part, the findings of the interviews have been addressed. In the evaluation of research findings, dialogues remained dependent on the privacy rules. The participants' deciphering of audio recordings has not been shared.

12 detailed questions have been asked to the interviewers. The questions have been prepared according to the indicators of

ISQC 1, which should be in the firm's quality control policies and procedures. The questions consist of independence of auditors, audit fee, mandatory rotation, employee turnover, size of audit firms, provision of non-audit services being knowledgeable, having experience, and general view of auditors on audit quality.

The answers to the questions should be considered as a whole, because it is not possible to separate sub-headings, due to the complete determination from each other. The following questions and answers from participants have been discussed in this research;

Table 16: Evaluation of Research Findings

OBJECTIVES	QUESTIONS
General View	Question 1: What do you expect from the 'audit quality'? How can a qualified audit be done? Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included? What are the internal and external factors that affect the audit quality?
General View	Question 2: What are the benefits of compulsory independent audits for companies?
General View	Question 3: The most controversial period when the value of audits was spoken about was the time the financial crisis existed. What is your opinion about the mission of audit on this point? Is it a legitimate expectation from an audit to predict and prevent a financial crisis?
Being Knowledgeable	Question 4: What do you think about the reputation of the auditing profession? Do you think that is it a global issue or not? What are the causes of loss of confidence in audit of financial reporting?

General View	Question 5: What do you think about the invention/installation of the Turkish Public Oversight Board (KGK)? Do you think that audit quality has increased after the invention of KGK?
Rotation / Independence/ Auditor Tenure	Question 6: What is your opinion about mandatory rotation? Do you support long-term audit engagements? Does long-term audit engagement have effects on the audit quality? Is the mandatory rotation the right answer against the damage of independence?
Audit Fee	Question 7: What is the relationship between the quality and the fee in terms of audit? How could the audit quality be ensured in an environment in which the costs are increasing and the fees are decreasing?
General View	Question 8: How does your quality department work for audit projects?
Having Experience	Question 9: What kind of specialties should have the auditors? How skills of auditors change over time?
Employee Turnover	Question 10: What do you think about turnover levels? Is there a relationship between audit quality and employee turnover?
Having Experience	Question 11: What is your strategy for educating your employees? Can you evaluate the professional training that auditors take? What do you think about the education auditors take? Do you think it has sufficient content to keep itself constantly updated and continue to have skills required by the necessities of the time?
General View	Question 12: What else can be done to improve audit and audit quality? Are there any policies or procedures that you considered necessary to

	include in your system of quality control, outside of those required by ISQC 1?

Question 1: What do you expect from the 'audit quality'? How can a qualified audit be done? Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included? What are the internal and external factors that affect the audit quality?

There are too many factors affecting audit quality. Although there is no single definition for audit quality and its indicators, when this question is asked of the interviewers, they give almost the same answers. In summary, they believe a quality audit means consistently:

- complying with accounting and auditing standards;
- applying a deep and broad understanding of our client's businesses and financial environments in which they operate;
- using our expertise to raise and resolve issues early; and
- exercising professional skepticism in all aspects of our work.

According to interviews, all auditors argued that audit quality is their highest priority. Audit companies commonly inform that they communicate with their employees that audit quality is their most important responsibility and that everyone at the company is accountable for the quality of his or her work.

They also add that quality is also a key element of how they evaluate and reward their leaders.

The global networks of big audit companies support the execution of high-quality audits and focus on continuous improvement around the world through their sustainable audit quality activities. Sustainable audit quality activities include a series of activities to reinforce their quality-driven culture and focus on the importance of accountability for audit quality. It includes elements such as leveraging technology to transform and innovate the audit, simplification, enablement, quality support and recruiting, training, and rewarding their professionals for audit quality.

Most of the auditors believe that audit quality is in arranging the audit process. That means; if an auditor makes a good plan for the audit project, like arranging the time and responsible employees for each work, it is easy to rule on standards. In fact, the critical role assumed here belongs to the audit partner. If he/she moves with the team, then the chance of making mistakes is decreasing. The number of auditors in a team and arranging enough time for audit is also very important for audit quality.

Big audit companies have a chance that their global head offices decide on programming and methods to keep the quality high. According to their statement, recently their global head offices are standing on the topic of audit quality.

Some audit firms are supportive of describing factors of audit quality as inputs, outputs, interactions, and contextual factors.

As a cover of their view on audit quality aspects, the following areas can be considered:

- Tone at the top and internal communications
- Transparency report
- Independence and ethics
- Performance evaluation and other human resource matters
- Audit methodology, training, and guidance
- Client risk assessment and acceptance/continuance
- Consultation and review
- Audit quality monitoring
- Other firm-wide matters

There are a number of drivers of audit quality, both internal and external to audit firms. Internal drivers have been well researched, documented, and discussed, as have criteria for oversight structures, for example, the work of the PCAOB. Less consideration has been given to other external factors that might affect perceptions of audit quality. These factors are perhaps more difficult to analyze and find solutions for than the internal drivers of audit quality and are also likely to be far more sensitive.

At a national level, differences in business culture (including the legal and regulatory environment), the political landscape, and the economic environment in the countries in which auditors operate might impact the perceptions of audit quality.

These also lead to more specific issues that are relevant to audit such as governance arrangements, professional capacity, ownership patterns, and the institutional history of the audit in countries.

As internal factors, the flow of audit services in the companies can be assumed. This includes a wide range of topics, from customer acceptance to training workers.

As external factors, regulatory agencies, the public, and customers can be assumed. The main external factors that the interviewee pointed out were;

- Being exposed to the pressure of lower pricing because of mandatory auditor rotation.
- Trying to manage all risks as maintaining the operations with current resources in the economy, which grows perpetually and develops in terms of audit contents.
- Managing the threats and opportunities due to the digital era and new technologies.
- Meeting the demands of the regulatory authorities, which load perpetually changing and increasing responsibilities.
- Meeting the customers' perpetually increasing value-added expectations.

Some interviewers point out that they should more lean toward external factors. The reason is internal factors are almost under their control, but they also have to manage external factors to have an advantage in audit quality.

Literature Review	A most common definition of audit quality belongs to DeAngelo; "the market-assessed joint probabilities that an auditor will both detect a breach in the client's accounting system and report the breach". Common indicators in literature review are: • Hours of training received by the audit staff • Views on audit quality • Number of auditors per audit partner • Length of experience • The regulatory body's examination • The workload of the audit partner • Industry experience of auditors • The workload of audit staff • Investments to develop new audit methodologies and tools • Auditors turnover rate • Independence • Surveys on audit staff satisfaction • Technical resources support • The approach of the board of management
Interviewers Opinion	• They believe a quality audit means consistently: • Complying with accounting and auditing standards; • Applying a deep and broad understanding of our client's businesses and financial environments in which they operate; • Using our expertise to raise and resolve issues early; and

	• Exercising professional skepticism in all aspects of our work.
Analyzes	Although there are different definitions of audit quality, the main similarities between those definitions show that indicators of audit quality should contain; • Independence • Audit Fee • Rotation • Employee Turnover • Auditor Tenure • Size of Audit Firms • Provision of non-audit services • Being knowledgeable • Having experience • Audit Effort (Actual Hours Worked)

Question 2: What are the benefits/disadvantages of compulsory independent audits for companies?

