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THE LEGAL FRAMEWORK OF FINANCIAL REPORTING AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) APPLICATION IN TURKISH LAW[1]

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ABSTRACT

Since the issuance of the European Union Directives in 1970s, 1980s and the enactment of Sarbanes-Oxley Act in 2002 in the United States, there has been a call for international accounting harmonization and the convergence of global accounting standards. The move towards a single set of accounting rules has been motivated by the principal aim to eliminate international differences in financial accounting standards and enhance comparability. Besides, the financial crisis culminating in 2008 raised the awareness of numerous economic stakeholders and political decision-makers of the potential impact of accounting standards on the results made public by the companies and on the economy as a whole. This awareness resulted in a more general positive reflection on International Financial Reporting Standards, on their conceptual framework and adoption process. Turkey's EU integration process, its economic development

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and demands of the flourishing business has led the accounting practices to change from tax and state oriented towards international harmonization. In 2003, Turkish Capital Markets Board issued a *communiqué* requiring all listed companies to prepare and present their financial statements in accordance with IFRS from 1.st January 2005. In 2012, new Turkish Commercial Code was enacted. This new code, promotes and emphasizes fair competition, transparency, corporate governance principles, and most importantly accounting and auditing standards, both businesses and the accounting profession entered a new phase.

Keywords. Financial statements, International Financial Reporting Standards, Turkey, Turkish law

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I INTRODUCTION

The development of accounting system and practises in a country is a reflection of its economic development as well as legislative process. Today, the securities of any one company tend increasingly to be held by an internationally diversified group of foreign investors. The interests of these investors are not served by having to interpret or decipher, financial statements prepared in accordance with the local codes of the country where the company is incorporated. Besides, the financial crisis culminating in 2008 raised the awareness of numerous economic stakeholders and political decision-makers of the potential impact of accounting standards on the results made public by the companies and on the economy as a whole.

Turkey has not been an exception. Its economic development has led the accounting practices to change from tax and state oriented

towards international harmonization. The most important step in the International Financial Reporting Standards implementation came with the issuance of new Turkish Commercial Code (TCC). In 2012, the new TCC n.º 6102 was enacted after several years of discussion in legislative process and public. This new code promotes and emphasizes fair competition, transparency, corporate governance principles and most importantly accounting and auditing standards, both businesses and the accounting profession entered a new phase.

The purpose of this article is to provide an overview of the regulation and recent developments regarding the use of financial reporting and Internatıonal Fınancıal Reportıng Standards (IFRS) application in Turkey. The article is organized as follows: in section 2, the importance of financial statements and the objective of financial reporting will be discussed. In section 3, IFRS will be introduced and why countries adopt it will be discussed. In section 4, financial reporting and IFRS application in Turkey will be examined, and finally our findings will be summarized at conclusion.

II THE IMPORTANCE OF FINANCIAL STATEMENTS AND THE OBJECTIVE OF FINANCIAL REPORTING

Financial statements provide information for investors in capital markets and underpin the entire system of market information. The economic role of financial statements is to mitigate the agency problems of information asymmetry between management on the one hand and investors and other stakeholders on the other hand, by enabling the stakeholders to monitor management (ARCHER, 2003, p. 199). From this point of view, the primary role of financial statements is to report a company's financial information to internal and external financial statement users in a timely and reliable manner. They are the vital link between issuers and investors. Relevant, timely, reliable, and comparable information about the performance

and financial position of an enterprise continues to be of central importance in safeguarding the interests of investors, creditors, and other stakeholders to ensure a level playing field among competitors. So, financial statements should be prepared on a prudent basis, and should give a true and fair view of an undertaking's assets and liabilities, financial position, and profit or loss.

