



TURKISH AUDIT MARKET: A COMPARISON OF BIG 4 AND OTHER AUDIT FIRMS IN TURKEY FOR THE PERIOD 2013-2014

¹Necdet SAGLAM, ²Abdullah ORHAN

^{1,2}Anadolu University, Faculty of Economics and Administrative Sciences, Eskisehir – Turkey

Email: ¹nsaglam@anadolu.edu.tr, ²abdullahorhan@anadolu.edu.tr

Abstract

The aim of this study is to analyze audit market and to compare of the Big Four auditing firms' position to other auditing firms in Turkey. There were 103 audit firms at 2013 and 138 audit firms at 2014 in Turkey. In 2013 67 firms and in 2014 74 firms published transparency reports and has been taken to the research. In this study the transparency report of audit firms are examined within the scope of the subjects; the number of partners, the number of employees, (junior auditor, senior auditor, in-charge auditor, manager, partner) income distribution, (financial statement audit, tax audit, information systems audit, other audit, consultancy, non-operating) and training coordinated in the companies.

We found that most of audit services was given by big 4 audit firms in Turkey. On the other hand most of tax services was given by local and other firms.

In the study we found that the size of audit market is around 150 million US dollar at 2014 in Turkey.

Our motivation of the study is the growth of the audit market and increase of auditing the firms in Turkey.

Keywords: Auditing market, big 4 audit firms, auditing in Turkey.

1- INTRODUCTION

The auditing profession which rises rapidly in the world is becoming more important every day as a result of the public's expectations and increasing competition in the market. The need for reliable financial statements shows up with the decision of investors and creditors, ensuring tax fairness and determining strategic decisions of businesses. And yet the situation of businesses, the need for audit firms to publish transparency reports in order to inform the public have arisen. While big 8 auditing firms in the world in the 1970s, in 1988 as a result of several bankruptcies and mergers over time, this number decreased to 5. As a result of the Enron scandal emerged in 2001, Arthur Andersen LLP. has lost its prestige and big 4 audit companies has remained in the audit market.

The market economy began to develop after 1980 in Turkey. The auditor of a function is directly related to the market economy develops. Independent auditing in Turkey began with the establishment of Capital Market Board (CMB) in 1982. (CMB of Turkey 2012 annual report, p.6) The Law of Istanbul Stock Exchange (IMKB – now BIST) enacted in 1984, but full operations started in

1986, and the increase in foreign investments advanced the development of the accounting and auditing standards. Increase in joint ventures and foreign trade led to the establishment of offices of the 'Big fours' auditing firms in Turkey. As a result of these developments, large private enterprises started to report their financial statements in accordance with the International Auditing Standards (IASs) and national reporting requirements. According CMB at capital market financial all companies' statements are required by the Board to undergo independent audits required to be drawn up and disclosed to the public within the framework of CMB regulations are subject to independent audits.(Saglam, 2012)

The first comprehensive regulation concerning the auditing in capital markets was made by CMB and "the Regulations on External Auditing in Capital Market" entered into force 1987. Moreover, basic principles and rules related with auditing were arranged with Communiqués entered into force in 1987 and 1988. In 2006, a communiqué Serial: X, No: 22 on independent auditing standards in the capital market was prepared by CMB in accordance with ISAs. (CMB Report, 2012, p. 89) The purpose of this Communiqué was to establish the standards,



principles and methods criterion for the audit firms that will conduct statutory audits in the capital markets and may oversight activities of those firms and CMB shall report the results of quality control reviews and inspection activities. This was the most comprehensive regulation on auditing in Turkey. (FSB, 2014)

The CMB issued some additional regulations in the area of independent auditing after the global scandals in the United States and European Union. The CMB regulations have some similarities to the Sarbanes Oxley Act, such as restricting other services from auditing activities, a compulsory rotation period for audit partners and a requirement for an internal audit committee. (United Nations, Review 2012) (Saglam, 2012)

In Turkey, several agencies and institutions, made regulations in this field and this situation led to a fragmented structure in the field of independent audit. These authorities include; Banking Regulation and Supervision Agency (BRSA) for banks and all financial institutions except for insurance companies, Turkish Treasury for insurance companies, CMB for listed companies and Energy Market Regulatory Authority (EMRA) for energy companies. (Saglam, 2012)

Audited organizations and numbers are given in the table below at Capital Market of Turkey between 2004 -2014.

