

DEVELOPMENT OF INDEPENDENT AUDITING IN STATE BANKS IN TURKEY FROM PAST TO FUTURE

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ABSTRACT

As auditing is built on the questioning of correctness and appropriateness, it can be said that it plays a critical role in bringing about the “transparency” required to provide and maintain the environment of trust in markets. Independent auditing which means holistic auditing of an organization by a third eye has been improved in Turkey through the requests for it made by the banks and other financial organizations operating in the markets.

In this study, primarily, the historical development of auditing culture in the state banks that were especially dominant in the financial markets because of the lack of capital on the part of the private banks at that time will be outlined.

Key Words: Independent Auditing and State Banks

ÖZET

Denetimin temelinde doğruluk ve uygunluk sorgulamasına dayandığından; mali piyasalarda güven ortamının oluşabilmesi ve sürdürülebilmesi için gerekli olan “şeffaflığın” sağlanmasında kritik bir role sahip olduğu da söylenebilir. İşletmenin bir üçüncü göz tarafından bütüncül olarak incelenmesi anlamına gelen bağımsız dış denetim, Türkiye’de mali piyasalarda faaliyet gösteren banka ve diğer mali kuruluşların talepleri doğrultusunda gelişmiştir.

Bu çalışmada, öncelikli olarak, Türkiye’de özellikle özel sermayenin yetersizliği nedeniyle Cumhuriyetin ilk yıllarından itibaren bankacılık sektöründe daha büyük bir paya sahip olan kamu bankalarındaki denetim kültürünün tarihsel gelişimi esas alınmıştır.

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Anahtar Kelimeler: Bağımsız Dış Denetim ve Kamu Bankaları

1. INTRODUCTION

Shareholders, investors, potential investors, creditors, managers and many other people, namely, whole internal and external environment, are concerned about whether the financial information given to themselves provide sufficient security during decision-making process. For all the stakeholders to use the same language and to have the feeling of safety, it is necessary to prepare all the financial reports according to generally accepted accounting standards. In order to be able to do so, recording and counting system developed in compliance with the internationally accepted accounting standards and principles is necessary to render the financial information reliable and correct. . Of course, this is not enough on its own. In today's world economy, in global world order, not only financial figures but also auditing reports on these figures are of great importance.

In this connection, it is highly possible to argue that independent auditing, which, in its broadest sense, means having an idea about the correctness level of the information presented in tables and appendices, is of great importance in the provision of "transparency and openness" which is very important to establish and maintain the reliability in financial markets. For independent auditing to perform this expected task, it is necessary to support its functions by internal auditing which is an independent auditing system established within the organization and which checks and supervises the functions of the organization. In this way, reports prepared according to internal auditing activities shed light for the independent auditing because, on the basis of internal auditing activities, financial auditing, compliance auditing and activity auditing are found.

One of the most important actors of the economy is the banking sector. Almost everybody is somehow connected with the banks. It can be told that the banks, in addition to credits and savings transactions, operate in many fields and with every passing day due to developing technology, new fields of operation are being added. Accordingly, banking sector has many vital functions ranging from affecting the monetary policy of the country, changing the distribution of the resources among the sectors of the country, distribution of the wealth within the society to directing investments to fruitful areas. These functions are harmed in case the banks are not reliable organizations. And establishing reliability is directly related to the correctness of the financial data published by banks. The bank can realize their functions and activities through the trust felt towards them. As most of the resources are foreign and global competition is accelerating, concept of trust has gained much more importance.

Accordingly, banks should be reliable organizations and their financial data should reflect the reality. The most prominent one of the auditing mechanisms to assure this is the independent auditing. Independent auditing assures that all the information generated by the banks that has the potential of affecting the economic decisions of the actors using it is correct and reliable and makes great contributions to the effective and homogenous distribution of the resources. In this respect, execution of independent auditing in a quality manner or in compliance with auditing standards has a great importance in terms of creating trust on the part of the investors and savers. Moreover, independent auditing has great contributions to tax control and in turn to social justice as well. In addition, banks, through internal auditing systems, aim to improve the efficiency of effectiveness of their activities, to assure the reliability of their financial and administrative information, timely availability of this information and complete compliance of the banks' activities with the existing laws and regulations. Internal auditing systems besides enabling the banks to operate in compliance with the legal regulations, allow them to work in accordance with pre-determined policies and targets, and also prevent their reputations from being harmed in case risks emerge and help to avoid possible losses by detecting the situations that causes financial harms (www.bddk.org.tr).