Financial reporting plays a critical role in establishing and maintaining the confidence of the investing public. The objective of financial reporting is to provide information useful to providers of capital in their decision-making processes. Some major decisions that are shaped by available information in annual reports are: executive compensation, debt covenants, capital raising, and perhaps most importantly, for external investors to make investment decision. Due to the market imperfections, such as information asymmetry and agency conflicts, financial reporting is necessary for efficient contracting.[3] Information provided to participants in capital markets must be neutral, reliable, and portray economic results in an accurate and faithful manner. Just as important, participants must have confidence that this is in fact the case (SUN; RATH, 2008, p. 406-407). High-quality, accurate financial reporting provides investors with confidence, helping to minimize the cost of capital from uncertainty or suspicion as to an issuer's economic fundamentals and prospects.[4] From this point of view, accounting provides companies,

[3] The asymmetric distribution of information between issuers and investors results in so-called agency costs. These describe the costs for the investors to minimise the information advantages of the issuers. The issuer's management has a large interest in keeping the agency costs low. The reduction in share price and manager remuneration as a result of the asymmetry of information leads directly to economic disadvantages for the management. See Veil (2013, p. 247).

[4] Financial accounting information is an established and well-tried prognosis instrument and has been proven at least to reduce the uncertainties regarding future developments. Information on capital reserves, liabilities and pension provisions will give an insight into the future chances and risk of a company. Therefore financial accounting information must be regarded as the best prognosis instrument business economics has so far developed. See Veil (2013, p. 248).

investors, regulators, and others with a standardised way to describe the financial performance of an entity. Accounting standards present preparers of financial statements with a set of rules to abide by when preparing an entity's accounts, ensuring this standardisation across the market.

Reliable financial reporting becomes even more important in a financial crisis, when concerns about a company's fundamentals are most acute. Also the role of the auditor is so directly tied to the accounting standards themselves, the recent financial crisis also provides people with the opportunity to examine whether accounting standards could be improved.

III IFRS AND THE REASONS FOR ADOPTING IFRS BY THE COUNTRIES

Adaptation of financial statements to take account of local legal and tax conventions was justifiable, when investors and other stakeholders were generally of the same nationality as the company. But today, the securities of any one company tend increasingly to be held by an internationally diverse group of investors. The interests of investors from another country are not served by having to interpret, or decipher, financial statements prepared in accordance with the local conventions of the country where the company is incorporated. Transparency, comparable financial reporting, and more demanding disclosure requirements for listed companies are being sought by both investors and supervisors. Central objective is that the policy should ensure that securities can be traded on international financial markets on the basis of a single set of financial reporting standards.

Since the issuance of the European Union (EU) Directives in 1970s and 1980s and the enactment of Sarbanes Oxley in 2002 in the United States (US), there has been a call for international accounting harmonization and the convergence of global accounting

standards. The move towards a single set of accounting rules has been motivated by the principal aim to eliminate international differences in financial accounting standards and enhance comparability. This need largely rose to prominence within developed countries, typically characterised by sophisticated capital markets and multinational companies in order to reduce informational asymmetries between firm "insiders" who would be better informed than *"outsiders"* and improve capital allocation efficiency.

Besides, the existence of different reporting frameworks is confusing and costly. It makes effective supervision and enforcement of financial reporting requirements of publicly traded companies more difficult. Investors are deprived of comparable accounts and therefore essential information. Cross border trade is hampered. In short, the result is market fragmentation that puts securities markets globally at a severe competitive disadvantage. It is important for the competitiveness of capital markets to achieve convergence of the standards used for preparing financial statements with international accounting standards that can be used globally for cross-border transactions or listing anywhere in the world. Due to these reasons, there is a strong pressure towards the convergence of accounting standards, raising the importance of international standard setting and thereby encouraging national standard setters to cooperate more closely and to enforce accounting standards at an equivalent level throughout the world. Clearer internationally-based accounting standards and increased comparability in the financial reporting requirements for listed companies will greatly simplify enforcement particularly in the securities markets.

Also, the world-wide financial crisis culminating in 2008 developed in the aftermath of the dot-com crash, Worldcom/Enron scandals and the global credit crisis, that is, between 2002 and 2008 that followed gave rise to widespread calls for changes in the regulatory system and drew attention to the risk of failure of financial

statements that have received an unqualified (clean) audit opinion to disclose information relevant to the impending financial failure of the reporting entity.

This may be due to the failure to comply with applicable financial reporting standards coupled with the auditor's failure to draw attention to this or the applicable financial reporting standards may fail to require the relevant information to be disclosed (ARCHER, 2003, p. 199). So there are two fundamental issues that have been raised after the crisis:

a) was there in fact compliance with existing accounting or disclosure requirements; and
b) what improvements could be made to what is required to be reported in an issuer's financial statements to assure that they reflect an entity's financial condition.

