



Regularity Audit Manual

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This Manual, which has been prepared by the commission established to update the Regularity Audit Manual No: 2014/3 and effective as of 14.02.2014, was discussed and approved by the Auditing Planning and Coordination Board at its meeting No.2018/6 and dated 07.09.2018, and was put into effect on 08.10.2018 upon approval by the President of Turkish Court of Accounts (TCA).

FOREWORD

Being rooted in the historical accumulations of the eras of the Gaznevids, the Seljuks and the Ottoman Empire since the Court of Control, which was the audit body of the Karakhanid State, the Turkish Court of Accounts (TCA) is one of the most important and prestigious institutions of our state tradition existing for over a thousand of years. Acting on behalf of the Turkish Grand National Assembly, the TCA undertakes significant duties for a well-functioning public management system as well as a strong public finance.

Article 36 of the TCA Law no.6085 indicates that the TCA audit covers regularity audit and performance audit and states that the regularity audit is carried out through:

Determining whether revenues, expenditures and assets of public administrations, as well as accounts and transactions pertaining to those are in compliance with laws and other legal arrangements,

Giving opinion on the reliability and accuracy of financial reports and statements of public administrations, by evaluating all kinds of supporting and necessary documents,

Assessing financial management and internal control systems.

Article 35 thereof stipulates that the independent and impartial audit activities by the TCA are carried out in compliance with the generally accepted international auditing standards and with due consideration to the implementation of the contemporary auditing methodologies.

As per the provisions of the Law in question, the preparation of the audit manuals to guide the auditors in the conduct of the audit activities in compliance with the international auditing standards, in an effective manner and with due diligence is of great importance. Audit manuals are the fundamental documents, which regulate the steps to be taken in the planning, execution, reporting and follow-up phases of audits, guide practices and ensure quality and standard in audit.

The Regularity Audit Manual consists of five sections, which are General Framework, Planning, Execution, Reporting and follow-up. Also, annexes are found at the end of the manual.

In the General Framework section, general principles of auditing are specified. Planning section is organized under the titles of understanding the auditee, determining materiality, identification and classification of account areas, risk assessment, identification of audit approach, selection of items to be examined and sampling and completion of planning. Execution section addresses obtaining audit evidence, evaluating audit results and finalisation of audit. Reporting section contains information on the drafting of audit reports and judicial reports. In the follow-up section, review and follow-up of the audit results are addressed. Finally, the annexes include control forms concerning the conduct and review of the audit as well as forms related to the application examples to be employed during audit.

Regularity Audit Manual (Version: 2018/4) has been revised on the basis of the outcomes of the workshop organized, experiences obtained from the practices as well as the assessment of the implementation level of the international auditing standards through the Performance Measurement Framework for the SAIs.

I would like to extend my thanks to the TCA personnel contributing to the preparation of the manual and wish that it will be fruitful for the users.

Seyit Ahmet BAŞ
TCA President

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GENERAL FRAMEWORK

1. Essentials of Regularity Audit

Definition

Regularity audit refers to the acts of giving opinion on the accounts and transactions of public entities as well as the reliability and accuracy of their financial reports and statements; determining whether the accounts and transactions of public entities pertaining to their revenues, expenditures and assets are in compliance with laws and other legal arrangements, and evaluating the financial management and internal control systems.

Financial audit is the audit performed to form an opinion on the accounts and transactions of public entities as well as the reliability and accuracy of their financial reports and statements, and evaluating the financial management and internal control systems. However, audit work based on the examination of the compliance of accounts and transactions related to the revenues, expenditures and assets of public entities with laws and other legal arrangements includes compliance audit.

This manual has been prepared as a “Compliance Audit Manual” based on the legal arrangements in Turkey.

Objective

The objectives of the regularity audit to be conducted by the TCA on a public entity’s account are as follows:

- *To form an audit opinion on whether the accounts and transactions, and the financial reports and statements of an auditee give a true and fair view , in all material respects, of its financial status and activity results, in accordance with the applicable financial reporting framework;*
- *To determine whether the accounts related to revenues, expenditures and assets as well as other accounts and transactions of an auditee are in compliance with laws and other legal arrangements;*
- *To evaluate financial management and internal control systems;*
- *To detect public loss arising from transactions noncompliant with laws and other legal arrangements.*

ISSAI 1003

In a financial audit of a private sector entity, the Audit Objective is limited to expressing an assurance opinion on a set of assertions. The objectives of a financial audit in the public sector, however, are often broader than expressing an opinion on whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e., the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives.

These responsibilities may include, for example, performing procedures and reporting instances of non-compliance with authorities, and the effectiveness of internal controls. However, even where there are no such additional objectives, there may be general public expectations in this regard.

Reasonable Assurance

In the regularity audit, the audit opinion is formed through obtaining reasonable assurance. Reasonable assurance is obtained through gathering sufficient appropriate audit evidence and in respect to the following aspects:

- *Compliance of financial reports and statements, as to their form and substance, with the applicable financial reporting framework,*
- *Accuracy and fairness of figures in financial reports and statements and whether they are given in a manner to cover all transactions of the entity,*
- *Whether the public resources allocated to the entity are used within the objectives and services envisaged by the authorized body,*
- *Whether the accounts and transactions related to revenues, expenditure and assets are made in accordance with laws and other legal arrangements.*

Reasonable assurance is a concept related to the auditor's act of obtaining audit evidence required to reach the conclusion that the financial reports and statements as a whole and the underlying transactions are free from "material" misstatement. Reasonable assurance is relevant to the whole regularity audit process.

The auditor cannot obtain absolute assurance, since there are restrictions in the audit that may affect auditor's detection of all errors. These restrictions may be stemming from the following reasons:

- *Audit, by its nature, is grounded on test;*
- *Inherent restrictions of internal control (information hidden by the auditee or fictitious transactions, etc.);*
- *Certain audit evidence by its nature is open to interpretation,*
- *The work conducted by the auditor to provide audit opinion requires the use of auditor's professional judgement.*

Due to restrictions as explained above, since the absolute assurance cannot be accessible, regularity audit cannot provide assurance that the financial reports and statements as well as the underlying transactions are a hundred percent free from error. In an audit to be conducted according to the International Auditing Standards, the reasonable assurance corresponds to 95% assurance level.

Audit Assertion

The objective of the regularity audit is the test by the auditor of the accuracy, reliability and appropriateness of the assertions explicitly or implicitly provided in the auditee's financial reports and statements as well as their underlying accounts and transactions. Audit Assertions can be handled in three groups: assertions related to assets and resource accounts, assertions related to revenues and receivables accounts and assertions related to disclosures (See 1.7 Completion of Planning Section).

The audit assertions can be listed as completeness, accuracy, occurrence, appropriateness, classification, existence, ownership and valuation. With the audit procedures oriented towards these assertions, the purpose is to test the implicit or explicit assertions in the financial reports and statements as well as underlying accounts and transactions and to form an audit opinion on their accuracy, reliability and appropriateness. Regularity audit covers the test of all these three groups of audit assertion.