Independent audits are mandatory for certain categories of companies in Turkey, as of 1 January 2014.

A compulsory independent audit is an important issue, that contributes significantly to Turkey's integration process into the European Union. In the European Union and many countries in the world, this practice has been known for many years. The limits for turnover, assets, and employee numbers that Turkey uses for independent audits are much higher than in some countries. The purpose of this application is to provide stability and transparency for the country's economy.

One of the interviewees said that their expectations from audit regulations in force are; that all companies in Turkey should become auditable, financial statements of them should be clear and prepared according to international standards and all companies should become transparent. The benefits of these are, that Turkish companies can work more with other countries, acquire new customers and suppliers, have an increase in company capital flows, more foreign partners can exist, more companies can go public, and borrowing costs can fall. Because these are the main contributions of auditing.

It is a fact that every company needs to have a corporate structure. In order for the companies to grow, accurate and reliable financial statements are vital. Compulsory audits can help companies achieve these targets.

In summary, auditors believe that:

- Audit helps to protect each one of the partners' benefits, builds reliability, and ensures to increase in partners' profit.
- The audit is required for cash flow and loan management.
- An audit provides a more transparent outlook to investors, suppliers, and financial institutions.
- Audit prevents the consideration related to accounting and internal control systems and unpredictable problems.

- There might be sibling rivalry or conflict of interest in family-owned businesses. Fraud and embezzling are prevented by being audited.
- The possibility of the tricks decreases. The company reached a strong and controlled financial structure. Negligence, evil-minded behaviors mistakes, deficiencies, and frauds are prevented.
- Audited financial statements encourage the management and the employees to work prospectively in honestly. The audit helps responsible people to budget, estimate, analyze, and decide better.

Literature Review	According to regulations and literature review, compulsory audit has benefits for companies. There are many benefits of compulsory audits, from helping manage issues to preventing fraud.
Interviewers Opinion	Auditors believe that: • Audit helps to protect each one of the partners' benefits, builds reliability, and ensures to increase in partners' profit. • The audit is required for cash flow and loan management. • The audit provides a more transparent outlook to the investors, suppliers, and financial institutions. • Audit prevents the consideration related to accounting and internal control systems and unpredictable problems. • There might be sibling rivalry or conflict of interest in family-owned businesses. Fraud and embezzling are prevented by being audited.

	• The possibility of the tricks decreases. The company reached a strong and controlled financial structure. Negligence, evil-minded behaviors mistakes, deficiencies, and frauds are prevented. • Audited financial statements encourage the management and the employees to work prospectively in honestly. An audit helps responsible people to budget, estimate, analyze, and decide better.
Analyzes	Compulsory audits can be useful for companies to regulate their financial statements and be helpful to have a corporate structure.

Question 3: The most controversial period in the value of audit is the time that the financial crisis exists. What is your opinion about the mission of audit on this point? Is it a legitimate expectation from an audit to predict and prevent a financial crisis?

Business-related people (managers, partners, investors, foreign sources providers, employees, people, who have commercial relationships, various government agencies, consulting organizations, public) decide on businesses for different reasons. While making this decision, they expect from the company's managers reliable and adequate financial information, which causes reliable financial reporting.

Unreliable financial reporting and disclosures led to business failure since ancient times. However, in the recent past, cases related to major companies such as Enron, WorldCom, Global Crossing, Tyco, and Vivendi and cases related to smaller companies in the various regions of the world led to more attention in this area.

Loss of confidence became contagious and spread across capital markets. The problems experienced in the industry have affected other similar industries. As a result of the increasing globalization of markets and companies, these concerns have overcome national borders.

Almost all of the failure of a company is formed as a result of the conjunction of financial reporting failures and the failure of management. Many reasons can be counted as failures of companies' management. One of the reasons behind the bankruptcy of a company can be the benefit of managers. If managers have been asked to meet the market's profit expectations, they would meet expectations in order to protect their jobs. Another reason behind the financial crisis of a company can be a poor internal control structure. Growth and stock price-oriented approaches have led to ignoring the most basic measures for internal discipline, including effective internal control.

Lots of reasons can be counted as a cause of financial crisis. However, predicting or preventing a financial crisis cannot be even mentioned on auditors' duty. They do not have such a role. However this can be discussed: if an auditor can predict the financial crisis that the company, he audits may fall into? The auditor can have adequate information enough to foresee the coming financial crisis. But at this point, the auditor does not have any duty to confirm the accuracy of the company's business model or confirm the quality of risk management of the company.

Literature Review	According to some research, audit quality, in terms of discretionary accruals, was significantly higher for the time periods during the financial crisis (2008-2009) and during the post-crisis period (2010-2012) compared to the pre-crisis period (2005-2007). This finding confirms that audit quality would increase from the pre-crisis period to the crisis period. And also no conclusive evidence was found in the data that audit quality continued to improve after the end of the financial crisis.
Interviewers Opinion	Lots of reasons can be counted as a cause of financial crisis. However, predicting or preventing a financial crisis cannot be even mentioned on auditors' duty. Auditors do not have such a role.
Analyzes	Almost all of the failure of a company is formed as a result of the conjunction of financial reporting failures and the failure of management. Many reasons can be counted as failures of companies' management. One of the reasons behind the bankruptcy of a company can be the benefit of managers. If managers have been asked to meet the market's profit expectations, they would meet expectations in order to protect their jobs. Another reason behind the financial crisis of a company can be a poor internal control structure. Growth and stock price-oriented approaches have led to ignoring the most basic measures for internal discipline, including effective internal control.

Question 4: What do you think about the reputation of the auditing profession? Do you think that is it a global issue or not? What are the causes of loss of confidence in audit of financial reporting?

Audit firm reputation refers to the corporate image built over time by auditing firms. It may be as a result of the array of auditors the firm possesses, the brand name, the perceived audit quality resulting from little or no litigations, the fees charged, etc. Some researchers have argued that reputation is founded upon the technical and functional quality of audit firms and this reputation will only come over time. According to Gregory and Jeanes (2007), for one to measure reputation itself, it has to be based on an assumption of quality, which is difficult to evaluate however, researchers can deduce it from the audit methods used by audit firms.