As a result, these financial crisis firstly made widespread changes to corporate governance regulations, such as requiring all listed companies to have fully independent audit committees, bringing liability of directors for the financial statements of the company (LOWRY; REİSBERG, 2012, p. 387) and secondly raised the awareness of numerous economic stakeholders and political decision-makers of the potential impact of accounting standards on the results made public by the companies and, thereafter, on the economy as a whole. This awareness resulted in a more general positive reflection on IFRS, on their conceptual framework and their adoption process.

International Financial Reporting Standards is a single set of accounting standards, issued, developed, and maintained by the International Accounting Standards Board (IASB) with the intention of those standards being capable of being applied on a globally consistent basis by developed, emerging, and developing economies

thus providing investors and other users of financial statements with the ability to compare the financial performance of publicly listed companies on a like-for-like basis with their international peers.[5]

Recital 16 of the International Accounting Standars (IAS) Regulation provides: “A proper and rigorous enforcement regime is key to underpinning investors” confidence in financial markets. IAS provides a comprehensive and conceptually robust set of standards for financial reporting that should serve the needs of the international business community. IAS also has the distinct advantage of being drawn up with an international perspective.

According to the definitions in IAS 1.st paragraph 7, IFRS are standards and interpretations that ensure a high degree of transparency and comparability for financial reporting.

They comprise:

a) International Financial Reporting Standards;
b) International Accounting Standards;[6]
c) IFRIC Interpretations;[7]
d) SIC Interpretations.[8]

IFRS that are properly and rigorously enforced will improve the functioning of the securities market. Enforcement comprises a cascade of different elements including:

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[5] According to article 2 of the IFRS Foundation Constitution, IASB is charged with developing a single set of high quality, globally accepted, financial reporting standards to convey transparent and comparable information and promote the convergence of national accounting standards towards IFRS. See <http://www.ifrs.org/The-organisation/Governance-and-accountability/Constitution/Documents/IFRS-Foundation-Constitution-January-2013.pdf>.

[6] IAS were issued by the IASC (International Accounting Standards Committee), predecessor of IASB till 2000.

[7] IFRIC are standards and interpretations issued by the International Financial Reporting Interpretations Committee.

[8] SIC were standards interpretations issued by the Standards Interpretations Committee, predecessor of IFRIC till 2002.

a) clear accounting standards;
b) timely interpretations and implementation guidance;
c) statutory audit;
d) monitoring by supervisors, and
e) effective sanctions.

IFRS are now mandated for use by more than 100 countries, including the EU and by more than two-thirds of the G20. The G20 and other international organisations have consistently supported the work of the IASB and its mission of global accounting standards. The IASB's 14-member board is appointed and overseen by 22 Trustees from around the world, who are in turn accountable to a monitoring board of public authorities. IFRS is currently used in 130 jurisdictions around the world.

EU agreed that with the Regulation (EC) n.º 1606/2002 of the European Parliament and of the Council of 19 July 2002, from 1.st January 2005 IFRS would apply for the consolidated accounts of the EU listed companies. Accounting standards are adopted by the EU in the form of regulations and published in the Official Journal of the European Union. Regulations are directly applicable in all Member States. Member States are allowed to extend the application of IFRS to unlisted companies and to individual accounts.

Regulation (EC) n.º 1606/2002 aims at contributing to the efficient and cost-effective functioning of the capital market. The protection of investors and the maintenance of confidence in the financial markets is also an important aspect of the completion of the internal market in this area. This regulation reinforces the freedom of movement of capital in the internal market and helps to enable Community companies to compete on an equal footing for financial resources available in the Community capital markets, as well as in world capital markets.

The main body of financial reporting requirements for limited liability companies in the EU was consisted of the Fourth Council Directive of 24 July 1978 on the annual accounts of certain types of companies and Seventh Council Directive of 13 June 1983 on consolidated accounts. The Fourth and Seventh Directives are repealed and replaced by the new Accounting Directive 2013/34/EU which entered into force on 20 July 2013. Member States have until 20 July 2015 to comply with this new directive.