Characteristics of Regularity Audit

Regularity audit:

- Contributes to *the accountability of the public entities, including also to the examination and evaluation of the financial records and providing opinion on the financial reports and statements.*
- Covers the evaluation as to the compliance with applicable laws and other *legal arrangements as well as the audit of financial systems and transactions.*
- Evaluates *internal control and internal audit functions.*
- Enables reporting of audit results.
- Enables the conduct of audit based on subject, sector, activity and project *in a manner to cover multiple years and auditees, when required (Financial audit and compliance audit are conducted simultaneously based on the current year and in respect to a public entity).*
- Conducted according to the *International Auditing Standards.*
- Conducted based on the principle of teamwork by the audit teams established under the *auditing group headships.*
- Is risk and system-based.

Sources of Regularity Audit

- *Financial Reports and Statements: refer to documents such as books, charts, tables and minutes, etc., the auditee is liable to prepare based on the accounting system and accounts chart it is subjected to. Such documents may include daybooks, trial balance charts, balance sheets, revenue-expenditure tables, movable assets inventories, minutes for cash and bank reconciliations, subsidiary books, etc.*
- *Plans, Budget and Programs: refer to the budget, strategic plan, performance program, work programs of, and the directives and instructions issued by the auditee.*
- *Documents related to Revenue, Expenditure and Asset Transactions: refer to all kinds of evidencing documents that reflect the activities of the auditee, and may include documents prepared by the auditee to evidence the payments of expenditures, advances and offsetting transactions, revenue recognitions and collections; storage, use and consumption of assets, etc.*
- *Provisions of Contracts and Agreements: refer to the documents related to all kinds of contracts and agreements, such as tender processing files, commitments charts, progress payments for construction works, etc.*
- *External Confirmations: refer to the documents obtained from a third party with respect to certain issues affecting the transactions of the auditee. Such documents may include bank reconciliations, land registers and registers, etc.*
- *Works of Others: refer to the works of internal auditors, independent external auditors, other audit personnel and experts.*

- *Related Party Transactions*: refer to documents related to the transactions of the auditee with related parties (such as entities that directly or indirectly control or are controlled by the auditee or its affiliates; individuals owning, directly or indirectly, an interest in the auditee that gives them significant influence over the entity, and close members of the family of any such individual; key management personnel, and close members of the family of key management personnel).

- *Other published documents by the entity*: refer to reports, annual accountability reports, human resources data, investment plans, etc. issued by the management of the auditee.

- *Written and Oral Information*: refers to written and oral information related to audit, which are obtained from the entity's manager and staff as well as the interviews with third parties.

- *Other Source*: refers to other information and documents related to audit such as news, articles and similar information in the written and visual media, and denunciations received.

Audit Procedures and Evidence Collection Techniques

Audit Procedures sets forth the methods to be followed throughout the audit engagement to obtain audit evidence. These procedures may be implemented collectively or individually at different stages of the audit. Audit procedures include tests of controls, analytical procedures and direct substantive procedures.

Tests of Controls are the tests of accounting and internal control systems of the auditee to obtain audit evidence about whether these systems are established, and operate effectively in a manner to prevent material misstatement in the financial statements.

Analytical Procedures refer evaluation of financial information through analysis of rationale relationships among both financial and non-financial data.

Direct Substantive Procedures cover the assessment processes conducted by the auditor with relation to the completeness, accuracy and reliability of statistics, and refer to detailed examination on the accounts and transactions in order to obtain audit evidence for detecting material misstatements that may affect financial reports and statements.

While implementing the audit procedures, the auditor obtains audit evidence through using one or all of the following evidence collection techniques:

Examining Records and Documents covers the audit of records and documents, irrespective of whether they are produced in printed or electronic environment or in any other means, inside or outside the entity.

Operational-Physical Examination includes the physical examination of tangible assets and the commitments in contracts, such as on-site detection and stocktaking.

Observation refers monitoring and observation of processes or transactions implemented by others.

Written or Oral Debriefing refers gathering information from an informed person, inside or outside the entity.

Comparison refers benchmarking, cross-examination and similar work conducted to investigate the accuracy of transactions.

Confirmation includes examinations done for the verification of data in entity's records, such as confirmation of bank account records with the records of the relevant banks.

Recalculation is checking the mathematical accuracy of documents and records that constitute the basis for the preparation of financial statements.

Re-performance refers the auditor's independent execution of procedures or controls that are originally performed as part of the entity's internal control, with the purpose of comparison.

Reports

As a result of regularity audits, following reports are prepared:

- Audit Report,
- Judicial Report.

2. Combined Implementation of Financial and Compliance Audits (Regularity audit)

Relation between Financial Audit and Compliance Audit

In general, financial audit is the audit of financial reports and statements to provide reasonable assurance on their reliability and accuracy based on the accounts of the public entity and the documents associated to these. Compliance audit, on the other hand, is the audit of compliance of the public entity's transactions related to its revenues, expenditures and assets with the laws and other legal arrangements. As a matter of fact, the audit on the accuracy and reliability of financial reports and statements cannot be isolated from the audit on the compliance of transactions, which form the basis of these statements. However, in cases of subject-based or project-based audits, it is possible to conduct compliance audit independently of the audit of financial statements.

ISSAI 1250

The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements. The auditor shall perform the audit procedures to help identify instances of noncompliance with other laws and regulations that may have a material effect on the financial statements. The auditor shall respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.

In the INTOSAI auditing standards, the concept of compliance audit is defined as the audit of whether the activities performed by the public entities comply with the laws and other legal arrangements they are subject to. It is also stressed that the purpose, scope and nature of compliance audit is established based on the laws and other legal arrangements the auditee is associated with as well as the Constitutional status of the Supreme Audit Institution (SAI) and its mandate.

This manual is designed based on the combined execution of the compliance audit and regularity audit in the light of the International Auditing Standards.

For compliance audits performed in combination with financial audit, INTOSAI – ISSAI 4200 will be considered as the reference document of this manual.

Compliance Audit Conducted Separately from the Financial Audit

Compliance audit can be conducted as a stand-alone audit task as well as a part of regularity audit.

Compliance audit conducted independently from the financial audit is the examination of a specific topic or topics selected at one or more public entity in respect of compliance with laws and other legal arrangements. The subject of a compliance audit as such may be a specific expenditure, revenue or asset transaction as well as a specific project or activity. The audit requests from the Turkish Grand National Assembly are considered within this scope.

Compliance audit covers a very broad area. Topic-based compliance audit can be conducted in any topic to be selected from among this wide range.

3. Roles and Responsibilities

Roles and Responsibilities Related to Audit

The audit function of the TCA is carried out by the auditors assigned by the Presidency of the TCA. The Presidency circulates an official letter to all auditees at the beginning of the audit period, whereby the nature of the audit, the names of the auditors assigned, the measurements required to be taken by the auditee to facilitate the audit and other liabilities of the auditee are elucidated.

In this manual, the term “auditor” is used to cover the auditor, the audit team, the audit team leader and the head of audit group assigned by the TCA; the term “audit” is used to cover auditing, examining and other work related to audit.

In the regularity audit performed by the TCA, the roles and responsibilities of the auditor are as follows:

It is essential that auditors perform their duties within the audit teams under audit groups of the TCA. In certain exceptional cases (such as, cases where the transaction size of the auditee is not large), a single auditor may be assigned. In such circumstances, the auditor performs the duties of both the auditor and the team leader, and is accountable to the head of audit group.