In connection with what has been told above, this study consists of investigation of the historical evolution of independent auditing and changes taking place in the auditing culture in banking sector within its historical context. In order to display historical evolution of auditing profession and changes taking place in this field more clearly, explanation of the auditing culture in the state banks operating in Turkey more than five decades is provided together with the related legal regulations.

2. INDEPENDENT AUDITING IN THE WORLD: FROM PAST TO PRESENT

Independent and internal auditing functions are especially of great importance to the banks among the organizations operating in the financial markets reshaped with the emergence of global competition. The birth and evolution of independent auditing is closely associated with independent auditing. Independent auditing lays the basis of independent auditing. On the other hand, internal audition serves the purposes of bank's determining to what extent they have achieved their pre-set objectives, how effective their activities are, to what extent they are in compliance with the requirements of regulations, laws and auditing standards, so internal auditing has developed within organizations. By its broadest definition, the concept of auditing is measuring, comparing and evaluating the efficiency, effectiveness

and economic aspects of the results according to targets and standards determined by probability and relativity principles. In other words, auditing can be defined as unbiased collection and evaluation of the evidence concerning the information about the economic activities and reporting of the results to the concerned parties in order to determine and report the extent to which information reported about the economic activities of an organization complies with the pre-set criteria (www.ydk.gov.tr).

The concept of independent auditing is defined as follows by The Committee of Auditing Concepts (Silvoso,1972:18): Auditing is a systematic process in which evidence is collected and evaluated in an unbiased manner to report the concerned parties and to investigate the extent to which statements about the economic activities and events of an organization comply with pre-set measures. According to the definition by Internal Auditing Institute in 2002, internal auditing, on the other hand, is providing independent and unbiased assurance and counseling service for the purpose of adding value to the organization by monitoring every kind of activity of an organization, and improving its activities (www.tkgm.gov.tr).

The existence of auditing, either in the form of internal or independent auditing, was first seen in records kept in Mesopotamia dating back to B.C 3500. These records, including financial records, include some signs that can be interpreted as a kind of auditing system. Appearance of internal auditing and job distribution also dates from the same period. Egyptian, Greek, Persian, and Hebrew records also include similar signs indicating the existence of some kind of auditing. In Ancient Rome, an account auditing system in which the state officials compare their records with those of other officials. The term of “Audit” comes from this system(Uzun,2007:1). As a title of a profession, the term of Audit or Audit Committee was first used for the revenue collectors in the Department of Finance in England in 1289(Gürbüz,1995:5). In essence, the word “Audit” means “listening carefully”. In very old ages, as most people were illiterate, auditors were used to listen the orders of the king and then control whether the orders of the king were executed as he wished, and then, if any, detect the erroneous applications. The first organization of professional auditing was established in Venice in 1581. The name of this organization was “Collegio Dei Rixonati”, which was a state establishment where the auditors underwent some procedures to be auditors (Gürbüz,1995:20).

In today’s meaning, independent auditing was first performed in the late 1800s, as a result of industrial revolution. However, applications similar to independent auditing were also observed before industrial revolution. Usually, in order to be sure about the

correctness of their accounts, the rich English landowners used to get independent individuals to check their accounts. With the advent of industrial revolution, mass production started so production variety and capacity; accordingly, the records concerning the activities of the organizations greatly increased. This help independent auditing to gain meaning and to get its shape (Güler,2006:59).

With the advent of industrial revolution, an auditing system having similar features with the contemporary one also including the examining and documentation of accounting records started to take shape. Legal regulations concerning the accounting and auditing profession, and in its narrow meaning, independent auditing and independent auditing agencies were first included in English Organizations Law passed in 1848 (Güler,2006:59). In 1850s, “Scottish Authorized Accountants Institute” expressed modern independent auditing in written form.

