

Capital Markets Board of Turkey

The Report Related to The Conclusions of the Quality Assurance Reviews in the period of the years 2008-2010

1. Content of the Report

In accordance with the article 22/e of the Capital Markets Law and related auditing regulations of the Board, annually quality assurance reviews in the presence of audit firms are implemented by the Accounting Standards Department of the Board to detect whether the operations of the audit firms are consistent with the regulations related to the auditing standards which had been put into effect by the Board.

At the 30th article of the European Union's Eighth Directive related to auditing, It is stated that the overall results of the quality assurance system shall be published annually.

In this content it needs to arise making disclosure regarding the quality assurance reviews which have been implemented by the Board.

A Total of 47 quality assurance reviews in the presence of audit firms were implemented in the period of 2008-2010 (12 audit reviews in 2008, 20 audit reviews in 2009 and 15 audit reviews in 2010) and 46 of these quality assurance reviews were settled by the Board.

The statistics related to mentioned quality assurance reviews which have been implemented by the Board in this period is shown in the following table:

Table: The Statistics Related To Audit Reviews In The Period of 2008-2010					
The year	Withdrawal of Approvals	Administrative Fine	Legal Notice	Ongoing Reviews	The Number of Audit Reviews
2008	4	3	5	-	12
2009	1	10	8	-	19
2010	2	3	7	1	15
TOTAL	7	16	20	1	47

2. Main Findings

In respect of the results of the quality assurance reviews implemented by the Board, main findings related to the audit firms and auditors is summarized substantially in the following text.

2.1. Establishment Requirements

It has been determined that 18 audit firms didn't provide the establishment requirements prescribed by the 3th article of the Second Section of "Communique About Auditing Standards in the Capital Markets". Main contradictions and deficiencies related to establishment requirements are set out below:

- Not providing the condition related to professional experience which needed the person who is charged as partner to work actually in auditing the capital markets institutions and public

corporations at least for two years as auditor and senior auditor in the audit firms authorized by the Board,

- Not employing sufficient and well-qualified auditors,
- Absence of audit licences of the administrators and auditors,
- Lack of enough space and technical equipment,
- Not arranging professional liability insurance,
- Contrary to the principle of full time working, being employed the auditors who are charged at audit staff in other offices and not actually working in audit activities,

2.2. Documentation In Audit Works

In conclusion of audit reviews reviews, at 21 of 46 audit firms, significant deficiencies have been determined in documentation of audit works. General deficiencies determined in documentation of audit works are set out below.

- Lack of enough Information regarding the content and time of the performed auditing procedures, by whom these work and checks were performed and results of these procedures.
- In the works performed, lack of evidence of audit in the working documents regarding that any account items of the financial statements was checked.
- Lack of documentation of plan and programme of audit
- Lack of documentation of evaluations made by auditor to understand the industry, economic and legal environment which the company operates,
- Lack of documentation of works made by auditor to understand the accounting and internal control systems of the company,
- Lack of documentation of statements regarding sampling techniques used by the auditor,
- Lack of documentation of statements regarding auditing techniques used by the auditor,
- Lack of content and quality of the working papers,
- Lack of documentation of works related to risk assessments and materiality level,
- Lack of documentation of strategy of audit
- Lack of documentation of evaluations and works made in contemplation of professional scepticism related to frauds and unlawfulnesses determined during audit,
- Lack of taken confirmation letter from the company administration concerning interception of frauds and unlawfulnesses in arranging financial statements,
- Lack of documentation of work related to quality control of audit.

2.3. Obtaining Appropriate And Sufficient Audit Evidence

At 17 of 46 audit firms, failure is detected in obtaining sufficient, confidential and appropriate audit evidence that provides reasonable assurance. In many audit works, it can not be detected that information presented by the entity was confirmed by using the audit evidences. General deficiencies in obtaining appropriate and sufficient audit evidence which were detected during audit reviews are set out below:

- Auditor's absence at the cash count,
- Auditor's absence at the physical inventory count,

- Relying on documents obtaining from the company itself without taking sufficient confirmations about trade receivables and trade payables,
- Insufficient analysis of financial statements of company's subsidiaries and affiliates,
- Not checking the correctness of the rediscount calculations,
- Taking insufficient confirmation from the banks,
- Insufficient information and documentation for doubtful receivables,
- Not checking the correctness of depreciation calculations relying on the calculations of the company.
- Not checking the correctness of the calculations of the company for the provision for severance pay,
- Undetailed information and documentation for affiliated party transactions,
- Not fulfilling the analytical procedures in evaluating the financial information,
- Not making tests performed on the results of the expert's work in outsourcing services,
- Not arranging working papers for the measurement of the impairment losses in tangible and intangible assets

2.4. Risk Assessments and Audit Materiality Level

In conclusion of the audit reviews, at 16 of 46 audit firms, any work could not be detected about defining the audit materiality level which determine the content and timing of the audit procedures that need to be applied during audit work and evaluating the risk of significant error relevant to the information, documentation and declaration presented by the company.