Table: 1 Audited organizations in Turkey

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Intermediaries	154	149	145	145	145	144	144	140	141	141	140
Public Companies	591	588	561	575	520	499	512	575	553	557	534
Investment Trusts	34	37	43	48	50	49	54	53	47	48	54
Investment Funds	381	434	451	461	541	523	695	757	781	743	746
Pension company	11	11	11	11	12	13	13	15	18	17	19
Real Estate Appraisal Companies	0	0	13	26	50	63	82	113	123	130	130
Portfolio Management Companies	21	19	18	19	23	23	28	31	35	40	41
Rating Agencies	1	5	7	8	8	9	9	9	10	10	9
Total	1193	1243	1249	1293	1349	1323	1537	1693	1708	1686	1673
Independent Auditing Firms	83	91	94	98	97	95	92	92	92	93	93

Source: SPK and own calculations.

At 2014 total 588 Public Companies (including investment trusts) are 422 Companies listed on the BIST and 166 Companies Non-Listed on the BIST.

Establishment of the Public Oversight, Accounting and Auditing Standards Authority (PAO) is a very important achievement for Turkey. An audit shall

be carried out only by certificate auditors or audit firms, which are approved by the PAO. Approval of audit firms is subject to the PAO decision. As of December 2014, 138 audit firms have been approved and registered by the PAO. 92 of them had already been registered by SPK according to the regulations that were in force before 2012.



According to List No: I of the Article 397 PAO's Organization and Responsibilities Decree Law No. 660, the following companies are also subject to statutory audit, Companies under control of CMB of Turkey regulations, Companies under control of BRSA regulations, Insurance, reinsurance and pension companies, Companies licensed for warehousing of agricultural products established as a joint-stock company according to legislation on

licensed warehousing of agricultural products, Companies established as a joint-stock company in accordance with provisions of the law of public malls and Media companies that are owners of national terrestrial satellite and cable television.

Total number of audited organisations and companies are given in the below. In 2013 total 4.186 and in 2014 5.173 are on statutory audit. (Saglam, 2012)

Table: 2 Audited Organisation and Companies by Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Companies under control of CMB	1193	1243	1249	1293	1349	1323	1537	1693	1708	1686	1673	1673
Companies under POA regulations	-	-	-	-	-	-	-	-	-	2500	3500	5000
Total	1193	1243	1249	1293	1349	1323	1537	1693	1708	4186	5173	6673
Independent Auditing Firms	83	91	94	98	97	95	92	92	92	103	138	181

Source: CMB, POA, own calculation

In 2014 statutory audited companies pays 77% of total corporate tax in Turkey. Until 2017 the number of audited companies will be around 12.000 because of Turkey's harmonization policy with EU acquis and they will pay 99% of total corporate tax. (Seyyit Ahmet Bas, 2014).

LITERATURE REVIEW

Blokdijk et al. (2006) have investigated 14 audit firms that audited 113 companies in 1998 and 1999. In the study, they compared Big 5 audit firms to other audit firms about planning, control risk assessment, substantive testing, and completion subjects. In the results of analysis, they found all audit firms exert about the same amount of total audit effort. Also they found, Big 5 auditors allocate relatively more effort to planning and control risk assessment. And it concluded the Big 5 firms actually produce a higher audit quality level, and that this quality difference is related to how

audit hours are deployed in a more contextual and less procedural audit approach.

Al-Ajmi (2009) used a survey of 300 financial and credit analysts in his study. According to the results of the survey, he found the perception Big 4 auditors provide higher quality audit services from other auditors. Furthermore, he revealed that, non-audit services affect the auditor's independence.

Cular (2004) examined the transparency reports of audit firms operated in Croatia and investigated whether transparency reports of audit firms are in accordance with the Croatian Audit Act. In the results of the study, he found that audit firms in Croatia are not fully transparent. At the same time, Big 4 auditors and other auditors compared by the number of audited companies and audit revenues. While a significant difference in the number of audited companies can not be observed, he found share of income from audit services in total income of audit firms is significantly higher for other audit firms than for Big 4 audit firms.