It is vital that the investors get detailed information in regard to the performance of the companies in order for the capital markets to process well. This information is provided in the financial statements, which fulfill certain conditions and are prepared according to certain standards. Financial statements are useful as much as their persuasiveness. Auditors play an important role in order to assure that the financial statements and accounting in practice are accurate and in compliance with generally accepted standards. It is expected that the auditors are independent and would determine and discover a material mistake in the financial statements. Perception of the independent audit is also important for the auditors. Auditors can earn reliability among the market participants by making a required effort to prevent unfair behaviors and attitudes. One of the most important resources that can provide this reliability is the auditor's reputation. This reputation is earned with a reliable audit background and the auditors compete regarding their reputation.

The audit firm minimizes the risk of the possibility of being sued by giving good quality audit service. It has always been a potential threat that third parties as investors, banks, public enterprises, etc. sue the audit firm due to the audit failure.

In case of losing the lawsuit, the audit firm may be exposed to negative consequences such as falling into disrepute, paying a lot of compensation, losing clients, and legal charges.

According to Murat Alsan, KPMG Partner, "It is a fact that there have been some cases, which brought audit proficiency in to discredit, since Enron. We think that these types of scandals should be considered as an airplane crash. In my opinion, as the plane crash does not cause us to question the benefits of aviation, accounting scandals should not set an example in terms of value of the audit proficiency. It should also be specified that there has been a big process performed in order to increase audit quality since the audit scandals experienced at the beginning 2000s."

Reputation is a subject that is discussed all over the world. There are cultural differences. Some cultures are more open to understanding the value of audit. But it is obvious that today we are using global auditing standards and are almost the same or very close to each other. Therefore, the discussion about audit topics is the same all over the world.

The most important factor that affects the prestige and reputation of an audit firm is the quality of services provided. However, different types of audit firms (global vs. local) pay more attention to some quality attributes of auditors (employees).

Some auditors think that adherence to the principles of independence and impartiality, collecting adequate and reliable evidence, choosing the customers, and creating policies for promotion and increasing productivity are more important. Other auditors agreed on those issues too but they also stated that the sharing of information between the audit team and the company plays an important role in audit quality.

Auditors provide access to a broad set of information when they audit a company. However, because of the existing auditing and reporting standards, auditors cannot share all of them with financial statement readers. Auditors can push the value of audit services to a higher level if the scope of knowledge that they transfer can get wider.

Literature Review	According to some researchers auditor's loss of reputation can reduce the size of auditors' client portfolios. Some researchers think that audit quality is divided into auditor reputation and auditor monitoring strength. Auditor reputation refers to perceptions of audit quality and auditor monitoring strength refers to actual audit quality. Consistent with DeAngelo, both auditor monitoring strength and auditor reputation can be divided into dimensions of competence and independence. In other words, auditors' monitoring strength (reputation) is dependent on auditors' actual (perceived) competence and

	actual (perceived) independence. Monitoring strength and reputation are expected to be determinants of information credibility and information quality. Some researches also show that company reputation is positively associated with audit fees, consistent with higher reputation companies paying more for external audit services because of reputation concerns.
Interviewers Opinion	Some auditors think that adherence to the principles of independence and impartiality, collecting adequate and reliable evidence, choosing the customers, and creating policies for promotion and increasing productivity are more important. Other auditors agreed on those issues too but they also stated that the sharing of information between the audit team and the company plays an important role in audit quality.
Analyzes	From the past to today, reputation has had a great impact on influencing employees and customers. The most important factor that affects the prestige and reputation of an audit firm is the quality of services provided. However, different types of audit firms (global vs. local) pay more attention to some quality attributes of auditors (employees).

Question 5: What do you think about the invention/installation of the Turkish Public Oversight Board (KGK)? Do you think that audit quality has increased after the invention of KGK?

The participants consider that with the installation and authorization of PIOB for financial reporting and for the determination of Auditing Standards, multilateralism has been eliminated. However, all of the participants think that the process of adaptation to standards by professional users is not easy and the shape of professional judgment can be able to developed by trial and error method in years. However, it should be noted that every single company has its own easy and difficult unique auditing aspects.

Specialization in the auditing area is important for auditors making decisions. KGK has filled an important gap. In terms of the powers of regulatory bodies in the auditing area, it ended multivocality.

Issues relating to the supervision of audit quality were arranged. Responsibilities were clarified on the publication of international standards.

After KGK was installed, as the first work, it began to license auditors and then audit firms. After all, KGK began its essential task, oversight. In time, all this work will make an important contribution to audit quality.

Last year in 2014, the Public Oversight Board conducted its first audit of auditing firms. During that auditing, the board controlled mostly the quality control and assurance systems of audit companies. The board wanted to check if auditing companies are ready for ISQC 1 or not. They did not give any penalties to audit companies; they just wanted to correct the audit company's system and documentation.

The Public Oversight Board has not visited all the audit companies yet. Some of the audit companies, that have been interviewed, have not been overviewed by the Public Oversight Board. The board had some determinations about audit companies' reports, which have been prepared according to international standards on quality control 1. The board has checked if the company's reports are prepared according to the requirements of ISQC 1.

Literature Review	There is no detailed research on public oversight boards and their effects on audit quality.
Interviewers Opinion	The participants consider that with the installation and authorization of PIOB for financial reporting and for the determination of Auditing Standards, multilateralism has been eliminated. However, all of the participants think that the process of adaptation to standards by professional users is not easy and the shape of professional judgment can be able to developed by trial and error method in years. However, it should be noted that every single company has its own easy and difficult unique auditing aspects.
Analyzes	Although adaptation to standards takes some time, the results can be useful for companies. The Public Oversight Board did not share its findings with the public. To talk about transparency, the board should share the results of its investigation on audit companies with the public.

Question 6: What is your opinion about mandatory rotation? Do you support long-term audit engagements? Does long-term audit engagement have effects on the audit quality? Is the mandatory rotation the right answer against the damage of independence?

The independence of the auditor is the most essential subject in order to ensure the audit quality. Therefore the primary target of the rotation is to avoid impendence between the audit firm and the client, which may threaten the audit quality. A company being audited by the same audit firm for a long time is considered a harmful factor in terms of independence. Therefore there are some regulations, which limit the audit period in various countries. In accordance with this context, it is foreseen that the companies will change their auditors, generally by requesting to change the responsible auditor and/or key audit team member in the same audit firm. Some authorities have the opinion that changing the responsible auditor and/or audit team members may not prevent the threat of independence damage and oblige companies to change their audit firms.

Recently the rotation of the audit firm has become the main topic due to the effects of global and local financial turmoil. When this type of financial turmoil occurs, audit quality is being questioned and new regulations' implementation in order to increase the quality is being discussed. Even though there is no direct relation between financial crises and audit and audit independence, mandatory audit firm rotation is considered a protective activity in order to prevent financial crises by increasing audit quality.