Head of audit group is the primary individual accountable to the TCA Presidency for the audit work to be performed by the audit group, and carries out the duties of composing the audit teams, conduct of audits by the teams established within the group, reporting audit results as envisaged in the applicable legislation as well as second-level control and review of audit work performed.

Considering the structure of the auditee, head of audit group composes the audit teams, assigns team leaders and members, and submits to the TCA Presidency in order to ensure the conduct of audit in line with its objectives. To ensure that audit processes are conducted as required, head of audit group coordinates the audit teams and ensures that the work is performed in harmony inside and in-between the teams. In this respect, in the regularity audit work, the head of audit group follows the progress achieved; tries to foresee the potential problems that may disrupt the audit work and finds solutions to emerging problems during the course of the audit.

Head of audit group reviews all the working papers of the team leaders and those of the group members that s/he deems necessary. The purpose of the head is to maintain that the audit teams

prepare the working papers in the appropriate form and to carry out the required evaluation. When necessary, the head can also attend the meetings related to audit held with the auditee. S/he reviews the reports prepared by the audit teams and submits to the TCA Presidency. S/he ensures that the audit teams abide by the working schedule, the principles and procedures established in the regulations, standards and guides at all phases of the audit. S/he also oversees the preparation of current and permanent audit files by the audit teams and establishes the group archive.

Head of audit group also performs other duties assigned by the TCA Presidency.

Upon being assigned by the TCA President or by the head of audit group, on behalf of the President, the team leader facilitates coordination in the activities of the audit team; participates in and oversees the conduct of audits. The team leader is the primary individual accountable to head of audit group for the audit work performed by the team.

The team leader participates in the planning and other relevant activities with the members of the team and oversees that the audit is performed within the framework of the audit processes set forth in this manual. The team leader also coordinates the reporting of audit results.

The team leader secures that the members of the team follow the working program, regulations, directives and the principles and procedures established in this manual as well as the requirements of teamwork during the audit. S/he also establishes communication of the team with the head of audit group and the auditee. The team leader prepares working papers for the audit work s/he individually performed, on one hand, on the other hand, evaluates, and signs the working papers that are prepared by individual auditors in the team at all phases of the audit. The team leader also oversees the preparation of current and permanent audit files by the audit team.

Where the auditor acts as a member of an audit team, s/he is responsible for carrying out the teamwork required by the audit processes established in this manual (audit planning, execution, reporting of its results) under the supervision of the team leader. In cases of individual, stand-alone audits, auditors conduct audit work under the supervision of the head of audit group. While performing the teamwork, the auditor includes all performed activities and the results obtained at all phases of the audit in the working papers s/he prepares and submits to the consideration of the team leader or in cases of individual audit work, to the head of audit group. The auditor also takes part in the preparation of current and permanent audit files.

In the performance of teamwork, the following issues are considered:

- *All the auditors in the teamwork conduct audits based on the working program prepared by the audit team under the supervision of the team leader, and approved by the head of the audit group and the Presidency.*

- *The auditor abides by the work distribution made by the team leader.*

- *The team leader is the primary individual responsible for the communication between the auditor and the head of audit group in the course of the audit.*

- *The auditor prepares the inquiries and drafts the reports in due form and based on the assignment made by the head of audit group or the team leader related to the drafting of the judicial report.*

- *The auditor performs any other audit-related duties to be assigned by the head of audit group and the team leader.*

The audit teams may be assigned to conduct simultaneously the audit of more than one public entity. Likewise, in a single audit term, the same audit team may also be assigned with the duty of auditing an entity for more than one financial year.

Audit team members have joint responsibility for all the stages of audit and reporting. In cases where the audit team has a duty of auditing more than one public entity, the head of audit group may assign the reporting duty to one of the audit team members.

In cases where the audit task covers multiple years, the audit team assesses the internal control function based on the current year data and audits the financial activities, decisions and transactions related to previous years in respect of their compliance to laws and other legal arrangements. As a result of such audits, the reports are drafted in respect of their types and in a manner to cover the period audited, not separately as reports by years.

Responsibilities related to Financial Reports and Statements

The senior management of an auditee are responsible for the preparation of financial reports and statements and their presentation of a fair and true view. The responsibility of the TCA, on the other hand, is to provide opinion on the reliability and accuracy of the accounts and transactions and the financial reports and statements of auditees; to detect whether their accounts and transactions of related to their revenues, expenditures and assets comply with laws and other legal arrangements; to assess their financial management and internal control systems, and reporting its results.

Financial report and statement, as a concept, refers to the presentation of financial information as a whole in the accounting records (including also the disclosures) related to the financial structure and liabilities of an entity at a certain period in compliance with the applicable financial reporting framework.

According to International Financial Reporting Framework, financial statements are composed of such documents as balance sheets, revenue-expenditure table, operating results table, capital change table, cash flow table, and disclosures, summery and informative notes that include significant accounting practices. In Turkey, how financial reporting is done and composed of which financial statements is established in the relevant regulations.

The responsibilities of the senior management of an auditee related to the preparation and presentation of financial reports and statements in line with the applicable financial reporting framework include the following:

- *To design, implement and maintain the internal control related to the preparation and presentation of financial statements that are free from material misstatement;*
- *To implement the applicable accounting system;*
- *To prepare and implement the budget;*
- *To issue Internal Control Statement of Assurance.*

4. International Auditing Standards

Obligation to Comply with Standards

It is stipulated in the TCA Law No:6085 that the audit will be carried out in line with the generally accepted international auditing standards.

In the INTOSAI Fundamental Auditing Principles, it is stated, “The SAI should consider compliance with the INTOSAI auditing standards in all matters that are deemed material. Certain standards may not be applicable to some of the work done by SAIs, including those organised as Courts of Account, nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality”.

The Principles also read “For some elements of the SAI's mandate, particularly in regard to the *audit of financial statements, the SAI's audit objectives may be akin to the objectives of audits in the private sector. Correspondingly, private sector standards for financial statements auditing which are promulgated by official regulatory bodies might be applicable to the government auditor*”.

This manual is prepared based on the auditing standards of INTOSAI and those of internationally recognized standard-setting organisations such as IFAC. In recent years, the co-work of INTOSAI and IFAC has been finalised to a large extent, and INTOSAI has started to publish the auditing standards for public sector auditor under the name ISSAIs in a manner to cover IFAC standards. When this work is completed, considering ISSAIs will satisfy the requirements of the above-mentioned law in Turkey.