In 1880, firstly, “Institute of Canadian Authorized Accountants” was founded in Quebec region of Canada by the accountants emigrating from England to America and in 1882, “New York Institute of Accountants” was established in America. These accountants contributed to the passing of first Chartered Public Accountants Law in New York in 1886. In 1885, with the combination of five local groups of auditors and accountants, Institute of Chartered Accountants of England and Wales (ICAEW) was established. In this way, England became the first country where profession of accounting and auditing was recognized (Miranti,1996:14). In addition to this, in 1879 in France, in 1893 in Netherlands, in 1896 in Germany legal regulations concerning auditing were put into effect. Then, in 1941 in Switzerland, in 1945 in Argentina, in 1946 Brazil and Mexico, in 1949 in India, in 1955 in Italy, Greek and Nigeria legal regulations concerning auditing were put into effect (Tarmur,1997:32).

Since the second half of the 20th century, with the emergence of the organizations of increasingly broad and complex structures, evolution of the auditing function has gained momentum. As a result of this, auditing started to be required to get organized at international level. The basic reason for that kind of organization is the globalization having started in 20th century and continuing up to now. This phenomenon first appeared in the form of shared use of some values and adoption of a common language that can be used and understood in all kind of platforms. Then, in connection with companies’ gaining international characteristics and globalization of the trade, a necessity for the accounting systems to be internationally recognized emerged. Therefore, it became a must to recognize independent auditing as a

profession, to organize professional committees to bring them together and to establish international auditing associations to get rid of the inter-country differences in the applications of accounting/auditing profession.

One of the international organizations is International Accounting Standards Board (IASB). The foundation of IASB was laid on 29 June 1973 with the participation of professional accounting associations from America, England, Australia, Canada, France, Germany, Mexico, the Netherlands, and Ireland and founded with the transformation of International Accounting Standards Committee (IASC) in March 2001(www.iasb.org). Another professional association playing an important role in the development of accounting and auditing profession in its modern meaning is International Auditing Practices Committee (IAPC), which was founded in 1978 and renamed as International Auditing and Assurance Standards Board (IAASB) in 2002, which operates under International Standards of Accounting (ISAs) and International Audit Practice Statements (IAPSS) of IFAC(www.ifac.org). Within the framework of the international Auditing Standard (UDS) 400 entitled “Determination of the Risks and Internal Control” and abolished in December, 2004, it is possible to find detailed explanations about auditor, accounting system, internal control system, control environment, control procedures, control tests, natural risk, control and determination risks(www.ifac.org).

In addition to these organizations, another institution contributing to the development of auditing and accounting profession is The European Federation of Accountants (FEE) which conducts studies on the independence and neutrality of legal auditing, which has played an important role in the adaptation of accounting standards in European Union and which was established at the status of “International Organization” under Belgium laws on 30.12.1986(<http://www.turmob.org.tr>).

In European Union, on 25 July 1978, 4th directive laying down the rules to be followed by private organizations and organizations open to public in accounting applications, evaluation systems, annual reports and auditing and publishing of these reports was issued (EU Directive No:7B/660/EEC and Directive No:82/121/EEC). 5th Directive that was issued for the first time 1972 but was not put into effect at that time, was revised on 22 August 1983. According to this directive, companies open to public should prepare detailed and long auditing reports (EU Directive No:83/353/EEC). Then, on 13 July 1983, 7th directive was approved requiring the inclusion of consolidated financial tables in consolidated annual report (EU Directive No: 83/349/EEC). And then, on 10 April 1984, 8th directive was issued. This directive clarifies the responsibilities of auditors, and issues concerning their education and

the concept of independence in auditing (EU Directive No: 84/253/EEC). In 1990, a conference was organized and “Accounting Advisory Committee” was established. This committee issued a communiqué as a result of the assessments made by concerned institutions of EU under the title of “Accounting Compliance: A New Strategy Exact International Compliance”(Zaif,2004,138).