In evaluating the expected benefits of rotation, also the objections have to be considered. For instance, knowing the company and its sector by the responsible auditor and the audit team is a significant element in terms of audit quality. The timing of gathering this knowledge by the new auditor is a difficulty to be well managed in regard to audit quality.

There are two types of approaches to audit rotation; responsible auditor rotation, which is also called internal rotation, and audit firm rotation, which is called external rotation.

At responsible auditor rotation only the auditor, who is in charge of that firm changes not the whole audit firm. So an auditor can sign the company's audit report only for a certain period of time. When the time is over, the responsibility is removed from all members of the audit team and transferred to the other auditors. For many years, this method has been preferred throughout the world and could be described as a traditional rotation method.

In the audit firm rotation approach, it is not considered sufficient to change only the audit team. After the expiration of the time limit, it is requested to audit the company by another audit firm. On the basis of changing all people and organizations connected with the audit, the assumption of tighter audits with this method lies. This rotation method has been known for many years, but the approach was not desirable because of the difficulties. However, it gained importance with the new regulations of the European Union.

It is a controversial issue that, mandatory rotation is an effective solution against damage of independence. This view is gaining acceptance in some countries, but countries like USA and Canada are not accepting this view. Turkey and the EU are some countries that use mandatory audit firm rotation.

However, there are some differences in practice in Turkey and the EU. For example, all EU public interest entities will be required to rotate their auditors every ten years. If member states choose to allow it, this period can be extended to 20 years if a competitive tender is performed at the 10-year point, or 24 years in the case of a joint audit appointment. This period is 7 years for Turkey.

The impact of the mandatory rotation should be evaluated with all aspects together on audit quality. For example, there is a phenomenon called the initial audit. The most difficult work of an audit is the first time auditing a company. 30% more time is spent on learning the process of the company. According to the result of rotation, each year one group experiences the initial audit of a company. This activity affects negatively.

All the auditors, who were interviewed agreed that 7 years is not enough to get to know and audit a company. They believe that there are so many complex structures in companies and that getting used to a company's operation is not an easy process. It takes time to get used to the company's organizational structure and even takes more time to audit the whole system.

The idea of either total fee obtained from audit contracts being in the area of one audit partner's responsibility or total turnover belonging to a single customer causes different opinions among auditors about its impact on the quality of audit and auditor independence.

One of the interviewees pointed out that in their belief mandatory audit firm rotation would reduce, not improve audit quality. In his view, the cost of mandatory rotation would outweigh the perceived benefits of a required periodic "fresh look" at the financial statements by a new audit firm. There are some academic studies that confirm that belief. Key among these studies is the loss of the current auditor's cumulative knowledge of the company's business, processes, systems, people, and risks. Increased risk of higher fraudulent reporting in changeover periods was also a concern. The studies suggest these disadvantages will lead to lower audit quality.

Literature Review	As a result of literature research, even though audit rotation has been discussed for years and there are many researches, which have investigated different ways of audit rotation in various countries, there has been no common opinion generated. According to the research, there are results, that support the claim of the benefit of audit rotation as it is improving audit quality by strengthening audit independence, as well as other results, which support the claim of the damage of audit rotation as losing the fund of knowledge which negatively affects the audit quality and rotation increases the audit cost.
Interviewers Opinion	All the auditors, who were interviewed agreed that 7 years is not enough to get to know and audit a company. They believe that there are so many complex structures in companies and that getting

	used to a company's operation is not an easy process. It takes time to get used to the company's organizational structure and even takes more time to audit the whole system. One of the interviewees pointed out that in their belief mandatory audit firm rotation would reduce, not improve audit quality. In his view, the cost of mandatory rotation would outweigh the perceived benefits of a required periodic "fresh look" at the financial statements by a new audit firm. There are some academic studies that confirm that belief too.
Analyzes	The purpose of rotation practice is defined as to improve audit quality by strengthening auditor independence. As there are various researches on this topic, there is no common conclusion reached. For instance, according to some research, there are results related to the improvement in audit quality, as some others reach no direct relation with audit quality or even negative effect on audit quality.

Question 7: What is the relationship between the quality and the fee in terms of audit? How could the audit quality be ensured in an environment in which the costs are increasing and the fees are decreasing?

One of the basic assumptions of the regulatory authorities' concern in regard to answering this question is "decreasing the fees will result in decreasing the audit quality". In other words, the auditors may tend to compensate the part of their loss in the contract, signed with the clients at a lower fee, by making less effort during the audit work.

There are some contradictory findings obtained, in relation to previous research based on monitoring, in the literacy of the fee-quality relationship. The research of Krishnan and Zhang summarizes these findings in 2 titles (Krishnan & Zhang, 2014):

1. According to some of the previous research, supporting the current concerns, there is a negative relationship between the limitation of the audit fees and the audit quality (audit quality decreases as the fee limitation increases)
2. Some others sentence that there is no relationship between the fee limitation and audit quality.

The relationship between the cost and the quality is one of the subjects, which have been researched for many years. Conceptual general acceptance is that the quality increase brings an increase in cost. On the other hand, it is conceptually accepted that there is a cost of not only the high quality but also the low quality. It is also alleged that the total cost, in the relationship of quality and cost, could be stated by the curve in the shape of U.

Accordingly, preventive quality management techniques, which should be applied in case of the intention to exceed a certain level of quality, begin increasing the total costs; the total cost also increases due to the mistakes that occurred because of the low quality.

Figure 8: Relationship of Quality and Cost

Effects of the recent developments are not only limited to audit fees and costs, but also the timing pressure in regard to the reporting deadlines defined by the regulatory organizations creates another constraint related to the management of audit projects. This timing pressure increases seasonality in audit firms therefore the parameters of cost, capacity management, overtime and leave of employees increase indirectly.

It could be stated that there are 2 different counter-views that are dominant in relation to the relation between the audit fee increase and audit quality. One of these 2 views is as the audit fee increases; the effort of the auditors increases and audit quality increases accordingly. The counter view is as the audit fee increases, economic dependency on the clients increases thus the ability of being interrogator decreases due to the concern of losing profitable clients. There are researches based on observation in audit literature that support both of these two views and also disprove another's claim.