Standards to be considered

Following International Auditing Standards (published by INTOSAI) shall be considered in the regularity audits:

- *Founding Principles (ISSAI 1 Lima Declaration)*
- *Prerequisites for the Functioning of Supreme Audit Institutions (ISSAI 10-40)*
- *Fundamental Auditing Principles (ISSAI 100-400)*
- *Auditing Guidelines*
- *General Auditing Guidelines on Financial Audit (ISSAI 1000-2999)*
- *General Auditing Guidelines on Compliance Audit (ISSAI 4000-4999)*

5. Regularity Audit and Risk

System/Risk Based Auditing

The objective of the regularity audit is to obtain reasonable assurance that the accounts and transactions, and the financial reports and statements of auditees give a true and fair view, in all material respects, of its financial status and activity results, in accordance with the applicable financial reporting framework. It also aims at obtaining reasonable assurance that the accounts related to revenues, expenditures and assets as well as other accounts and transactions are in compliance with laws and other legal arrangements. Assurance related to an entity's financial reports and statements, and accounts and transactions can be obtained in two ways:

- *Through assessing internal controls (assurance from controls),*
- *Through examining accounts and transactions (assurance from substantive procedures).*

If the auditor reaches the conclusion that the internal controls in an entity are reliable, this means that the auditor obtains sufficient assurance from the internal controls. However, the reliability of internal controls does not necessarily mean that the audit engagement is completed. The auditor shall also obtain assurance through examining accounts and transactions. Regularity audit shall be conducted based on the assurance obtained from these two sources. The amount of work when the auditor obtains assurance from internal controls is far less than the amount of work to be performed when the auditor decides to obtain the assurance from the accounts and transactions as a whole. This would be cost-effective and timesaving. To obtain assurance from internal controls, the auditor shall be able to identify risks related to the entity through understanding the entity in all its aspects; understanding and evaluating the control environment in which the entity operates, accounting and IT

systems; and to design the audit based on these risks. Hence, this method is described as system or risk-based auditing.

Audit Risk

While operating, the entity faces several risks associated with its field of operation, its size and business environment as well as the legal environment in which it operates. The entity management develops strategies in order to define the risks associated with their fields of activity and to take measures against these. Nevertheless, not all risks are associated with financial transactions. The auditor deals solely with the risks that have an impact on financial transactions. Considering the risk assessment done by the auditee, the auditor conducts his own risk assessment and plans the audit accordingly. Besides, there are risks associated with the audit activity itself. This chapter only provides a general framework as the topic risk assessment is elucidated in the subsequent chapters of this manual.

The auditor obtains audit evidence regarding whether the financial reports and statements are presented in compliance with the applicable reporting framework and are true, reliable and free from material misstatement; and then, evaluates this evidence. The concept of “reasonable assurance” is also an indication that the auditor might express an inappropriate (erroneous or incorrect) audit opinion. Audit risk refers to the risk of an auditor to express an inappropriate (erroneous or incorrect) audit opinion, where the financial reports and statements include material misstatement.

In compliance with his audit assertions, the auditor shall design his audit plan in a manner to reduce audit risk to an acceptable low level and conducts his audit accordingly. The auditor reduces the audit risk through designing and conducting audit procedures to obtain sufficient appropriate audit evidence with a view to reaching an acceptable result over which the auditor grounds his opinion. Reasonable assurance is obtained when the auditor reduces the audit risk to acceptable low level.

In designing his audit procedures, the auditor assesses material misstatement in terms of both the financial statements as a whole and the account types, account balances and footnotes in order to decide on whether the financial statements include material misstatement.

Audit risk is composed of three elements: control risk, inherent risk and detection risk.

Inherent risk refers to the risk that the financial statements may include a misstatement that can be regarded as material under the circumstance that the entity’s internal control mechanism is not considered. For instance, the risk that the transactions requiring complex calculation include material misstatements higher in comparison with those that require simple calculation.

Control risk refers to the risk that a misstatement that could be material will not be prevented, or detected and corrected, on a timely basis by the entity’s internal control system.

Inherent risk and control risk are entity’s own risks and occur independently of the audit of financial statements. The auditor shall assess the risk of material misstatement in respect of account areas and at the level of audit assertions. This assessment is based on the auditor’s judgement, rather than being a precise risk measurement.

Detection risk refers to the risk that the procedures performed by the auditor will not detect a misstatement that exists and that could be material. Detection risk cannot be reduced to zero due to auditor’s inability to examine every single transaction, account and record of an entity, and due to other factors, even if the auditor is able to do so. Among these other factors are the selection of an inappropriate audit technique by the auditor, implementation of the audit techniques incorrectly or misinterpretation of audit results. However, the emergence of other risk factors may be prevented or

their impact may be eradicated through sufficient and appropriate planning, selecting the right audit team and appropriate guidance, as well as the control and supervision of audit work.

Detection risk relates to the nature, timing, and extent of the audit procedures that are determined by the auditor to reduce audit risk to an acceptably low level. The greater the risk of material misstatement the auditor believes exists, the less the detection risk that can be accepted. Conversely, the less risk of material misstatement the auditor believes exist, the greater the detection risk that can be accepted.

6. Audit Documentation

Purpose of Documentation

ISSAI 1230

The objective of the auditor is to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor's report; and*
- (b) Evidence that the audit was planned and performed in accordance with international standards and applicable legal and regulatory requirements.*

The auditor shall document the audit evidence obtained to form an audit opinion on the accuracy and reliability of the financial statements, and the assessment results of these throughout the audit. An appropriate documentation not only improves the quality of the audit, but also serves as a proof that the audit was conducted in compliance with the legal arrangements and International Auditing Standards.

Audit documentation serves to the purposes of:

- Providing support to the audit team in audit planning and execution;
- Providing assurance as to whether all the phases of the audit have been completed;
- Forming the basis for *drafting the audit report*;
- Helping the members of the audit team that are responsible for supervising the audit in *managing, supervising and reviewing the work performed*;
- Providing significant records for future use that are related to continuing *significant events and may be of use for subsequent audit teams that will audit the entity in the future.*

Documentation encompasses all kinds of records, documents and information, which are prepared or obtained by the auditor, and associated with the conduct of audit. Audit documentation includes the preparation of working papers, filling out the forms annexed to the manual, obtaining and keeping other documents that are in the nature of audit evidence.

Working Papers

Working papers are the documents whereby the auditor records the audit procedures performed, the information obtained and the conclusions reached as a result of his examinations (See Annex 1). Beyond having the nature of being audit evidence, the working papers shall help the auditor follow the auditing standards, audit procedures and techniques.

The planning, nature and timing of the audit as well as the scope and results of the audit procedures and techniques performed and the conclusions reached from the audit evidence based on these shall be recorded in the working papers. The working papers shall include any significant matters addressed by the auditor, and the professional judgment of the auditor on these matters.

Since the documentation of each matter examined throughout the audit would be challenging in practice, the auditor shall determine the scope of the audit documentation based on his professional judgement.

A guiding principle is that the working papers shall include clarification regarding the audit evidence obtained, sufficient to allow the other auditors who examine all of the evidence to come to the same conclusions as the auditors.

The preparation of working papers in a complete and correct manner is under the responsibility of the auditor. The team leader reviews all the working papers prepared by the auditors in their teams, while the head of audit group reviews the working papers prepared by the team leaders and those reviewed by the team leader, which he considers necessary.

Working papers shall have the following characteristics:

- Working papers shall be complete and accurate enough to corroborate the findings, conclusions and recommendations.
- Working papers shall be clear and concise. Without supplementary oral explanations, anyone using the working papers should be able to understand their purpose, the nature and scope of the work done, and the conclusions reached by the auditor.
- The information provided shall be limited to those related to significant matters and be associated correctly with the audit assertions.
- Working papers shall be prepared in a logical order easy to follow, and cross-references shall be made to relevant documents.