Amirul, Salleh and Abu Bakar (2015) examined 30 audit firms in Malaysia by the subjects of leadership, values and ethical requirement, independent non-executive and operation. In conclusion, they found audit firms in Malaysia are aware on the issuance of the Audit Firm Governance Code except for transparency report and designation of independent non-executive directors.

RESEARCH AND FINDING

This research aimed to examine effects of company image and institutionalization on audit industry. To reach that aim Turkey representations of big four and other audit firms in Turkey are compared.

In this study, quantitative data of audit firms which operates in Turkey are examined by comparative tables and graphics. Following table shows general structure of audit market in Turkey.

Table: 3 General Structure of Audit Market in Turkey

	Big Four		Big Four average		Other		Other Average		Total	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Number of Audited Companies	499	469	125	117	532	624	9	9	1,031	1,093
Number of Partners	82	80	21	20	508	591	8	8	590	671
Number of Auditors	1,262	1,554	316	389	804	1,200	13	16	2,066	2,754
Total Revenue (1000TL)	256,194	302,063	64,048	75,516	114,783	203,495	1,882	2,750	370,976	505,558
Training (Hour)	3,541	3,862	885	966	4,272	7,911	70	107	7,812	11,773

As can be seen from the table In Turkey in 2013-2014:

- There are a total of 1,031 companies audited.
- There are a total of 590 audit firm partner.
- There are a total of 2,754 staff working in the audit companies’ audit teams.
- The total revenues of the market is 370,976,301 liras.
- 7,812 hours of training were organized in the audit companies.

In 2014:

- There are a total of 1,093 companies audited.
- There are a total of 671 audit firm partner.
- There are a total of 2,066 staff working in the audit companies’ audit teams.
- The total revenues of the market is 505,558,004 liras.
- 11,773 hours of training were organized in the audit companies.



The Number of Audited Companies

As seen in table, whilst number of audited companies by Big Four is 532, number of audited companies by others is 499. According to this data 48.4% of companies which is subject to audit are audited by Big Four and 51.6% of them are audited by other 61 audit firms. While each of Big Four have 125 companies to audit each of other 61 audit firms have 9 companies in average.

In 2014 the number of companies audited by Big Four has decreased to 469 while the number of companies audited by other audit firms has increased to 624. Considering the averages, the average of Big Four has decreased to 117 while the

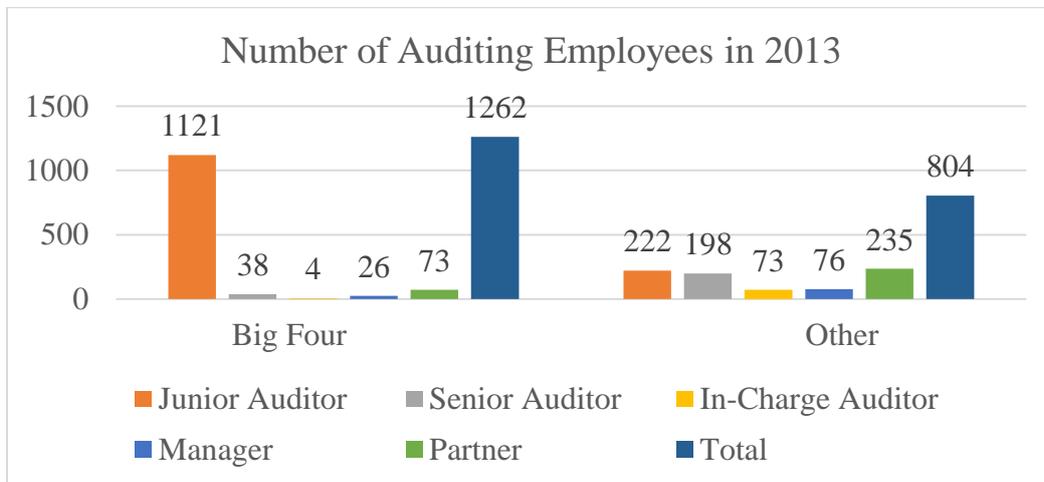
average of other audit firms has remained stable at 9. Audit firms which participate to audit market in Turkey in 2014 can be shown as the reason for this situation. %43 of companies in audit in market Turkey has audited by Big Four and %57 by other audit firms.