This directive is principles-based and ensures that it is not possible for an undertaking to exclude itself from that scope by creating a group structure containing multiple layers of undertakings inside or outside the EU. Also it establishes minimum equivalent legal requirements at Union level as regards the extent of the financial information that should be made available to the public by undertakings that are in competition with one another. The directive states that annual financial statements should be prepared on a prudent basis and should give a true and fair view of an undertaking's assets and liabilities, financial position and profit or loss. Small, medium sized, and large undertakings should be defined and distinguished by reference to balance sheet, total, net turnover, and the average number of employees during the financial year, as those criteria typically provide objective evidence as to the size of an undertaking.

The management report and the consolidated management report are important elements of financial reporting. A fair review of the development of the business and of its position should be provided, in a manner consistent with the size and complexity of the business. The information should not be restricted to the financial aspects of the undertaking's business, and there should be an analysis of environmental and social aspects of the business necessary for an understanding of the undertaking's development, performance or position. In cases where the consolidated management report and the parent undertaking management report are presented in a single report, it may be appropriate to give greater emphasis to

those matters which are significant to the undertakings included in the consolidation taken as a whole. However, having regard to the potential burden placed on small and medium-sized undertakings, it is appropriate to provide that EU member states may choose to waive the obligation to provide non-financial information in the management report of such undertakings. EU member states also shall ensure that the financial statements of public-interest entities, medium sized, and large undertakings are audited by one or more statutory auditors or audit firms approved by member states to carry out statutory audits on the basis of Directive 2006/43/EC.

Over the last decade or so, the accounting community has been engaged in a robust conversation about whether the United States should abandon United States Generally Accepted Accounting Principles (US GAAP) and move to the IFRS.

In 2002, the Norwalk Agreement[9] that signed between the Financial Accounting Standards Board and the IASB culminated in a pledge that the United States would "use their best efforts to make their existing financial reporting standards fully compatible as soon as possible" in order to foster global uniformity and comparability, eliminate differences, collaboration in establishing accounting standards and ultimate adoption of IFRS in place of US GAAP (WİNNEY; MARSHALL; BENDER; SWİGER, 2010, p. 171; REZAEE; SMİTH; SZENDİ, 2010, p. 142). Since 2007, US Securities and Exchange Commission (SEC)[10] has allowed foreign private issuers to report under IFRS without reconciling to US GAAP. IFRS work plan that was prepared by SEC for the consideration of incorporating IFRS into the financial reporting system for U.S. issuers was completed in 2012 (see UNITED STATES, 2012). The result was that IFRS might play in the domestic financial reporting environment.

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9 See <http://www.fasb.org/news/memorandum.pdf>.

10 For the history of SEC and its role as accounting standard-setter, See Barney (2009, p. 584).

IV FINANCIAL REPORTING AND IFRS APPLICATION IN TURKEY

Turkey's EU integration process, its economic development and demands of the flourishing business has led the accounting practices to change from tax and state oriented towards international harmonization (BALSARİ; VARAN, 2014, p. 373; CENGİZ, 2014, p. 164-166; AĞCA; AKTAŞ, 2007, p. 104; KAYA, 2011, p. 8-9). In 2003, Turkish Capital Markets Board issued a *communiqué* (an official statement) requiring all listed companies to prepare and present their financial statements in accordance with IFRS from 1.st January 2005.[11]

The most important step in the IFRS implementation came with the issuance of new Turkish Commercial Code. In 2012, the new TCC n.º 6102 was enacted after several years of discussion in legislative process and public. The TCC was a major change in orientation from German to Anglo-Saxon influence (BALSARİ; VARAN, 2014, p. 373). This commercial code promotes and