Storage of Audit Documentation

The working papers, the forms annexed to the manuals and relevant documents prepared in the course of audit work shall be kept in two files based on the life cycle and purpose of the information contained: Current Files and Permanent Files.

These files corroborate each other and cover all matters the auditor needs and benefits from while drafting his audit report.

The information and documents relevant to the year when the audit is performed shall be kept in the current file, while those that would be used in the future audit engagements shall be kept in permanent file.

Current File

The current file includes working papers, filled-in forms and other relevant documents and information prepared by the auditor applicable to the current audit year. The main documents included in the current file are listed as follows:

- *All working papers,*
- Forms,
- Legislation related to the entity,
- Financial statements of the year audited,
- Audit plan,
- Audit program,
- Audit reports.

Permanent file

Permanent file refers to the file that includes the information and documents that have a continuing and unchanging nature and may be of use in the ensuing audit engagements.

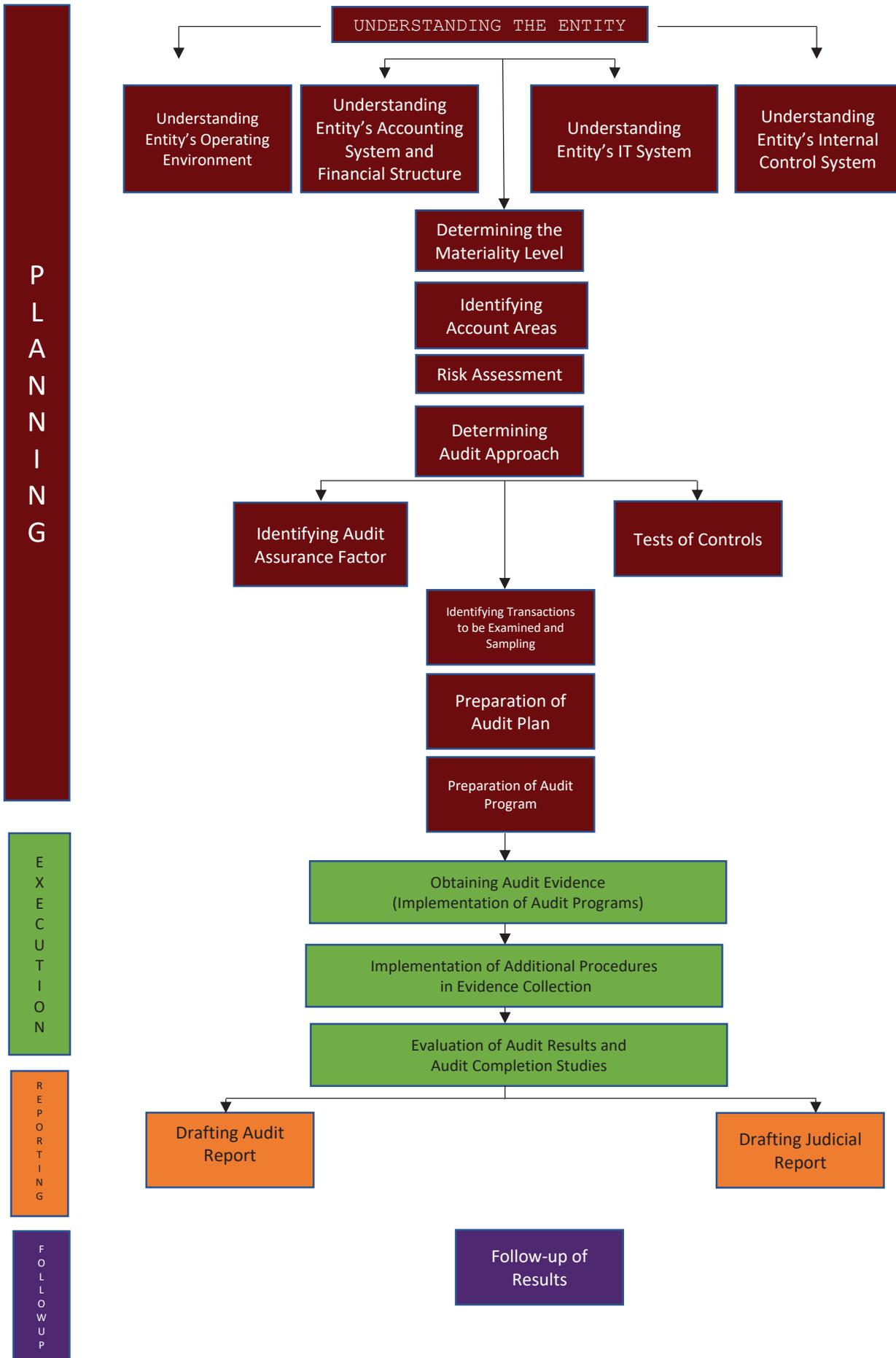
After finalizing the audit, the auditor reviews the current file and transfers the information and documents that might be used in the ensuing audits from the current file to the permanent file.

The main documents included in the permanent file are listed as follows:

- Audit plan,
- Audit program,
- Audit reports.

The current and permanent files are stored in the archives of the audit groups and reviewed periodically to keep them up-to-date.

Regularity Audit Process Flow Chart



PLANNING



Planning an audit involves determining the audit approach, the audit procedures and evidence gathering techniques to be performed, the tests of controls, and the nature of the audit programs and the timing of the audit in respect of each entity and based on the information obtained through understanding the entity by the audit teams.

The planning phase of the audit is grounded on the auditor's understanding of the auditee. The purpose of planning is to ensure an effective, efficient, economic and timely conduct of regularity audit.

Albeit being the first phase of the audit activity, audit planning is concerned with the audit process as a whole. At the planning phase, it is possible to reach various audit findings apart from the act of planning.

Understanding the auditee requires considerable time; therefore, the audit planning constitutes a significant part of the time allocated for the audit activity, particularly in the first-year audits. However, in the ensuing years, the time allocated for audit planning will be shortened largely, as it will only include the update and evaluation of the new developments.

As is the case with every phase of the audit, particular attention shall be given to audit documentation at the planning phase so that the works performed and the conclusions reached could be used in future audits.

At an audit engagement, planning shall help the auditor:

- concentrate the audit on significant and risky areas,*
- define potential problems in a timely manner and find solution to these,*
- organize and manage the audit effectively and efficiently,*
- direct the audit and review the works performed,*
- assess the need for the involvement of an auditor's expert.*

1.1 UNDERSTANDING THE AUDITEE

1.1.1 Introduction

ISSAI 1315

The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for assessing the risks of material misstatements and designing and implementing audit procedures to the assessed risks of material misstatement.

Understanding the auditee is the most significant and fundamental phase of the audit process. Reaching the audit assertions largely depends on the results derived at this phase of the audit.

In order to conduct an effective, efficient and enriching audit, the auditor shall have an understanding of the auditee, the legislation, events, transactions and institutional practices that have a significant impact on entity's financial reports and statements.

Planning phase is based on the auditor's understanding of the *auditee*.