Literature Review	The relationship between the cost and the quality is one of the subjects, which have been researched for many years. According to some of the previous research, supporting the current concerns, there is a negative relationship between the limitation of the audit fees and the audit quality (audit quality decreases as the fee limitation increases). Some others sentence that there is no relationship between the fee limitation and audit quality.
Interviewers Opinion	There are 2 different counter-views that are dominant in relation to the relation between the audit fee increase and audit quality. One of these 2 views is as the audit fee increases; the effort of the auditors increases and audit quality increases accordingly. The counter view is as the audit fee increases, economic dependency on the clients increases thus the ability of being interrogator decreases due to the concern of losing profitable clients.
Analyzes	When economic dependency on the client increases, it can be a problem with the independence of the auditor. However, this problem may only exist for small audit firms. On the other hand, there should be a base price for all audit services and this should be stated by law.

Question 8: How does your quality department work for audit projects?

For providing clients with independent, quality audit work, and earning a reputation for independence, integrity, ethical behavior, and objectivity, a large part of the duty belongs to the system of quality controls.

The key components of audit companies' quality control systems are;

- Code of Conduct, which defines the values and standards by which the company does business;
- Documented risk management and quality control policies and procedures;
- Technical guidance and support on complex accounting and audit issues that cannot be resolved within the firm is available through resources which include access to the Department of Professional Practice within audit company international;
- The oversight of professional performance, including engagement quality control reviews;
- Independence policies supported by integrated, web-based systems that help professionals maintain and monitor their compliance with independence requirements;
- Developed methodologies, manuals, and training courses to support the delivery of audit services;
- The appointment of the Head of Risk Management who is responsible for risk and regulatory matters and the appointment of a Risk Management Working Group that monitors developments and provides guidance to all staff with regard to risk management,

ethics and independence, and professional policies and procedures;

- The appointment of the Head of Ethics and Independence who is responsible for ethics and independence matters. The appointment of an Audit Manager to assist in the monitoring of policies and procedures concerning ethics and independence; and
- The appointment of a Compliance Manager, who reports to the firm's Head of Risk Management and who tests the firm's compliance with its stated policies and procedures on an ongoing basis.

In big audit companies, controlling the audit quality is not just a duty of the quality department. Each partner actually undertakes the task of audit quality. According to information and experience in the industry, the quality department determines who to appoint.

Publicly listed companies have another type of audit quality process. Audit Quality Standards do not require controlling every single job. Some audit firms are selecting one or two files from each partner and people from abroad audit offices are coming and controlling every detail of those files. Afterwards, they give points to the partners (auditors). These applications are like giving feedback to auditors.

The second partner review is subjecting an engagement partner's work to review. The second partner review is made to promote independence.

In big audit firms, their quality departments arrange which auditors should control which audit job. Their auditors believe that it is enough to choose some audit projects and control them. In small audit companies, it is more difficult to arrange this schedule. Only one or two of their projects can be overviewed by another auditor.

Deloitte's annual audit quality monitoring process is described within the firm as its "practice review". Guidance from DTTL (the global firm) states that a reasonable number of reviewers should be drawn from other Deloitte member firms in the annual practice review, to ensure a suitable level of independence. The firm is planning to increase the number of reviewers from other Deloitte member firms in the future.

Literature Review	Audit Quality Standards do not require controlling every single job. In big audit companies, controlling the audit quality is not just a duty of the quality department. Each partner actually undertakes the task of audit quality. According to information and experience in the industry, the quality department determines who to appoint.
Interviewers Opinion	In big audit firms, their quality departments arrange which auditors should control which audit job. Their auditors believe that it is enough to choose some audit projects and control them. In small audit companies, it is more difficult to arrange this schedule. Only one or two of their projects can be overviewed by another auditor.
Analyzes	Standards do not give any obligation to audit companies about the functioning of their quality department. Some small firms need some guidance on how quality departments should work. The Public Oversight Board can prepare that kind of guidance for small-sized audit companies.

Question 9: What kind of specialties should have the auditors? How skills of auditors change over time?

Audit is a discipline that relies on competent individuals exercising such qualities as integrity, objectivity, skepticism, perseverance, and robustness to enable them to make reliable judgments. For example, on issues relating to assessing the risk of material misstatement due to fraud or error, the adequacy of audit evidence, and the evaluation of accounting estimates and valuations required by accounting standards.

The skills of auditors lie at the heart of an audit firm's ability to undertake a high-quality audit. These include technical skills, business knowledge, and experience, combined with innate judgment skills.

The skills of an auditor develop over time and the most effective individuals are likely to be those with extensive professional experience.

In an audit team, there is a huge need for people, who have skills in different fields like actuary, statistics, tax, and law. In addition to all of them no matter what area of expertise they have, they are supposed to have a good knowledge of information technology.

Before becoming a professional in audit, people should change their abilities, which will be expected of them. It would be an advantage to learn those skill sets in college or graduate schools to get ready to run their new jobs.

Day by day technology is playing an important role in our lives. Auditors need to have a skillset for using technology in auditing. For example when analyzing larger amounts of data or when detecting expected and unexpected accounting transactions, auditors should know how to benefit from technology.

Critical thinking and business acumen are skills that senior auditors should have. It is important for an auditor's career to have those skills as early as it can be.

One of the interviewers put emphasis on one new skill that auditors should have. He points out that with the beginning of the mandatory rotation task, auditors should learn how to sell/market too. He added that when they are hiring new employees, they also check if the applicant is sales-oriented or not. According to him, with mandatory rotation, competition among audit companies becomes the main topic for auditors. Audit companies should express themselves in the best way and should move on to making new contracts. The voices of audit companies are mostly auditors, who have experience in the industry and audit. The interviewer thinks that on the day the auditor has to negotiate on new audit contract, he has to know how to market his auditing company.

<table>
<tr>
<td>Literature Review</td>
<td>A summary of the literature review, the following are the essential qualities of an auditor:

Professionally Competent: It is a basic quality of an auditor. The auditor must have a complete and thorough knowledge of the accountancy.
Auditing: An auditor's knowledge of auditing must be up to date. He/she must know the techniques of auditing.