[11] Communiqué on the Principles of Financial Reporting in Capital Markets Series: XI, n.º 29. Many institutions have contributed to the IFRS implementation process of Turkey till today. The Capital Market Board of Turkey, Turkish Accounting and Auditing Standards Board, The Banking Regulation and Supervising Agency, Turkish Accounting Standards Board of Turkey and lastly The Public Oversight, Accounting and Auditing Standards Board of Turkey have all been involved in the process. The POAAB was established as an independent institution in sequence with the new code and supersedes Turkish Accounting Standards Board of Turkey as publisher of accounting and auditing standards. More specifically, the board has given the authority to set and issue Turkish Accounting Standards comply with International Accounting Standards; set the auditing standards comply with International Standards on Auditing; license audit firms and oversee the accounting profession. Statutory Decree On The Organization and Duties of the POAAB promulgated in the Turkish Official Gazette edition 28103 on 2 November 2011. This communiqué is repealed by the Communiqué on Principles of Financial Reporting in Capital Markets II-14.1 promulgated in the Turkish Official Gazette edition 28676 on 13 June 2013. However, the new communiqué also requires all listed companies to prepare and present their financial statements in accordance with IFRS.

emphasizes fair competition, transparency, corporate governance principles, and most importantly accounting and auditing standards, both businesses and the accounting profession entered a new phase.

Turkish Commercial Code requires companies meeting certain criteria to report under Turkish Accounting Standards (TAS) which are compatible with IFRS, effective for accounting periods beginning on or after 1.st January 2013.[12] The aim of the code is that:

a) uniform implementation in accounting and reporting practices in Turkey is ensured;

b) the financial statements prepared according to the TAS will be comparable to the financial statements prepared according to IFRS and as a result the TAS will be accepted in the international market.

Concepts such as substance over form, true and fair view, comparability and materiality that did not have a significant role in the previous Turkish accounting system have been included in the conceptual framework of the TAS. The success of new phase depends on the appropriate application of IFRS by well-trained and ethical accountants.[13]

In accordance with art. 88 of the new TCC, it is compulsory to comply with and apply TAS, accounting principles and accompanying interpretations while issuing separate and consolidated year-end financial statements. Within this context, financial statements to be presented at the general assembly should be prepared in line with the TAS, which are prepared in line with the international standards and

[12] This date postponed to 1.st January 2014. Bahadır and Tolga (2013, p. 391).

[13] Article 400 of the new TCC regulates the persons who may be qualified as auditors. In accordance with the article auditors may be certified financial advisers or independent financial advisers certified in accordance with Law on Independent Financial Advisers and Certified financial advisers n.º 3568 and who are authorized by POAAB, and/or companies whose shareholders have the said qualifications.

will be announced by the Public Oversight, Accounting and Auditing Standards Board (POAAB).

It has been ruled that in the art. 397 of the TCC, the Turkish Presidency will determine the joint stock companies that will be subject to independent audit. The financial statements of the joint stock companies and the group of companies that are determined by the Turkish Presidency for the independent unit must be audited in accordance with TAS issued by the POAAB (ÜÇIŞIK; ÇELİK, 2013, s. 629; KARAHAN, 2015, p. 99; ERDOĞAN, 2014, p. 84-85). To the list announced by the Presidency, a company, either standalone or with subsidiaries and associates, is required to meet two of the following three criteria for two consecutive accounting periods:

a) total assets: 35 million Turkish liras and more;
b) annual net turnover: 70 million Turkish liras and more; and
c) average number of employees: 175 and more will prepare its financial statements according to the TAS.[14]

The two criteria that are met do not have to be the same for the two consecutive accounting periods. In the event that the limits of at least two of the three criteria are %20 or below in the two consecutive accounting periods, the relevant company is excluded from the scope of the independent audit as of the following accounting period.

The POAAB announced that the companies which are subject to independent audit and also have to apply TAS for their seperate and consolidated financial statements for accounting periods beginning on or after 1.st January 2014 according to its decision published in the Official Gazette edition 29100 on 26 August 2014 are as follows:

1- the companies which are subject to regulation and supervision of the Turkish Capital Markets Board according to the Capital

[14] Decree n.º 2014/7149, promulgated in the Turkish Offcial Gazette edition 29254 on 1.st February 2015. Decree becomes effective as of the date it is published, with effect from on 1.st January 2015.