Understanding the auditee shall enable the auditor:

- *To define the risks related to the entity's operations and internal controls, and to assess the likelihood of their causing material misstatement in the financial reports and statements; thereby, identifying risk areas to be addressed during the audit;*
- *To determine the materiality level to be used in the audit,*
- *To determine the type and timing of the audit, and the scope of the audit procedures to be performed during the audit regarding the specific phases of the audit or all the audit process.*

Having sufficient information regarding the auditee shall guide the auditor in executing the audit and evaluating the data obtained at this phase.

Understanding the auditee is not only related to the audit planning phase; but it is also an ongoing process throughout the audit.

Understanding an entity that is to be audited for the first time shall be a comprehensive activity that requires the auditor to expend a great deal of time and effort. In the ensuing audits of the entity, the auditor shall also perform the work for understanding the auditee; however, this work shall require less time and effort on the part of the auditor.

The auditor shall update and re-evaluate information gathered in previous audits to determine whether it is still valid and relevant, and identify the matters where there is still need for further information. The auditor shall decide on the sufficiency and appropriateness of the information related to the entity.

1.1.2 Understanding Entity's Operating Environment

1.1.2.1 Resources for Understanding the Entity

Although the entities bear similar features, the auditor shall evaluate a set of factors affecting the operations of the entity and therefore, its financial transactions and statements apart from the features unique to each entity. In general, these factors are as follows:

Legal arrangements: refer to the financial or non-financial legislation concerned with the operations of the entity, particularly, to its laws of establishment.

Secondary legislation: refers to the legal texts either corroborating or clarifying the legal arrangements such as implementing regulations, communiqués, circulars, general official letters, rulings and tariffs of fares, etc.

The auditor shall detect and notify the Presidency of the TCA of the secondary legislation such as implementing regulations and regulatory proceedings related to financial matters issued by the public entities within the scope of the general government and that are put into effect without receiving the approval of the TCA.

Institutional data: refers to the entity's financial statements, strategic plan, performance program, budget, accountability report, financial statistics and other relevant documents.

Authority of the Ministry of Finance over the entity: refer to the authority of the Ministry of Finance to designate and influence the activities of the entity, and the way this power is used.

Relations of the Auditee with its affiliated or related entities: refer to the scope of the control mechanisms implemented on the auditee, whether or not the auditee produces financial statements independently of its affiliated entity as well as the dimension of the relations among other units with respect to the preparation of consolidated financial statements.

Relations with other institutions and organizations: refer to the relations with the entities (not affiliated or associated) such as land registry offices and banks whose data is used for external confirmation related to the financial transactions of the entity.

Political climate: refers to the influence of the government, the General Assembly, the media and the pressure groups on the activities of the auditee and their reporting.

Powers of the entity: refer to the powers of the auditee to issue and enforce legislation and to control its enforcement.

Environment in which the entity operates: refers to the sector or economic environment in which the entity operates.

Reports that were prepared or required to be prepared concerning the entity: refers to the audit reports and other reports related to the entity's operations prepared by the TCA, internal audit units and other auditing entities.

Denunciations and complaints: refer to denunciations and complaints regarding the entity that are notified to the TCA or the headships of auditing groups and may result in financial consequences.

Possible developments: refer to possible legal and administrative changes and their impacts on the activities and operations of the entity.

Functions and objectives of the entity: refer to the arrangements related to the functions and objectives of the entity established in its relevant legislation, strategic plans and accountability reports.

Institutional structure: refers to the organizational structure of the entity, delegation of duties and powers, communication policies.

Legal disputes: refer to the legal disputes leading to financial consequences, whose parties are the units within the entity or the entity itself.

Accounting system and financial structure: refer to the legislation that the entity is subject to in the accounting of the financial transactions, the accounting system used and financial reporting process.

IT system: refers to the IT system that the entity utilizes in the reporting of its financial transactions and in the administrative procedures.

Entity's human resources management: refers to the human resources policies and procedures, and the training policies.

Risk assessment: refers to the entity's activities for defining, assessing and managing the risks.

Internal audit activity: refers to the existence of an internal audit, its functional independency, activities and effectiveness.

1.1.2.2 Methods for Understanding the Entity

The auditor shall examine and evaluate the above-mentioned resources through employing the methods described as follow:

- Document examination of resources,
- Interview with the entity management,
- Review of the entity's *website, articles in the press or other media,*
- Observation of the entity's operations,
- Performance of preliminary analytical procedures,

Preliminary analytical procedures: In understanding the entity, the auditor may use the preliminary analytical procedures from among the audit procedures.

Preliminary analytical procedures shall help the auditor:

- Increase the level of his knowledge of the *auditee,*
- Identify the potentially risk areas,
- Plan the nature, timing and scope of other audit procedures.

Within the scope of the preliminary analytical procedures, the auditor may perform the following works:

- Comparison of data provided in the financial statement,
- Assessment of the relation between the financial and non-*financial information,*
- *Examination of the information from the current period and those from the previous periods through benchmarking,*
- Benchmarking with a similar entity's information,
- *Evaluation of the budget.*

Although the nature and scope of the preliminary analytical procedures used in understanding the entity depends on the auditor's professional judgement and appraisal, these are at a more simple level in comparison with the analytical procedures performed at other phases of the audit. The auditor

shall evaluate the results reached through analytical procedures together with the results of other methods he performed to understand the entity.

The work performed at this stage for understanding the entity constitutes the basis of the work related to the entity, and shall be enriched as more detailed work is performed. At this phase, the auditor shall acquire information sufficient to understand the entity's organizational structure, the roles and responsibilities at unit level, the basic items of the expenditure, revenue, asset and liabilities, legislation specific to the entity, the main operations of the entity and the objectives related to these, planned resource allocation and performance indicators.

As part of the work for understanding the entity, detailed guidance is provided in this Manual in the ensuing chapters related to understanding the entity's financial structure and accounting system, IT systems, internal controls and internal audit work.

The auditor shall include his work related to above-mentioned resources for understanding the entity in his working papers.

While performing works for understanding the entity, the auditor shall at the same time list the entity's inherent risks (See 1.4 Risk Assessment)

When the work for understanding the entity is finalized, the auditor shall prepare the Control Form for Understanding the Entity in Annex 2, and submit to the approval of the head of audit group.

Within the scope of the understanding the entity, the auditor shall perform the following work in order to have an understanding of the financial structure and accounting system of the entity through considering the applicable implementing regulations, communiqués, circulars and standards relevant to the budget and accounting system the entity is subject to:

- Determining the accounting system implemented by the entity,*
- Determining the types and periods of the financial statements the entity prepares or is required to prepare,*
- Examining detailed account plan in which the framework account plan and sub codes are used,*
- Identifying accounting transactions specific to the entity's operations,*
- Examining the realisation processes of the accounting transactions,*
- Identifying documents corroborating accounting records,*
- Looking into the in-house reporting process relevant to financial statements and accounting,*
- Examining the entity's budgetary process.*

In addition to the entity's accounting system, the auditor shall examine the items such as the entity's revenue sources and types, types of expenditures and main expenditure items, and assets and resources in order to understand the financial structure of the entity.