All these directives issued for the purpose of harmonizing accounting and auditing applications in all the member countries. In order to evaluate the results of these directives; that is, to detect the drawbacks in the field of auditing in EU, a report called “Green Paper” was issued in 1996. By taking the information given in this report into consideration, major betterments were made in the direction of improving the reliability and quality of the auditing profession. These betterments were introduced in different directives and regulations such as the directive entitled as “Legal Auditing-Road Map in EU” and issued in May 1998 (98/C 143/03), Recommendation entitled as “Quality Assurance for Legal Auditing in EU: Minimum Requirements” and issued in November 2000 (2001/256/EC), Recommendation entitled as “Independence of the Legal Auditors: The Set of Basic Principles” and issued in May 2002 (2002/590/EC), Directive entitled as “Empowering of Legal Auditing in EU” issued in May 2003 (COM/2003/0286), the bill entitled as “ Legal Auditing of Annual Accounts and Consolidated Accounts” and prepared to take place of 8th issued in March 2004 (COM/2004/177). In EU, the directive taking the place of 8th directive and regulating the legal auditing was put into effect on 29 June 2006 and two year-time was given to the member countries to make the required regulations until 29 June 2006(<http://eur-lex.europa.eu/>), (<http://www.tmud.org.tr>). It is possible to add American Institute of Chartered Public Accountant (AICPA) to above mentioned organizations. Auditing standards were first issued in 1947 by AICPA as “Generally recognized Auditing Standards” and these standards were adopted by many countries. These standards were revised by Auditing Standards of Board after 1972 and reissued under the name of Statement on Auditing Standards (SAS). These are the interpretations of the standards issued in 1947 and although there are some changes in auditing practice techniques, not much has changed so far. Recently, as a result of the auditing scandals in large scale companies such as Enron, Worldcom, Tyco and “Sarbanes Oxley Law” was passed on 29 July as a precaution. This law is still in place in America, and it is considered to be basic law in the execution of auditing practices(Sevim et.al.,2006:2-4).

Evolution of the auditing profession mentioned above in a chronological order can be summarized within four periods in relation to the changes taking place in independent auditing.

TABLE 1: Independent Auditing in the World

Historical Chronology	Auditing approach	Purpose of the auditing	Use of information
Pre-industrial revolution period	Auditing of every transaction completely	-Prevention of deceptions -Determination of the honesty level of the service providers	Company owners
Period between the Industrial revolution and 1900	Complete auditing of every transaction and using sampling*	Prevention of deceptions -Determination of the honesty level of the service providers	Company owners, partners, and creditors
Period between 1900 and 1930	Complete auditing of each transaction and using sampling	- Uncovering the mistakes and deceptions among the partners - Approval of the correctness of balance sheet and revenue table	Partners, creditors and State
Since 1930 up to now	Examination of the financial data thorough sampling	- Giving opinions about the correctness of financial tables (Information giving function)	Partners, creditors, state and all the other stakeholders (internal and external environments)

Source: (Dinç,2001:28), (Güredin,1994:6-7)

The study focuses of independent auditing, that is also called independent auditing, and internal auditing. However, in the literature, the auditing is divided into two as independent and internal auditing. Independent auditing includes independent and state auditing (Auditing performed depending on a certain law: For instance, tax auditing). Therefore, the study includes the auditing standards formed for the auditing of the public institutions and the brief history of their evolution. The auditing standards to be applied in public institutions were determined Auditing Standards Committee established by International Organization of Supreme Audit Institutions (INTOSAI) in 1984 and issued in 1987 for the member countries. However, in XII INTOSAI Congress held in Berlin, it was suggested that these standards can be changed to meet the new emerging needs by the audit courts. IN line with this suggestion, after the necessary changes were made, the INTOSAI auditing standards reflecting the ultimate thoughts, tendencies and subjects concerning the

* See more details Güredin,1994:7

auditing methodology and application were approved in the meeting held by the board of directors of INTOSIA in Washington in October 1991 (www.sayistay.gov.tr).

The real change in the profession of auditing was observed after 1950s. Today's auditors know that there should be effective auditing system in each organization and start their auditing with the inspection of this system. Effectiveness of the system determines types, frequency and application time of the auditing methods and practices to be used in the inspection of the financial tables. For present, it can be argued that contemporary independent auditing is based on the principle of inspecting internal auditing system rather than revising past activities. This conversion in the function of auditing can not only be explained with the development of accounting profession. This is a result of economic growth(Dinç,2001:31). Together with this development in auditing approach, development in relation to the purpose of auditing has also been observed. In this way, the purpose of auditing experienced a transformation from investigation of the complete accuracy of the financial tables to obtaining general opinion about the financial tables through sampling and presentation of it to the concerned parties.