Number of Partners

When average number of shareholders is analyzed, Big Four have 21 shareholders and others have 8 shareholders in average in 2013. In 2014, average number of shareholders reduced to 20 for Big Four and unchanged for others.

Number of Auditing Employees

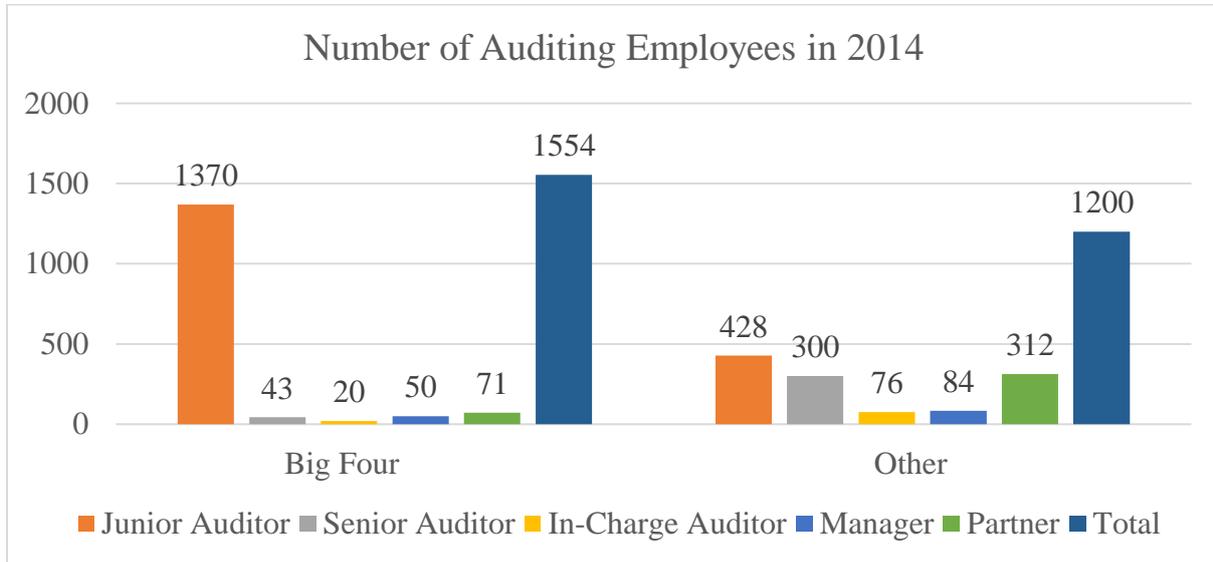
Auditing employees of audit firms are examined in five group as junior auditor, senior auditor, in-charge auditor, manager and partner.



Graphic: 1 Number of Auditing Employees in 2013

When number of auditing employees are analyzed there are 1,121 junior auditor, 38 senior auditor, 4 in-charge auditor, 26 manager and 73 partner in Big Four. Other audit firms have 222 junior auditor, 198 senior auditor, 73 in-charge auditor, 76 manager and 235 partner. Whilst number of junior auditor

come into prominence for Big Four, there is no big difference among number of employees for other audit firms. Besides, it can be seen that total number of auditing employees is 2,066 and 1,262 of them work for Big Four and 804 of them work for other audit firms.