2.5. Overall Audit Plan and Programme

In conclusion of the audit reviews, at 31 of 46 audit firms, main deficiencies detected about overall audit plan and programme are set out below:

- Not having separate audit plans and programmes for all kinds of companies which cover the all of the Board's financial reporting standards,
- Not updating the existing audit plan and programmes,
- Not defining the structure of the audit techniques, content and timing in audit plan going to be used in audit work,
- Absence of account items of the income statement in audit programme,
- Absence of audit plans and programmes in Turkish

2.6. Analytical Procedures

In conclusion of audit reviews, at 5 of 46 audit firms, it was detected that any analytical procedures which need to be performed during the planning of the audit work so as to detect the potential risks of the audit works were not applied. The main deficiencies detected during audit reviews are set out below:

- Defining the hypothesis and modellings,
- Evaluation related to the industry, economic and legal environment which the company operates
- Analytical tests for understanding the industry risk of the company,

- Analytical test by using analysis techniques to understand the financial situation of the company

2.7. Evaluation of the Internal Control System

In conclusion of audit reviews, at 8 of 46 audit firms, it was not detected any documentation using in understanding the accounting and internal control systems of the companies.

2.8. Affiliated Party Transactions

In conclusion of audit reviews, at 7 of 46 audit firms, some deficiencies were detected in identifying affiliated party transactions and presenting the sufficient audit evidence related to these transactions. Main deficiencies detected about affiliated party transactions are set out below:

- Not performing the required audit techniques to expose the extraordinary transactions or transactions with extraordinary prices,
- Arranging an audit letter despite the fact that sufficient audit evidence for affiliated party transactions was not obtained in audit work.

2.9. Audit Letter

In conclusion of audit reviews, in 6 of 46 audit firms, any contradictions and deficiencies were detected in arranging the audit letters. Main contradictions and deficiencies are set out below:

- Arranging affirmative audit letter despite the fact that there were any restricting factors and/or requiring conditional factors during audit work,
- Arranging affirmative audit letter despite the fact that there was not sufficient comments in the financial statement footnotes,
- Arranging affirmative audit letter despite the fact that financial statements and their footnotes were contrary to the regulations of the Board related to the financial reporting standards,
- Not abiding the audit report format as required by the Board.

2.10. Checking the Accuracy of the Fair Value Estimations

In conclusion of audit reviews, at 8 of 46 audit firms, some errors were detected in fair value estimations in the financial statements which need to be arranged in accordance with IFRS and also it was detected that the accuracy of the fair value estimations were not checked inspite of these errors.

2.11. Professional Training

In conclusion of audit reviews, in 11 of 46 audit firms, it was detected that professional training for auditors to enable improving themselves and gaining professional competence for auditing was not efficient together with lack of on-the-job training.

2.12. Liabilities of Notification to the Board

In conclusion of audit reviews, it was detected that 16 of 46 audit firms did not send or sent with a delay any documents as hard copy and soft copy and any information which have to be sent in accordance with the liabilities of notification of the audit firms to the Board.

2.13. Audit Contracts

In conclusion of audit reviews, some deficiencies and contradictions were detected in audit contracts which had to be arranged in accordance with auditing standards as required by the Board. Main deficiencies and contradictions detected in audit contracts are set out below:

- Lack of minimum requirements,
- Presence of items which conflict the principle of independence,
- Absence of qualified and required number of auditors in audit works,
- Presence of items contradictory to auditing standards required by the Board,
- Difference between auditors determined in audit contracts and auditors performing the audit Works.

2.14. The Principle Of Independence

In conclusion of audit reviews, it was detected that 4 of 46 audit firms violated the principle of independence. Main violations are set out below:

- Indirect connection with another audit firm,
- Presence of consulting services for the companies which were audited at the same time.

2.15. The Other Issues

The other issues detected in audit reviews are set out below:

- Lack of guidelines for auditors related to the ethic principles of auditing,
- Not taking into account the other regulations in audit works which the companies are subject to,
- Not taking into account the titles of auditors in determining the audit team, competence and task,
- Performing the audit work without surveillance and coordination of the partner.

3. General Evaluation

Consequently, in most cases, the documentation did not provide evidence that the audit was planned and performed in accordance with auditing standards. It was not possible to test the assumptions in arranging the financial statements because of the lack of qualification and content of the working papers. Because of the absence of audit works for understanding the internal control systems, risks, audit materiality level and fulfilling analytical procedures and audit plans and programmes etc., reasonable assurance in some audit works could not be provided.

In conclusion of these audit reviews, some sanctions were applied to the auditors and audit firms by the Board as withdrawal of approvals, administrative fine and legal notification.