3. INDEPENDENT AUDITING IN TURKEY FROM PAST TO PRESENT

When the history of the independent auditing in Turkey is compared with its history in European countries, it can be told that it is a relatively novel development. The historical stages of the independent auditing in Turkey can be summarized in the following table:

TABLE 2: Developments Concerning the Profession of Auditing In Turkey

Date	Developments
1926	Establishment of Industry and Mining Bank whose first name was KİT
1927	Passing of Accounting law.
1932	First law of profession got lost in the archive of Ministry of Finance.
1934	Inclusion of the law of chartered accountants in income tax law and in its article 40, definition of chartered accountant. But when the law was abolished in 1949, they were annulled too.
1938	With number 3460 state economic enterprises (SEE), the "High Council of Auditing of the Prime Ministry" was established and different auditing system was set up for SEE from that of the private companies. Through this arrangement, accounting plans and accounting rules generally taken from Germany were transferred to SEE.
1942	Establishment of the Association of Expert Accountants and Business Organizers

1945	The Ministry of Finance formed its own team of experts for the purpose of investigating the accounting records for tax control and the Committee of Accounting Experts of the Ministry of Finance was established. This Committee enforced the obligation of swearing in front of the court for the correctness of the accounts of the companies outside the state institutions so that the state may have more revenues.
1948	State Accounting General Regulations and State Accounting Transactions Regulations are combined under one title.
1950	Passing of Income and Corporate Tax Law and Tax Procedure Law
1957	Approval of Turkish Trade Law
1959	In this year, an important part of the tax reform law was taken by the regulations of Chartered Accountants Draft. However, this draft was taken out of the law and the law was passed without the draft.
Mid-1960s	Banks operating in the financial markets and institutions bringing funds from foreign countries, upon the request of the overseas agents and fund providers, they started to get their financial statements independently audited. Initially, these auditing procedures were carried out by independent auditing companies located in foreign countries, but after 1970s, these foreign companies started to set up their subsidiaries in Turkey and since then, auditing transactions have been performed by these subsidiaries inside the country.
1967	The name of the Expert Accountants and Business Organizers Association established in 1942 was changed into "Turkish Accounting Experts Association", this association became a member of International Accounting Standards Committee – (IASC) in 1972 and, a member of International Federation of Accountants (IFAC) in 1977.
19.03.1987	According to the verdict of the Supreme Court, the article concerning the chartered accountants and added to Tax Procedure Law was discarded from the law as it was found to be against the constitution.
13.12.1987	After the approval of capital market law on 30.07.1981 and banking law number 3182, for the first time "by-law concerning the "Independent Auditing in the Capital Market" was issued by Capital Market Board on 13.12.1987. Afterwards, within the same month on 24.12.1987 with the number of 19674 "Number 1 Communiqué about the Banking Auditing Performed by Independent Auditing Agents" was issued in the Official Gazette. In this communiqué, the principles concerning the auditing report were set, and declaring the problems seen during the auditing to Turkish Republic Central Bank without waiting for the report to be completed was made obligatory. However, application of independent auditing to the companies opens to the public started in 1989.
13.06.1989	With the Number 20194 "Independent Accounting, Independent Accounted and Financial Advisor and Chartered Accountant" law was put into effect after being published in the Official Gazette.
1989	Capital Markets Committee, by preparing its own standards, brought the obligation for the companies open to public to prepare their statements of accounts to prepare according to these standards in 1989.
26.12.1992	General Communiqué for Accounting System Application was issued in the Number 21447 Official Gazette.
01.01.1994	General Communiqué for Accounting System Application issued in the Number 21447 Official Gazette was put into effect..
09.02.1994	The Turkish Board of Accounting and Auditing Standards whose