</td>
</tr>
</table>

	• **Knowledge Of Business Law:** An auditor must possess a considerable knowledge of business law. He/she must be aware of his/her duties and rights given by law. • **Knowledge Of Taxation Law:** Various types of taxes are imposed by the government on the business. For example in some countries Income tax, sales tax, and gift tax is imposed. So if an auditor does not a considerable knowledge about taxation. He/she can not perform his services properly. • **Computer Expert:** The auditor must be able to operate the computer. Today business organizations are using computers. If an auditor does not know how to use a computer, he cannot work efficiently. • **Knowledge Of Management System:** The auditor must have knowledge of management information systems. It helps him/her to understand the internal setup of the business concern and its operation. • **Qualification:** For a professional auditor it is necessary that he should be a charted accountant. According to the company's ordinance, it is an essential qualification for an auditor. • **Maintain Secrecy:** The auditor's nature of work is confidential. He/she should maintain secrecy from others about the affairs of his/her client. • **Critical Attitude:** It is also very essential quality of the auditor. He should examine the statements critically. He should ask the various questions from the client and try to find contradictions. • **Bold And Courageous:** The auditor should

	be a bold and courageous person. He should not be influenced by any authority. He should possess the courage to face the difference of opinion between him and the client on any issue. • **Courteous:** It is an important quality, that the auditor should possess. His attitude towards the staff of clients should be very humble and polite. He should also stress on his own staff to be courteous with the client. • **Independent:** The auditor should be impartial. He should not have such relations with the organization, which may affect his independence. He should give his opinion independently. • **Common Sense:** The auditor must have the quality of common sense and judgment. He may be able to assess the value of depreciation and bad debts.
Interviewers Opinion	One of the interviewers put emphasis on one new skill that auditors should have. He points out that with the beginning of the mandatory rotation task, auditors should learn how to sell/market too. He added that when they are hiring new employees, they also check if the applicant is sales-oriented or not.
Analyzes	Strong technical and ethical characteristics are fundamental to audit success. Good auditors also possess the following additional characteristics: • Vision and instinct • Able to see the big picture • Decision-making ability • Leadership • Superior communication skills.

Question 10: What do you think about turnover levels? Is there a relationship between audit quality and employee turnover?

High turnover at auditing firms has long been a critical issue facing the profession. Although the reality of high turnover is known by the market, audit companies try to deal with this problem and some of the interviewers pointed out that their turnover rates are at the limit of their expectations. High turnover is a costly issue for audit firms. Hiring and training employees are costly processes. It is not possible to lower the turnover rate to zero. But it is possible to make the rate of turnover decrease.

Auditing is the first profession for most of the people. Although at the beginning, they are very keen to start in the profession, at some time point they realize that the job is not suitable for them or the job is not meeting their expectations. So they quit the job.

Big audit firms are working with employees of their own education. When turnover is high, it becomes difficult to find someone, who works at the senior level.

Due to the mandatory rotation in 2009, the hourly rates are decreased. This situation makes a little force in terms of sources.

In fact, audit firms seem to be a school, after a bachelor's degree. In the beginning, when new bachelors get into the audit company, they do not care that much about the wages. Because they believe that they are going to learn many things about auditing. Employee's perception of career development is an underlying factor that influences job satisfaction. A career in audit offers challenging work and various opportunities to develop their skills and grow to their full potential.

But as time passes and employees begin to work really hard, they begin to think that this job is not suitable for them. And for the next step, they begin to change their job. High turnover introduces challenges for public accounting firms because hiring and training new employees is costly.

Nowadays, there is a recent trend not only to hire graduates with accounting knowledge but also to hire more non-accounting majors. Employees are able to successfully develop different perspectives on the business unit through this approach, they provide added value to the corporate vision.

The shape of the organizational chart of audit firms is a pyramid. This model reflects a hierarchical model. Executives are at the top of the chart; middle management follows; and lower–ranking employees are at the bottom. The pyramid organizational structure shows to whom all employees report.

As a normal process of the pyramid structure, it gradually decreases. But decreasing should have a limit. When the percentage of decrease is more or less than expected, it can be inconvenient.

Figure 9: Reflection of Auditor Turnover at Normal Situations

If the turnover at the staff level becomes less than expected, then there will be a problem of promoting employees. The number of senior auditors and managers is determined according to audit projects.

Frequent changes in the position of professional staff can have a negative effect on audit quality.

Figure 10: Reflection of Auditor Turnover at Unexpected Situations

First and second-year associates are called Staff Auditors. The duty of a staff auditor is to make a detailed work of a financial audit under the supervision of a senior. In their first year, auditors take a detailed training program about audit fundamentals and industry and technical knowledge

Third and fourth-year auditors are named as Senior Accountants. They work under the general direction of an audit manager. Their responsibilities include the direction of audit fieldwork, assignment of detailed work to Staff, and review of their working papers.

Managers, who have 5 to 7 years experience in auditing, supervise Seniors and Staff. They are responsible for audit program approval, personnel scheduling, audit working papers review, financial statement disclosure footnote approval, day-to-day client relationships, determination of billings for engagements, and training and evaluation of Staff and Seniors. They are expected to manage multiple audit client engagements. Achievement of this level is critical to long-term success within an audit firm since it is awarded only to those with Partner potential.

After 8 to 11 years of working Senior Manager is expected to manage multiple audit client engagements. The duties of a senior manager are reviewing engagement files, providing advanced technical input, and providing on-the-job training. They are working closely with managers and senior auditors to coordinate engagement management.

Only 2 percent of all people entering an auditing firm can reach the level of Audit Partner. The time it takes to be a Partner depends on the auditors' performance. An audit partner can have an experience in audit between 10 to 13 years. A partner is responsible for quality, technical, and client service leadership, as well as people and business management. The Partner normally purchases equity in the firm and therefore shares in all profits. Typically, a professional must be a CPA to become a Partner.

Senior Audit Partner performs all the duties of a Partner. The achievement of Senior Partner is obtained as a result of longevity with a firm and expert handling of instrumental accounts. The title of Senior Partner may also be attained through participation as a member of the Executive Committee, which is responsible for developing the firm's policies, planning activities, or providing day-to-day management and administration of one or more branch offices or regions.

Literature Review	Frequent changes in the position of professional staff can have a negative effect on audit quality. The turnover of entry-level auditors has been analyzed from the data of Big Four accounting firms. The results show that female auditors are more likely to depart the accounting firm. The results do not change after controlling for macroeconomic factors.
Interviewers Opinion	High turnover at auditing firms has long been a critical issue facing the profession. Although the reality of high turnover is known by the market, audit companies try to deal with this problem and some of the interviewers pointed out that their turnover rates are at the limit of their expectations. High turnover is a costly issue for audit firms.

	Hiring and training employees are costly processes. It is not possible to lower the turnover rate to zero. But it is possible to make the rate of turnover decrease.
Analyzes	Hiring and training new employees is a costly issue for audit companies. Although new graduates at first see working at audit firms as an opportunity, after they get into the work, because of long working hours and low fees, they begin to search for another job. There is only one audit firm, which prevents their employees from working after 10 pm. If this spreads among audit firms, auditors can work more efficiently and higher audit quality can be possible.

Question 11: What is your strategy for educating your employees? Can you evaluate the professional training that auditors take? What do you think about the education auditors take? Do you think it has sufficient content to keep itself constantly updated and continue to have skills required by the necessities of the time?

The profession endeavors to ensure that auditors have the necessary technical skills through admission exams and practical training. However, professional exams in our country are designed also for qualification as an 'accountant' and there is a perception that the exams may have become progressively less focused on audit.