1.1.3 Understanding the Entity’s IT System

Within the framework of the regularity audit, the objective of understanding the entity’s IT system is to examine and evaluate the internal controls that ensure the security and reliability of the operations and applications of the IT system used by the auditee.

Within this framework, the auditor shall:

- Have knowledge of the relation between the financial statements and the supporting transactions made in the electronic environment;
- Decide on whether to use the knowledge of the expert auditor, specialized in the field of IT system audit;
- Consider the impact of the IT system both at the entity’s level and in the risk assessment in respect of each account area;
- Examine system controls, and report the deficiencies he identifies during the examination together with his recommendations.

The auditor shall identify which operations are conducted in electronic environment (through using IT system) and the outputs of which systems have an impact on the accounting and financial statements. To do this, the auditor shall use the Annex 3 - the Form for Identifying Account Areas Affected from IT Systems that illustrates the work performed, the supporting IT systems and the impacts of these on the account areas.

By filling-out this form, the auditor shall identify the outcomes of the systems (programs) used that affect the financial statements and those that have no effect. In the regularity audit, since the systems with financial nature are significant, the auditor shall consider the system or systems relevant to the account areas. The auditor shall learn and test the process related to the transfer of data from the system to the accounting, and decide on whether assurance can be obtained from the system while assessing the risk in account areas. The way the form is filled-in is exemplified as follows:

Form for Identifying Account Areas Affected from IT Systems

No	Work Performed	IT System (Software) Supporting the Work	Account Areas Affected
1	Wage payment	Payroll Software	Personnel Costs Revenues
2	Document Flow Tracking	Document Tracking Software	-
3	Progress Payment	Progress Payment Software	Investment Costs Revenues
4	Allowance Tracking	Allowance Software	All Account Areas and Regulatory Accounts for Allowances
5	Revenue Collection	Revenue Collection Software	Own Revenues
6	Transactions related to Movables	Movable Assets Tracking Software	Accounts related to movables

After identifying the IT systems affecting the account areas, the auditor shall assess the existence and effectiveness of the system controls through using the Evaluation Form for Basic Level IT System Control in Annex 5(See 1.1.4.4 Assessment of IT Systems Control)

1.1.4 Understanding the Internal Control System of the Entity

Understanding the auditee's operating environment, accounting system and IT system shall help the auditor detect the inherent risks of the entity at the beginning of the audit.

Understanding the internal control performed as another element of understanding the entity shall allow the auditor to identify the risks resulting from the internal control and to determine the account areas affected from these risks as well as the audit assertions.

Internal control is an integral process that is implemented by all the personnel under the supervision of an entity's management and is designed to provide reasonable assurance to the public and the authorized bodies of accountability in pursuit of the entity's objectives and mission, with the following general objectives:

- Executing efficient and effective operations;*
- Reliability of financial transactions and reports;*
- Complying with applicable laws and regulations;*
- Safeguarding resources.*

In this respect, the internal controls are composed of the control system, institutional structure, methods and processes.

Through employing his professional judgement, the auditor shall understand and assess the internal control system of the auditee. The work towards understanding the internal control includes acquiring knowledge of the design and functioning of the internal control system. The purpose in assessing the internal control system is to determine whether the internal control system has the capacity to prevent, detect and eradicate significant errors.

There may be many control mechanisms serving to different purposes in the auditee. The auditor shall address those that are affecting the financial activities, decisions and transactions of the entity. In understanding and assessing the internal controls, the auditor shall consider the legal requirements concerning the establishment and functioning of the internal control.

While auditing a public entity, the legislation related to the internal control system shall be taken into account, and the extent to which the auditee has fulfilled the requirements of the legislation shall be evaluated. Moreover, considering the in-house procedures, circulars and notifications, the auditor shall identify the controls that are established by the entity and the extent to which these are implemented (established by the Ministry of Finance within the framework of the Public Sector Internal Control Standards for the public entities within the scope of the central government, COSO model, INTOSAI Guidelines for Internal Control Standards for the Public Sector and European Union Internal Control Standards).

1.1.4.1 Methods for Understanding the Internal Control System

In understanding the internal control system, the auditor shall benefit from the legislation related to the public financial management, the organizational structure of the entity, institutional legislation issued by the entity management (such as circulars), work-flow charts, job descriptions, the entity's account plan and accounting regulation, reports of internal auditors, accountability reports of the entity, internal control assurance statement and external audit reports pertaining the previous years, etc.

The auditor shall use the following methods to examine and evaluate the internal control system from the above-mentioned resources:

- Receiving oral/written debriefing from the entity management and staff at other levels;
- *Examining records and documents,*
- Observation of activities,
- Examination of *workflow and process maps,*
- Examination of method and system documents,
- Meeting with internal auditors,
- Verification from the third parties and/or experts,
- Visit to the organizations and facilities of the entity,
- Benchmarking internal control *mechanism and the examples of good practices,*
- *Reviewing the works of the internal control harmonisation unit.*

1.1.4.2 Elements of Internal Control

The main objective of the internal control system is to ensure that the management performs effective and efficient work, produces reliable financial reports and complies with the legislation. To achieve this objective, an effective internal control system shall have five elements as listed below:

- Control Environment,
- Entity's Risk Assessment,
- Control Activities,
- Information and Communication,
- *Monitoring and Follow-up process.*

After his examination by considering these elements, the auditor shall evaluate:

- Whether the internal control system is established as laid down in the legal arrangements *and the internal controls are operating effectively;*
- *Whether the operations required to be performed by the entity in relation to internal controls have materialized.*

In his evaluation, the auditor shall also inquire the activities specified in the entity's internal control standards action plan based on the fundamental standards published for each internal control element and overall requirements for the standards and the realization of these activities.

The auditor shall, on the other hand, identify the risks arising from the internal controls and the account areas affected by these risks through detecting control deficiencies and weaknesses that

may lead to material misstatement in the accounts and transactions, and hence, in the financial reports and statements of the entity, as a result of his examination on the elements of internal control. The auditor shall obtain reasonable assurance on the controls at the level of financial statements as a whole and the level of account areas.

1.1.4.2.1 Control Environment

Control Environment is the most comprehensive and fundamental element of the internal control.

The control environment is composed of several elements such as the entity's organisational structure, history, corporate culture, working principles, risk perception, management philosophy, system infrastructure and objectives, etc. The effectiveness of the internal control system is based on the effectiveness of the control environment.

Main factors affecting the control environment are listed as follows:

- Supportive attitude of the senior management towards internal control,
- Pre-established principles of personal and professional integrity,
- Commitment of management and staff to ethical values,
- An institutional structure with well-established areas of basic powers and responsibilities, as well as appropriate reporting methods,
- A human resources management that assess the professional competencies and performance of the staff.

To understand and evaluate the entity's control environment, the auditor shall *determine whether:*

- the entity has ethical values and codes of conduct, and the personnel is aware of these rules and values;
- the entity's mission and the job descriptions of the personnel and units have been established in writing and notified to the personnel;
- an effective in-house organizational structure has been established;
- the qualifications of the entity personnel are in compliance with their assignments;
- the entity has taken any actions towards assessing and increasing the performance of its personnel;
- the authorities are clearly established and these exist written arrangements related to the delegation of authority.