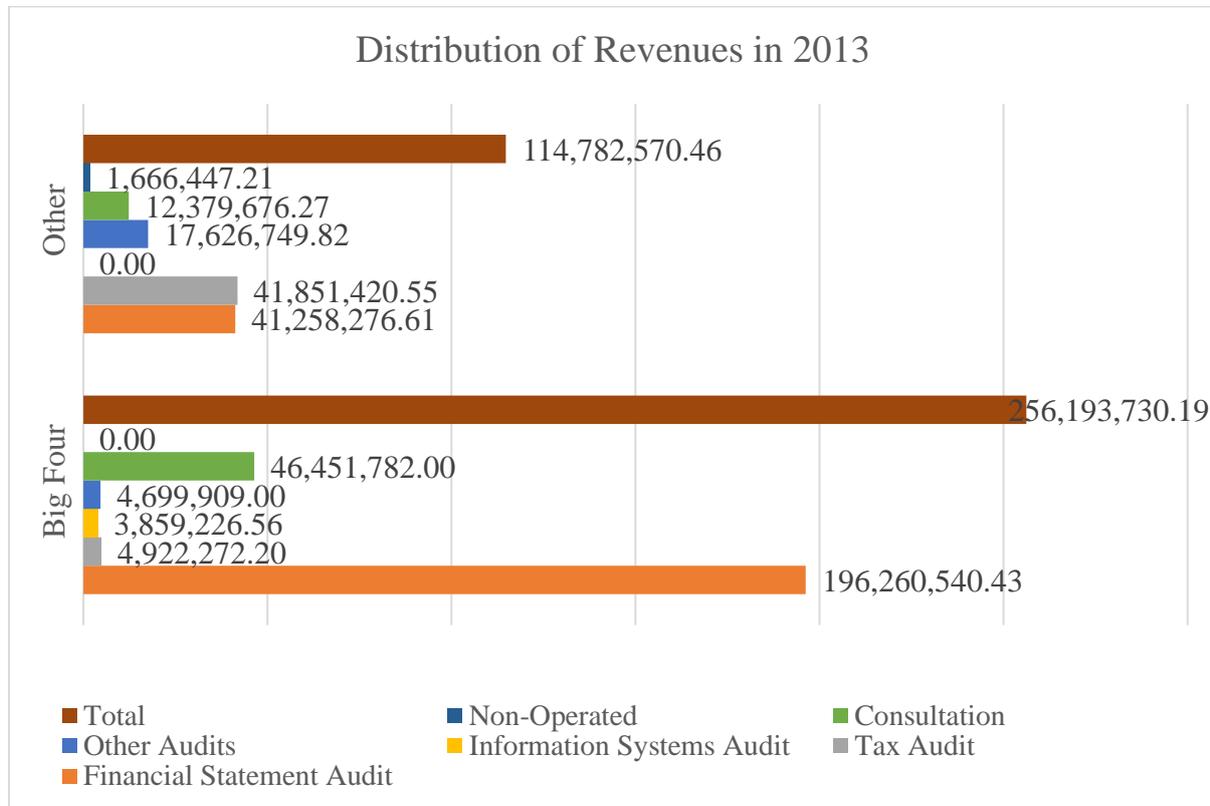
Graphic: 2 Number of Auditing Employees in 2014

In 2014, are 1,370 junior auditor, 43 senior auditor, 20 in-charge auditor, 50 manager and 71 partner in Big Four. Other audit firms have 428 junior auditor, 300 senior auditor, 76 in-charge auditor, 84 manager and 312 partner. Increase in the number of junior auditors observed in both groups. In addition, there is an increase in the number of senior auditors in other audit firms. This situation can be perceived as an indication of other auditing companies’

efforts to strengthen the financial statement audit staff.

Revenues

Revenues of audit firms are examined under six different topics. This topics are financial statement audit, tax audit, information systems audit, other audit, consultation and non-operated revenues.