	main purpose is to develop accounting standards, to enforce these standards throughout the whole country and to bring these standards in line with the international standards were established.
04.03.1996	The number 16 communiqué about the “Independent Auditing in the Capital Market” that determines the principles and standards for independent auditing was issued in the number 22570 Official Gazette and put into effect.
18.12.1999	Turkish Board of Accounting standards having administrative and financial autonomy and was established according to App-1 added to number 2499 Capital Market Law held its first meeting on 07.03.2002 2499 formally started to function..
2001	With the communiqué issued by Banking Regulation and Supervision Agency (BRSA) about “Internal Auditing in Banks and Risk Management”, it was aimed to establish internal auditing and risk management systems for the purpose of tracking and controlling of the risks confronted by banks(
01.02. 2002	Until the end of 2001, private auditing activities for some banks were completed in line with the principles set by the communiqué that was issued by Banking Regulation and Supervision Agency about the “principles and standards of private auditing” in the number 24658 Official Gazette. In addition to this, since 31 December 2002, all the private and state banks in Turkey prepare and issue their financial statements in line with the standards set by the Communiqué of Accounting Practices.
09.05.2003	Turkish Board of Auditing Standards whose working principles are not based on any laws or by-laws was established on 20 January 2003 and started to work on 9 May 2003. The duty of this board is to determine, set, issue and update the national auditing standards to help the responsible agencies to execute their auditing functions in a disciplined way.
03.10.2003	Communiqué about the auditing of the real persons and corporate bodies operating in the market of energy by independent auditing agencies was issued by the Energy Market Agency and according to this communiqué; the regulations made about the independent auditing in the energy market should be parallel to regulations of Capital Market Committee.
17.10.2003	Independent auditing of financial statements of insurance and reinsurance companies operating according to Number 7397 Insurance Inspection Law is performed within the framework of Communiqué about Independent Auditing Principles in Insurance sector. In addition to this, a communiqué determining the application of independent auditing in insurance and reinsurance companies established in Turkey or in foreign countries was issued.
2004	Turkish translations of International Auditing Standards were made and issued.
01.11.2005	Number 5411 banking law was issued in the Number 25983 Official Gazette.
09.11.2005	There were important regulations concerning internal auditing and internal control system in Turkish Trade Law started to be prepared by a Commission of the Ministry of Justice in 1999.
12.06.2006	Communiqué about the “Independent Auditing Standards in the Capital Market” issued in the Official Gazette in that date was prepared by Capital Market Committee in accordance with International Standards on Auditing (ISA) issued by International Auditors Federation (IFAC).
01.11.2006	Reevaluation the “Internal System By-law” that includes some regulations concerning the internal auditing, internal control and

	risk management systems indicates an increase in the responsibilities of the members of administrative boards and the members of administrative board auditing committee and that some experts about auditing and risk management would be included in the boards of directors.
2008	Turkish Trade Bill Draft which is still being discussed in the concerned bodies of the parliament is expected to pass and become a law in 2008, and this bill will bring new regulations about independent auditing and foresees a completely new system for the auditing of companies. With this Turkish Trade Law, the currently existing auditing function will be abolished and in the new system the auditing of corporate organizations will be performed by external auditors. So, the auditing that can be performed by the people who do not need to be expert on auditing will be performed by independent auditing agencies, independent accountants, financial advisors and chartered accountants. In this respect, article 1501 of the bill makes a distinction between the small-scale and big-scale companies.

Source: (www.bddk.org.tr), (www.spk.gov.tr), (www.tbb.org.tr), (www.epdk.gov.tr), (www.tmsk.org.tr), (Kaya,2002:20), (EU By-law 8th Directive No: 81/253/ECC), (Tarmur,1997:32), (www.muhasabetr.com), (www.huk.gov.tr), (www.turmob.org.tr), (Başpınar,2004:45), (www.deloitte.com)

As it can be understood from the above table, the legal regulations for providing a legal ground for the profession of auditing in Turkey are relatively recent phenomena. However, the regulations made and are still being made can be regarded as big steps taken in the direction of bringing the profession of auditing in Turkey to international level.

4. CONCEPT OF INDEPENDENT AUDITING IN STATE BANKS

Throughout the 300 years passing since the people first started to open accounts in banks, the banking sectors displayed a unique development, greater than the development seen any sector and banks became the indispensable part of the economies. This development exhibited by the banking sector brought about important changes in the economic, social, and commercial lives. Especially with the increasing functions of the money within the social life, the banking sector's development gained a momentum(Arslan ve Hotamışlı,2007:196). In Turkey, the roots of the banking sector dates back to 1800s. Yet, the real development in the banking sector in Turkey was observed within 1900s. In particular, the process starting in 1980 and radically affecting the economy, naturally directly affected the banks in the country. In this period, the free market economy was introduced and its effects were felt in banking sector as in all the other sectors (İpçi ve Karan, 2001: 33-38).

Banks established before 1980 had their own regulations, if an issue is not clearly defined, Banking Law was resorted (Bakdur,2003:11). Banking sector operating under the control of the state and providing limited services until 1980, has increased their services greatly with the steps taken towards liberalization since 1980. Within the context of the

development observed in the banking sector, in 1980s, legal, structural and institutional changes were experienced. Of course these changes experienced brought about profound changes in the concept of the auditing of the banks.