Against this background, the training in auditing that is provided by the audit firms may be said to have acquired increased importance. Firms generally provide training in the technical aspects of audit and in the requirements of the audit methodology of the firm. They also provide essential practical experience by including trainees in audit teams undertaking audit work. As auditors are increasingly expected to address broader issues in the public interest, the training provided by firms needs to extend beyond teaching staff how to apply the firms' methodologies related to accounting and auditing.

The training provided by the firms merges learning the technical aspects of auditing with gaining practical experience. In principle, this is undoubtedly the correct approach because classroom training is only part, and perhaps only a small part, of the process by which auditors develop skills and experience. Learning from experience is a key element.

Every year one of the audit companies provides approximately 150 of its employees a world-class education. The newcomers to the audit company have both theoretical and practical training. Auditors gain experience by working alongside one of his/her senior.

In Turkey Union of Chambers of Certified Public Accountants Turkey (TURMOB) and the Turkish Public Oversight Board (KGK) have training and licensing processes. Auditors have a 3-year internship when they pass the entrance examination for internship. After the internship program, the auditor should take and pass the competency exam to become a certified public accountant. These exams contain infrastructure courses like general accounting, tax, and law. Afterward, auditors can be independent auditors, if they can pass the exam of KGK successfully.

This process is enough for entering to profession, but it has nothing to do with updating the knowledge of the auditors.

Auditors should obtain specialization-oriented training. That means, if an auditor will audit a bank, insurance company, technological company, or any other special type of business, he should have specialization on that issue.

One of the interviewers pointed out that there should be questions on IFRS at the competency exam of CPAs. The exam for being an independent auditor contains the topic of IFRS.

Audit proficiency gives new graduates, who are at the beginning of their career path, the opportunity of education which they may never come across in other business sectors and has a wide business network that contains the executives of pioneer companies.

On the other hand, in favor of perpetual proficiency improvement in accordance with the developments in the economy, auditors who have begun taking more qualified responsibilities apart from routine audit subjects with the support of information technology, and the improvement in proficiency with the support of various certifications along the career path, audit proficiency provides a concrete career path which is full of big opportunities.

The quality of the service given by the audit firms is mainly related to the qualification of the auditors. Therefore, resources allocated to the training in the audit firms, which determine quality as their mission, have always been considered a competitive reference by the pioneer companies in different sectors.

People who passed the structured hiring process successfully and become a candidate auditor

An intense on-the-job training program is performed in order to build the candidate auditors', who passed the structured hiring process successfully, proficiency qualifications on the firm base. On-the-job training gives candidate auditors the opportunity to practice and reinforce their abilities instantly.

Contrary to common sense the auditors perform audits in not only the financial reporting and accounting departments, but also the supply chain which constitutes the base of the business, production planning, human resources, marketing, and sales functions.

Auditing in such a wide area provides professional development to people by giving them the opportunity to work with professionals who have different perspectives. If the audit firm you are working for gives the audit service to the big brands and well-known companies in the market, the development opportunities you may come across will be even more and wider.

Because of offering unique development opportunities to the youth who are at the beginning of their career path, the audit sector is defined as a "school" by many experts. All interviewees agree on this point.

People can either graduate from that school and move to different business lines or choose the long and quality career path as an assistant professor in an academic career. As the auditors gain seniority they can take responsibilities in different fields or share their experiences in the universities as a lecturer alongside their major responsibilities.

If university graduates, who passed the early years of their business life in the audit firm, decide to continue in this school, their career plan is presented to them in the clearest way. It is in the candidates' hands to climb up these career steps. As the open position and budget approval type of procedures are expected in order to get the promotion in other sectors, in the audit sector it is already determined at the beginning of the audit career in which position they will come and how long they will stay as long as they reach sufficient experience and proficiency success. The assistant level is given at the beginning, team management responsibility is given in the second year and the manager position may be reached in 5 years.

Literature Review	In Turkey Union of Chambers of Certified Public Accountants Turkey (TURMOB) and the Turkish Public Oversight Board (KGK) have training and licensing processes. Auditors have a 3-year internship when they pass the entrance examination for internship. After the internship program, the auditor should take and pass the competency exam to become a certified public accountant. These exams contain infrastructure courses like general accounting, tax, and law. Afterward, auditors can be independent auditors, if they can pass the exam of KGK successfully.
Interviewers Opinion	Because of offering unique development opportunities to the youth who are at the beginning of their career path, the audit sector is defined as a

	"school" by many experts. All interviewees agree on this point.
Analyzes	The profession endeavors to ensure that auditors have the necessary technical skills through admission exams and practical training. However, professional exams in our country are designed also for qualification as an 'accountant' and there is a perception that the exams may have become progressively less focused on audit.

Question 12: What else can be done to improve audit and audit quality? Are there any policies or procedures that you considered necessary to include in your system of quality control, outside of those required by ISQC 1?

The infrastructure of the products containing the information requested by the public should be established.

Another aspect of audit open for improvement is adaptation to changing technology. Technology is affecting every industry, and the auditing profession is no different. Improvements in technology and developing markets are driving dramatic changes in business, which means audits, too, must evolve. Also, technology is changing very fast and shaping the world of work. Auditors also need to keep pace.

Audit practices conducted in the past were mainly using sampling models in field applications. But today through information technology, there is no need to take a sample. The entire population can be analyzed within a few minutes.

There are also some risks that were difficult to uncover previously, but they can be easily identified today. For example, with the help of information technology, according to the nature of a company's business, expected and unexpected accounting transactions can be detected very quickly and so the auditor can concentrate on their work properly. So the auditor can schedule auditing based on data. This approach is defined as a data-driven risk assessment. This approach is results-oriented and provides efficient and effective audit service.

Simplifying audit through innovation is the motto of most audit firms. Innovation is imperative to managing the complexities of a business and being successful in any given environment.

Through continuous technology, project management can be improved and transparency can be more effective.

Auditing firms are using technology There are some software programs that are helpful for auditing.

For example, PricewaterhouseCoopers is using three different technologies for efficient and qualified audits; Aura, Halo, and Connect. Aura, the global audit platform of PwC, is used by 87,000 auditors worldwide on every PwC audit. It helps to make sure that things are done the right way—consistently and efficiently, globally and locally. This program helps real-time monitoring of engagement progress. Halo is a leading-edge technology designed to provide deeper insights from data in real-time and Connect is a collaborative workflow tool allowing fast, secure information sharing.