Markets Law n.º 6362;

a) joint stock companies whose capital market instruments are traded in the exchanges and /or other organised markets;
b) investment firms;
c) collective investment schemes;
d) portfolio management companies;
e) mortgage finance institutions;
f) housing finance and asset finance funds;
g) asset leasing companies;
h) central clearing institutions;
i) central depository institutions;
j) trade repositories;
k) the joint stock companies whose capital market instruments are not traded in the exchanges and/or other organised markets but that are deemed publicly-held corporations according to the Capital Markets Law and that meet at least two of the following three criteria:
    - total assets: 15 million Turkish liras and more;
    - annual net turnover: 20 million Turkish liras and more; and
    - average number of employees: 50;

2- the companies which are subject to regulation and supervision of the Turkish Banking Regulation and Supervision Agency according to the Banking Law n.º 5411;

a) banks;
b) financial leasing companies;
c) factoring companies;
d) financing companies;
e) asset management companies;
f) rating agencies;
g) financial holding companies;

h) the companies which own qualifed shares that defined under Banking Law[15] on the financial holding companies;

i) payment institutions and electronic money institutions;

3) ınsurance, reinsurance and pension companies that are regulated under Insurance Law n.º 5684 and Private Pension Savings and Investment System Law n.º 4632;

4) precious metals producing and marketing companies and precious metal brokerage houses that are authorised to trade at Borsa İstanbul markets.

The companies which are out of the list above also may voluntarily prepare their seperate and consolidated financial statements according to TAS.

According to the decision of the POAAB published in the Official Gazette edition 29221 on 30 December 2014, the companies which are subject to independent audit but are not applying TAS, will prepare their financial statements and presentations according to the current legislation and also to the additional regulations mentioned in the decision for accounting periods beginning on or after 1.st January 2014.

The current legislation is General Communiqué on Accounting System. Since the General Communiqué was put into practice by the Turkish Ministry of Finance, there has been some concern that the financial statements to be issued are to be "in accordance with the tax laws exclusively".[16] But Public Oversight, Accounting and Auditing Standards Board (POOAB) emphasized that the purpose

[15] Qualified shares are the shares that represent, directly or indirectly, 10 percent or more of the capital or voting rights of an undertaking or that yield the privilege to appoint members to board of directors even though is such rate is below %10 (art.3).

[16] Sarıoğlu states that, General Communiqués Accounting System Application regulate the basic concepts of accounting and accounting plan of them are being used by tax accounting purposes. See Sarioğlu (2013).

of the financial statements to be issued according to the related General Communiqué Serial n.º 1 are not the financial statements prepared according to Turkish Tax Procedural Law. As stipulated in the General Communiqué on Accounting System Application, the purpose of said regulation is not to "issue financial statements in accordance with the tax legislation"; however, the purpose herein is

> to perform the reliable and accurate recognition of the operations and results of the enterprises and companies of real and legal persons which keep books in the form of balance sheet and protect the consistency and comparability of the information provided to the officials in the financial statements and reflect the actual status.

Likewise, in the explanations in the General Communiqué on Accounting System Application Serial n.º 4 on the General Communiqué Serial n.º 1, it was stated that the General Communiqué Serial n.º 1 was prepared independently from the tax legislation and its applications and without considering the tax related concerns. It was also emphasized that there are different regulations in these General Communiqués on Accounting System Application compared to tax legislation.

The regulations which are left to the voluntary application by the POOAB decision, are the essential terms of the local report framework which will be prepared in 2015 and compatible with the EU Accounting Directive 2013/34/EU. Due to these reasons for example, although reeskont and consolidation application left to the voluntary application, the board is strongly advising companies to use apply them.

In accordance with art. 514 of the TCC, the financial statements and annual activity report of the joint stock companies shall be prepared by the Board of Directors (BoD). The BoD shall prepare the financial statements regulated in the TAS and its

appendix, and the annual activity report of the BoD with regards to the previous accounting period within the first three months of the accounting period following the balance sheet date, and present to the General Assembly.

The scope of the audit includes the fact that whether the financial information as included in the board of director's annual report is consistent with the audited financial statements and has a true and fair view. This principle which has Anglo-Saxon origins has been included in the TCC. Article 515 of the TCC titled "True and fair view" is as follows:

> Financial statements of joint-stock companies shall be issued in a way that they fully, comprehensibly, comparably reflect the assets, debts and liabilities, equities and operating results of the company according to the Turkish Accounting Standards in line with requirements and the nature of the company, while these statements shall also be transparent and reliable, and honestly and identically reflect the facts by sticking to the truth.