When the basic objective of the study is considered, and when the classification of the banks are made according to their ownership, the banks in Turkey are divided into two as state banks and private banks(Beycan,2007:2-5). In Banking System of Turkey, there are many authorities which audit and supervise the banks. These can be listed below(Beycan,2007:15):

- Central Bank of the Republic of Turkey
- Banking Regulation and Supervision Agency
- Capital Markets Board of Turkey
- Republic of Turkey Prime Ministry Undersecretariat of Treasury
- Republic of Turkey Prime Ministry of Finance
- The Savings Deposit Insurance Fund

In this connection, the basic subject of the present study consists of the investigation of the changes experienced in the auditing history of the three state banks; that is, T.C. Ziraat Bankası, T. Halk Bankası, T. Vakıflar Bankası.

Banks have the reasonability of giving information about their financial status to all stakeholders such as shareholders, saving owners, and those who want to lend credits, and all the members of the society. The banks fulfill this responsibility through their financial statements. The information provided by banks through their financial statements, and this information is not prepared in a form understandable for the ordinary saving owners but for the experts about accounting and financial advisors. Therefore, for the information provided to be useful fro these specialists in decision making, it needs to be subject to independent auditing. This information should be presented in a standard way and through a standard language. This results in the necessity of externally auditing the financial data of the banks. It is not wrong here to claim that independent auditing plays an important role in making the bank accounts transparent

In Turkey, the regulations concerning the independent auditing in state banks are supported with different laws. The historical evolution of this process and related laws are presented in the table below:

TABLE 3: Legal Regulations about the Independent Auditing Conducted in State Banks in Turkey

Date	Institutions that Made the Regulations and Legal Regulations
1949	With the passing of Tax Procedure Law, the first bill about the Tax Experts and Assistants was proposed. Afterwards, in 1958, 1963, 1966 and 1969 the same bill was submitted to Turkish parliament but due to different reasons not passed.
1957	Articles 347-359 of Turkish Trade Law (TTL) concern the auditors. If a bank has a status of corporate bank, it should have auditors appointed by the board of directors and working according to TTL regulations.
Number 3182 Banking Law	In the first article of the law, information is given about how to regulate the auditing of the banks. In articles 61, 62, 63, 64, and 73-78, regulations about the chartered auditing of the banks are presented.
26.01.1970 Turkish Republic Central bank Law	The banks were enforced to submit their annual financial statements and asset and liability states and the reports of the auditors to the central bank.
1986	In order to regulate the liquidity of the banking system, Inter-bank money system was established and in the same year, Unified Accounting Principles and Standards were laid down. In 1987, auditing of the banks by external auditors.
16.01.1987	Communiqué concerning the Independent Auditing Agencies was issued by State Ministry and Vice Presidency. With this communiqué, the names of the independent auditing agencies authorized to audit the data of the banks for 1988 were declared.
13.12.1987	A by-law about independent auditing was issued by Capital Market Committee (CMC).
13.06.1989	A by-law about the documents approved by chartered auditors, subjects of approval and principles of approving was issued by the Ministry of Finance and Customs.
1999	The new Turkish Trade Draft Bill prepared by the "Trade Law Commission" established by the Ministry of Justice aims to realize the application of a set of regulations concerning the independent auditing. Instead of setting auditing systems for all the corporate organizations, the task of auditing was assigned to independent accountants, financial advisors, chartered accountants or auditing agencies established by the people who are authorized to perform the auditing function in lien with the international standards.
01.02. 2002	As of the end of, private auditing activities of the some of the private banks were performed in line with the regulations brought by the interim article number 4 of the number 4389 Law of Banks about the principles of private independent auditing and was issued in number 24658 Official Gazette.
22.06.2002	With the by-law about the Unified Accounting Plan and Statement issued by BRSA, it is aimed to obtain the unified accounting and financial reporting, directly obtain unified financial statement and revenue tables, obtain necessary information for auditing and monitoring in such a way that it can be certified and checked, directly