Image 1: Mobil Technology on Auditing

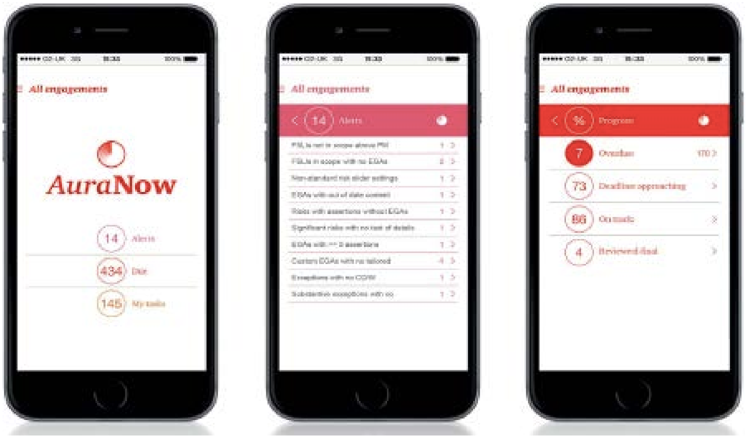
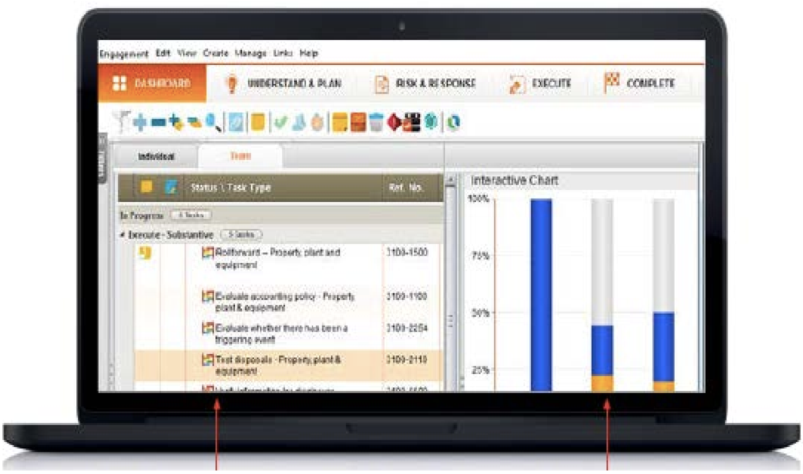


Image 2: Technology in Auditing



The effect of information technology on audits is not limited to these. In the near future, associated with the integration of information technology with auditing, the number of auditors will decrease and more people, who are dominated by technology knowledge, will join the auditing team. Auditing services will be done by a few people, who have professional discernment skills.

Literature Review	The following contextual factors and developments are particularly relevant to research efforts: • **Business practices and commercial law**: Law or regulation may create tax or other incentives based on domicile. These may influence how entities are structured. • **Laws or regulations relating to financial reporting and the applicable financial reporting framework** – Financial reporting frameworks increasingly require significant management judgment and use of forward-looking information as the basis for recognition or measurement and expect this information to be disclosed in the financial statements. • **Information technology** – Technological change is occurring at a rapid pace, ushering in the capability to capture and communicate data digitally, on an unprecedented scale and on almost instantaneous timescales. This has resulted in increasing focus on "big data," whether structured or unstructured. Comprehensive and powerful digital information systems are increasingly capable of handling, analyzing, communicating, and responding to these data-related changes. Businesses are rapidly changing their business models in innovative ways in response to these developments. These changes are feeding into the information systems for financial and broader corporate reporting, and therefore have implications for audits. Audits are also increasingly being conducted using advanced

	technologies, including the evolving use of audit data analytics. • **Corporate governance** – Audit committees are important in enhancing audit quality. Reflecting this, audit committees are being called on to play a more active role on behalf of investors and other external stakeholders; not only in overseeing the financial reporting process, but also their oversight of, and interactions with, auditors. In particular, external stakeholders expect audit committees to challenge auditors' judgments.
Interviewers Opinion	Technology is affecting every industry, and the auditing profession is no different. Improvements in technology and developing markets are driving dramatic changes in business, which means audits, too, must evolve. Also, technology is changing very fast and shaping the world of work. Auditors also need to keep pace. Simplifying audit through innovation is the motto of most audit firms. Innovation is imperative to managing the complexities of a business and being successful in any given environment. Through continuous technology, project management can be improved and transparency can be more effective.
Analyzes	For enhancing audit quality these issues can be useful: • **A robust framework for auditor independence:** Strong, independent audit committees. • **Additional reporting to audit committees and shareholders**: Improved reporting by auditors to audit committees should include items such as the auditor's key risk assessments, areas of focus for the audit and approach thereto, views on management's key judgments

	and estimates, assessment of the quality of financial reporting by the entity and the auditor's assessment of the entity as a going concern. This will help to improve the awareness of audit committee members by focusing on key audit issues and avoiding unnecessary detail. • **Partner rotation:** Familiarity threats exist between individuals rather than institutions. Rather than audit firm rotation, partner rotation can be done. • **Information technology:** Technological change is occurring at a rapid pace, ushering in the capability to capture and communicate data digitally, on an unprecedented scale and on almost instantaneous timescales. This has resulted in increasing focus on "big data," whether structured or unstructured. Comprehensive and powerful digital information systems are increasingly capable of handling, analyzing, communicating, and responding to these data-related changes.

CONCLUSION

For years, efforts to enhance the reliability of financial reporting and corporate disclosures have been ongoing, with some countries initiating studies even before the collapse of Enron. Following the Enron case, numerous countries intensified efforts to examine and address critical issues, emphasizing the development of international standards guided by national standards.

IFAC, in its pursuit to restore community confidence, has highlighted the importance of placing more emphasis on the audit quality control process. Trust in the auditor and the audit work stands as a cornerstone of audit proficiency, relying on adherence to specific standards throughout the audit process. The acceptability of audit work is measured by its alignment with these standards, determining the reliability of the audit report and achieving the expected outcomes. Non-compliance with these standards signifies inadequacy and unreliability in the audit work.

Conducting audit work in accordance with the International Standards on Auditing (ISAs) is a comprehensive process. Establishing a robust infrastructure within the audit company, clarifying the responsibilities and objectives of audit team members, and emphasizing ethics and quality are crucial initial steps. At each stage of the audit process, beginning with customer acceptance, ISAs provide guidance supported by examples and practice guidelines, contributing to the quality of the audit and establishing a common understanding.

As audit value faced scrutiny amid accounting scandals in the 2000s, studies on the measurement of audit quality gained momentum. The most critical element of audit quality is the human factor, necessitating a focus on auditors' professional attitudes and behaviors. Technological advancements and the information age have led enterprises, including audit firms, to prioritize the definition and integration of quality to remain competitive and adaptive to changing global conditions.

Amid intensive technological improvements, enterprises must emphasize quality to compete and survive. Auditors unanimously recognize the value of transparency in bringing quality but emphasize that more information does not always equate to better outcomes. Investors require qualified information for decision-making, emphasizing the importance of meaningful transparency over sheer quantity.

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