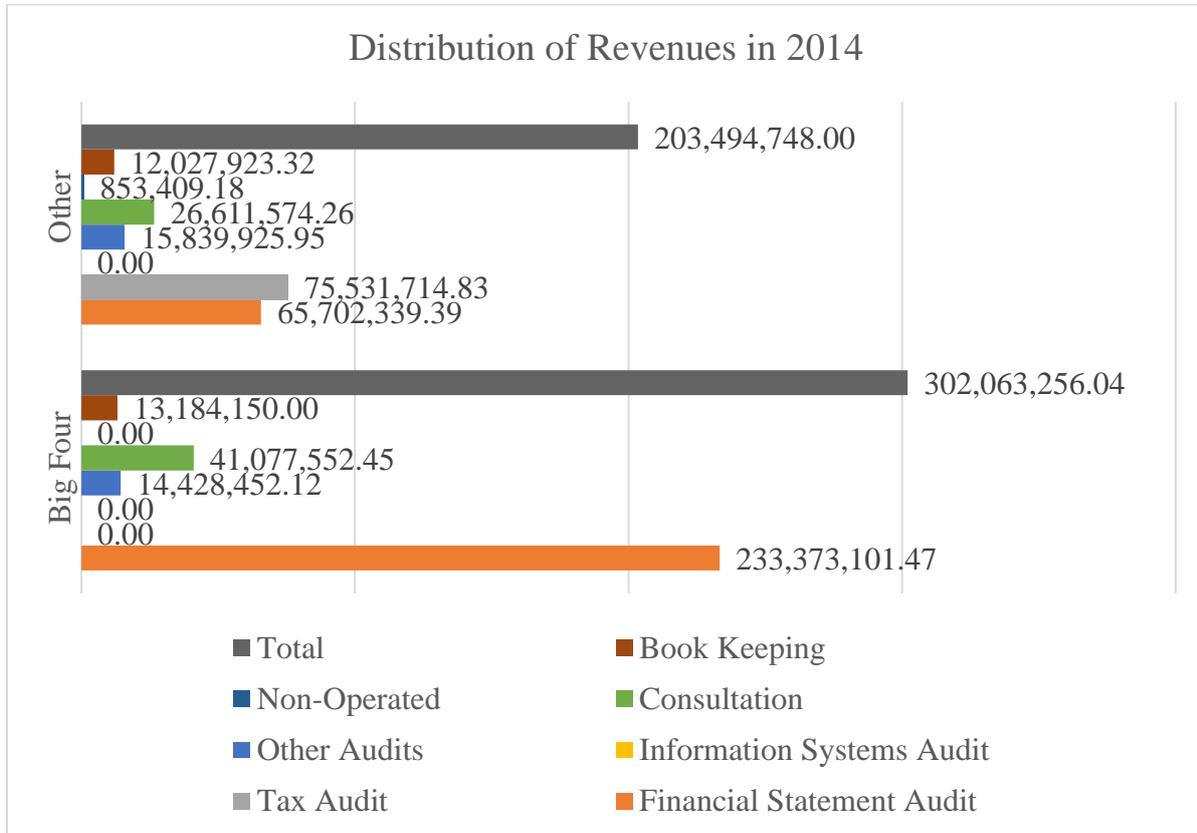


Graphic: 3 Distribution of Revenues in 2013

It can be seen in the table, whilst big part of revenues of big four comes from financial statement audit, for other audit firms revenues from financial statement audit and tax audit are close to each other. Total revenue in audit market is 370,976,300.65 TL in Turkey in 2013 and big four have 69% of it while 31% is shared by other audit firms. When the revenue from financial statement audit is divided by number of audited companies it can be seen that average audit price for big four is 393,308 TL and 77,553 TL for other audit firms. Portion of revenues from financial statement audit is 77% for big four and 36% for other audit firms.

When revenues from consultation are analyzed, big four have 46,451,782 TL and other audit firms have 12,379,676 TL. The total revenues from consultation is 58,831,458 TL and 79% of it belong to big four and 21% of it belong to other audit firms. Portion of revenues from consultation in total revenue is 18% for big four and 11% for other audit firms.

In addition, the absence of non-operating income of Big Four and the absence of information systems audit income of other audit firms is observed.



Graphic: 4 Distribution of Revenues in 2014

Total revenue is 505,558,004.04 TL in audit market in Turkey and whilst big four have 60% of it, remaining portion of it belong to other audit firms in 2014. Average audit price for big four is 497,597.23 TL and 105,292.21 TL for other audit firms. Portion of financial statement audit in total revenue is 77% for big four and 32% for other audit firms. It is also remarkable that revenues from bookkeeping is reported as a separate topic in 2014. Revenues from bookkeeping are close to each other for big four and other audit firms. However, when this revenue divided by the number of audit firms in the group, average bookkeeping price of each big four is 3,296,037.5 TL while 162,539.5 TL for each of other audit firms .

In addition, the information systems audit income has not occurred in both groups in 2014. All of the income from tax audit has been obtained by other audit firms.