	obtain information and statistical data required by the authorities to monitor and direct the economy, obtain information required for the interpretation of various analyses such as financial analyzes, risk analyzes and efficiency analyzes in a standardized way.
19.10.2005	Some regulations were realized through the number 5411 banking Law by BRSA. Finally, it is not wrong to tell all the concerned institutions in Turkey has been attempting to adopt Basel II closely followed by the banking sector.
25.11.2005	Number 4603 law for T.C. Ziraat Bankası, T. Halk Bankası and T. Vakıflar Bankası to gain the status of corporate organization was passed and issued in number 24241 Official Gazette. In this way, The state banks gained the status of corporate organizations.
16.05.2006	By-law concerning the auditing of information systems to be conducted by independent auditing agencies in banks was issued by BRSA in the number 26170 Official Gazette.
01.11.2006	By-law concerning the authorization of the agencies to conduct independent auditing in state banks and their activities was issued by BRSA in the number 26333 Official Gazette.
05.12.2006	By-law concerning the information system auditing to be carried out by independent auditing agencies and the format of the report was issued by BRSA in the number 26367 Official Gazette.
05.11.2007	An amendment was made on the by-law concerning the information system auditing to be carried out by independent auditing agencies and the format of the report was issued by BRSA in the number 26691 Official Gazette and was put into effect on 05.12.2006. .
13.11.2007	A circular about the information system auditing to be carried out in the shareholders of the banks subject to consolidation and report format was issued by BRSA.

Source: (www.bddk.org.tr), (www.spk.gov.tr), (www.tbb.org.tr), (www.epdk.gov.tr), (www.tmsk.org.tr), (Kaya,2002:20), (EU By-law 8th Directive No: 81/253/ECC), (Tarmur,1997:32), (www.muhasetr.com), (www.huk.gov.tr), (www.turmob.org.tr), (Başpınar,2004:45), (www.deloitte.com)

As it can be clearly seen from the table above, the most important factor affecting the development of the independent auditing profession is the request made by the banks and other financial organizations operating in the financial markets of Turkey. Since mid-1960s, banks operating in financial markets and organizations receiving funds from other countries have opened their financial accounts to independent auditing upon the request of overseas agents and fund providers.

Initially, auditing activities were carried out by the auditing agencies located abroad, but since 1970, the activities have been performed by the subsidiaries of these agencies located in Turkey.

With the enforcement of independent auditing on banks and other financial organizations subjected to the regulations of the Capital Market and with financial organizations' being directed to the related auditing organizations or individuals, and with the by-laws and regulations' being put into effect to regulate the transactions of these financial organizations and with the issuing of the law regulating the working conditions of free-lance accountants, financial advisors and chartered accountants in 1989, the number of the

independent auditing organizations rapidly increased.(www.tbb.org.tr). Today banking sector operates under the supervision of many institutions. These institutions are Turkish Republic Central Bank, banking Regulation and Supervision Agency, Capital Market Committee, Turkish treasury, Saving Accounts Insurance Fund.

There are regulations designed by Banking Regulation and Supervision Board in line with international accounting standards. These regulations describe the rules to be followed to set up independent auditing organizations, the transactions they can perform, and the ethical and professional standards that they have to adopt.

5. RESULT

In today's economy and global world order, not only the financial statements of the organizations but also the auditing reports concerning these financial statements are of great importance. In this connection, it is highly possible to claim that the profession of auditing plays a critical role in bringing about the "transparency and openness" required to provide and maintain the environment of trust in financial markets which are becoming more important with every passing day. Effectiveness of independent auditing system depends on the existence of effective internal auditing system operating within the organization. Therefore, for today's organizations, internal and independent auditing is viewed as organizational functions complementing each other.

When this situation is assessed by taking into account the banking sector that is one of the most important actors of the economy, it is seen that both independent auditing and internal auditing play vital roles in the provision of the required transparency and openness, and more importantly in bestowing security on the society. Moreover, when this situation is evaluated by considering the state banks operating since the establishment of the Republic, it is not wrong to claim that a new era in which besides the independent auditing, experts on internal auditing and risk management should be involved in the board of directors has started.

Since 25 November 2000, the banks established with state capital in Turkey have gained the status of corporate organizations and have become subject to Banking Law and special legal regulations, and this resulted in their being responsible against Capital Market Committee, so they have had to open their financial statements to independent auditing.

As a result of the internal and independent auditing activities, it becomes possible to confirm the correctness and reliability of the financial data provided by the banks and laying the basis for decision making of the concerned parties, these activities also make it possible

for the resources to be effectively allocated and they contribute to effective tax control and accordingly to the welfare of the society

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