True and fair view principle regulates that the financial statements shall be true, accurate, and fair, and shall reflect the financial status of the company in accordance with the facts. This article regulates that the financial statements shall be prepared pursuant to TAS. Financial statements shall be complete, comprehensible, comparable to previous years, compatible with company's needs, transparent, and trustworthy. Therefore, the conditions of the company shall be reflected clearly and in a comprehensible manner. It is possible to say that the financial statements take a picture of the financial status of the company.

The financial statements and the board of directors' annual report that must be audited in accordance with the new TCC are treated as not prepared if they have not been audited. The following points are clearly specified in the main section of the audit report:

Whether or not the financial statements and the books

a) were in kept in accordance with the chart of accounts;
b) reflect the company's assets, financial and profitability position based on the true and fair view principle in accordance with TAS.

If adverse opinion or disclaimer of opinion is expressed, the board of directors must call the general assembly to convene four business days from the date of the opinion and the general assembly must elect a new board of directors. Auditors, their assistants, and representatives are obliged to conduct their audit in a honest and unbiased way (BİLGİLİ; DEMİRKAPI, 2013, p. 420-422).

The innovations brought by the new TCC with regards to financial statements aim to adopt the standards applied in industrialized countries. The new TCC provides that the financial statements of the company shall be prepared in accordance with the TAS which is compatible with IFRS. It is expected that financial statements will be prepared in conformity with the financial standards adopted by industrialized countries and integrity will be achieved. Additionally, Turkish markets would be more competitive in international markets and will be more globalised. Besides, the true and fair view principle has been included in the new TCC and the financial statements of the company shall reflect the current financial status of the company. As a result, the financial status of the company shall reflect its current financial status and Turkish markets would be harmonized with foreign markets.

V CONCLUSION

Clearer internationally-based accounting standards and increased comparability in the financial reporting requirements especially for listed companies will greatly simplify enforcement

particularly in the securities markets. IFRS that are properly and rigorously enforced will improve the functioning of the securities market. But to continue to look for ways to improve the financial reporting system is a necessity. Because when pressures are highest, and investor confidence has the greatest potential to be shaken by uncertainty, the importance of transparent, objectively audited financial reporting to investors, and an independent and objective system to establish standards for such reporting, are necessary and critical components.

Turkey's EU integration process and demands of the flourishing business has led the accounting change in the country. All listed companies are required to prepare and present their financial statements in accordance with IFRS from 1.st January 2005. The Turkish Commercial Code, effective for accounting periods beginning on or after 1.st January 2014, also requires companies meeting certain criteria to report under Turkish Accounting Standards which are compatible with IFRS. It has been ruled that in the article 397 of the TCC, the Turkish Presidency will determine the joint stock companies that will be subject to independent audit. The financial statements of the joint stock companies and the group of companies that are determined by the Presidency for the independent unit must be audited in accordance with TAS issued by the Public Oversight, Accounting and Auditing Standards Board.

However POAAB made a distinction between the companies which are subject to independent audit and also should use TAS and which are subject to independent audit and may voluntarily use TAS. According to the Board decision promulgated in the Official Gazette edition 29100 on 26 August 2014, the companies which are obliged to use TAS are the companies which are subject to regulation and supervision of the Turkish Capital Markets Board according to the Capital Markets Law; the companies which are subject to regulation and supervision of the Turkish Banking Regulation and Supervision

Agency according to the Banking Law; insurance, reinsurance, and pension companies that are regulated under Insurance Law and Private Pension Savings and Investment System Law 4632; precious metals producing and marketing companies and precious metal brokerage houses that are authorised to trade at Borsa İstanbul markets.

The companies which are out of the list above may voluntarily prepare their seperate and consolidated financial statements according to TAS. According to the decision of the POAAB promulgated in the Official Gazette edition 29221 on 30 December 2014, the companies which are subject to independent audit but are not applying TAS, will prepare their financial statements and presentations according to the current legislation and also to the additional regulations mentioned in the decision that similar to EU Accounting Directive 2013/34/EU. The current legislation is General Communiqué on Accounting System. The regulations which are left to the voluntary application are the essential terms of the local report framework which will be prepared in 2015 and are compatible with the EU Accounting Directive 2013/34/EU. So the POOAB is strongly advising companies to apply them.

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