Training (Hours)

When the average of the training coordinated in companies investigated In 2013, each of big four coordinated training in company for 885 hours and each of other audit firms coordinated training in company for 70 hours.

In 2014, each of big four coordinated training in company for 966 hours and each of other audit firms coordinated training in company for 107 hours. In this case it can be said importance of training given by companies increased for both of the groups.

RESULTS AND CONCLUSION

In this study, transparency reports of audit firms which operates in Turkey are examined and quantitative data obtained from these reports to



exhibit profile of auditing in Turkey and to define situation of big four in Turkey audit market.

When the data is analyzed, it can be said Big Four has a very large share on audit market in Turkey. However, in tax audit, other audit firms coming to prominence.

When total and average number of audited companies is considered big four are ahead of other audit firms. Indeed, average number of audited companies for each of big four is 125 and 9 for each of other audit firms in 2013. In 2014, average number of audited companies reduced to 117 for the big four yet unchanged for other audit firms.

In 2013, the average number of partners of the Big Four is 21. This figure is seen as 8 from the other audit firms. Figures realized in 2014 are very close to previous year. The mentioned figures calculated as 20 for Big Four and 8 for other audit firms. Considering the capital size and the number of employees, it is an expected situation that higher number of partners in Big Four.

When number of auditing employees is compared, big four are ahead of others. Big four have 61% of employees in audit market in Turkey in 2013 and 56% of them in 2014. Also, biggest part of auditing employees in big four is junior auditor.

When distribution of revenue in 2013 is analyzed, big four has earned more than the others in financial statement audit, information systems audit and consultation. In the other hand, other audit firms earned more than big four in tax audit and other audit operations. Big four hold 69% of total revenue and 83% of revenues from financial statement audit.

The superiority of the Big Four in the distribution of income in 2014 is outstanding. In Same year, %60 of market revenues and %78 of financial statement audit revenues gained by Big Four. In addition, all of the tax audit revenues in 2014 were obtained by other audit firms.

On training coordinated in the firm, it was determined, Big Four pay more attention to the continuous education of auditors. In 2013, annual average of training coordinated in firm was 885 hours in Big Four and 70 hours in other audit firms.

In 2014, the same figures calculated as 966 hours in Big Four and 107 hours in other audit firms.

In this context, it can be said big four hold big portion of audit market in Turkey and they are ahead of others considering number partners, number of employees, total revenue and trainings coordinated in companies. However, other audit firms hold big portion of tax auditing, 90% for 2013 and 100% for 2014. Superiority of other audit firms in tax auditing comes from regulations in Turkey.

REFERENCES

1. Al-Ajmi, J. (2009). Audit Firm, Corporate Governance, and Audit Quality: Evidence From Bahrain. *Advances in Accounting, Incorporating Advances in International Accounting*, 25. pp. 64-74.
2. Amirul, S. M., Salleh, M. F. Md. and Abu Bakar, M. A. A. B. (2015). Audit Firm Governance: An Overview From Malaysia. *Procedia Economics and Finance*, 3. pp. 632-639.
3. Blokdijs, H., Driehuisen, F., Simunic, D. A. and Stein M. T. (2006). An Analysis of Cross-Sectional Differences in Big and Non-Big Public Accounting Firms' Audit Programs. *Auditing: A Journal Of Practice and Theory*, 25(1). pp. 27-48.
4. Capital Market Board of Turkey (2012). *2012 Annual Report*.
5. Cular, M. (2014). Transparency of Audit Firms in Croatia. *World Academy of Science, Engineering and Technology International Journal of Social, Behavioral, Educational, Economic and Management Engineering*, 8(3). pp.690-694
6. FSB, (2014) 2014 IMN Survey of National Progress in the Implementation of



- G20/FSB Recommendations, Retrieved from http://www.financialstabilityboard.org/wp-content/uploads/Turkey_2014.pdf
7. Saglam, N., (2015) Quo Vadis auditing in Turkey, *International Interdisciplinary Business-Economics Advancement Conference Proceedings*.
8. Seyyit Ahmet Bas's speech,(September 2014) Accounting Forum, Ankara.