1.1.4.2.2 Entity's Risk Assessment

Entity's risk assessment is the act of identifying and *analysing the risks stemming from internal and external factors to the achievement of entity's aims and objectives and assessing their materiality with respect to their impact and the likelihood of their occurrence.*

Institutional risk assessment is an ongoing and iterative process performed through considering the changes to the existing circumstances. The entities assess risks both external and internal to the achievement of its aims and objectives specified in its strategic plan and performance program. For institutional risk assessment, primarily, the institutional objectives shall be established

and then, the risks to the achievement of these shall be identified and assessed in an effective and efficient manner; the level of acceptable risks shall be determined and these risks shall be managed.

While examining the risk assessment process of the entity, the auditor shall evaluate how the entity has identified the risks that are likely to affect its financial reports and statements; the way the entity foresees the likelihood of their occurrence and determines the level of acceptable risk and the kind of decisions taken by the entity to manage these risks.

Through benchmarking the institutional internal control action plan and the actual realizations, the auditor shall evaluate the extent to which the entity abides by the requirements of the published standards through its risk assessment.

The auditor shall evaluate the risks and the possible effects of these on the financial reports and statements. The auditor shall investigate the reasons underlying the management's inability to recognize those risks that cannot be identified by the entity but are likely to affect financial statements, and shall have an idea on the effectiveness of the risk assessment process.

The entity's having an effective risk assessment process shall contribute to the risk assessment of the auditor and provide data to the risk assessment to be performed by the auditor. In cases where the auditor decides that the entity's risk assessment is insufficient, the auditor shall consider this insufficiency in the overall assessment of the internal control.

As an element of internal control, the institutional risk assessment affects the entity's design of appropriate control activities.

1.1.4.2.3 Control Activities

Control activities are the policies, procedures, techniques and mechanisms established by the entity management in order to manage the risks to the achievement of institutional objectives and to reduce such risks to acceptable low level. Control activities help ensure that the risks to the achievement of the entity's objectives are detected, and required measures are taken against these risks.

Control activities are carried out at all organizational and functional levels. Control activities include a range of activities, involving also authorization and approval procedures, verifications, reviews of performance, security and the appropriate documentation system such as keeping and maintaining constantly the required records evidencing the performance of such activities.

The entities may have different control activities based on the differences in the risks faced and institutional objectives, management philosophy, organizational size and complexity, operating environment, the confidentiality and significance of the data produced, reliability and appropriateness of the internal control system and the requirements for its performance.

Control activities are grouped under three main headings:

- Preventive control activities aim at preventing the possibility of an undesirable operation or outcome being realised, and at creating a deterrent effect. Assignments made based on the principle of segregation of duties can be given as an example of preventive controls.*
- Detective control activities are implemented to detect undesirable operations. Activities such as reviews, reconciliations, benchmarking are among the detective control activities.*

• Corrective control activities are performed to correct undesirable operations. Correction of *material misstatements identified in the payment order can be given as an example to this type of control activities.*

1.1.4.2.4 Information and Communication

Management's ability to make appropriate and timely decisions is affected by the existence of *information that should be appropriate, timely, current, accurate and accessible.*

The auditor shall evaluate the entity's environment where the information is produced or *obtained, and communicated to relevant persons in an accurate, timely and appropriate manner. The auditor shall also consider whether the entity's information system includes the recording of all transactions in order to secure the accuracy of financial reports.*

1.1.4.2.5 Monitoring

Monitoring is the review and assessment activity performed to increase and maintain the quality of the internal control system.

The auditor shall examine and evaluate the monitoring of controls performed by the senior management. The auditor shall determine whether these exists a unit or commission responsible for monitoring and assessment of internal control; obtain its annual assessment reports and investigate the extent to which the recommendations and the measures specified in the reports have been realized.

The auditor shall fill-in the Evaluation Form for Internal Control in Annex 4 through using the information obtained by understanding the internal control in respect of its five elements.

1.1.4.3 Assessment of Internal Audit Activities

ISSAI 1610

Where the entity has an internal audit function, the auditor shall:

- *determine whether the work of the internal audit function can be used, and if so, in which areas and to what extent;*
- *If using the work of the internal audit function, determine whether that work is adequate for purposes of the external audit.*

The auditor shall consider the internal audit activities and their impact on the financial reports and statements.

Internal audit is a counselling and guidance activity that provides independent and objective assurance on the economic, effective and efficient management of the resources with a view to adding value to and improving the operations of the auditee.

These activities are performed within a systematic, continuous and disciplined approach and in line with the generally accepted standards to evaluate and improve the management and control structure of the entities and the risk management of their financial transactions as well as the effectiveness of their management and control systems.

Assessment of internal audit function includes the sufficiency of their scope, the audit procedures performed and the appropriateness of the conclusions drawn. This assessment shall be done by considering the following matters:

- *Whether the internal audit function is performed by authorized personnel having the qualifications required by the applicable legislation and the necessary certificates, and whether the work of the internal auditor is controlled, reviewed and documented appropriately;*
- *Whether sufficient audit evidence has been obtained to reach reasonable audit results,*
- *Whether the results reached are appropriate and are included in the reports;*
- *Whether the irregularities and incompliance reported by the internal audit function are handled properly by the entity management.*

The audit procedures to be performed in the assessment of internal audit function may include re-examination of the transactions that have already been examined by the internal audit, examination of other similar transactions and monitoring of the internal audit procedures.

In the light of the above criteria, the auditor shall assess the reliability of the internal audit function, and whether the work of the internal auditor is appropriate to the purposes of the audit. This assessment shall also include the selection of matters from among the internal audit works that are to be used in the audit.

After assessing the internal audit function, the auditor shall fill in the relevant part of the Evaluation Form for Internal Control System in Annex 4.

1.1.4.4 Assessment of IT Systems Control

After understanding the entity's IT systems, the internal controls of IT systems shall be assessed within the framework of integrity, accessibility, compliance, reliability, efficiency and effectiveness.

Auditor shall obtain reasonable assurance for relying on the information produced by the IT systems.

E-state and other IT projects that are being developed by the entity, if any, shall be examined. In this case, the auditor shall assess whether the necessary control mechanisms are established to ensure the execution of projects (that are realized for transferring the public services to electronic environment, amending or integrating those) are in compliance with the legislation, the projects meet the information security requirements and projects are completed in proper quality to meet the users' satisfaction within the planned budget and the budgetary and time limits.

Risk based audit approach is adopted in the assessment of controls. Accordingly;

- *Risks related to the examined audit/control area are identified,*
- *Control mechanisms that would minimise the risks are identified,*
- *An assessment is made on whether the control mechanisms are established, and if yes, whether these mechanisms work effectively,*
- *Significant control weaknesses are reported.*

The auditor shall use Appendix-5 Form on the Assessment of Controls on Information Systems while assessing the controls.

The control weaknesses that are identified by the information systems controls via this form shall be evaluated with regard to the account areas affected by the transactions that are processed within these systems. The account area that is affected by the transactions processed in informatics environment shall be regarded as risky and examined more in focus, and the number of substantive tests on this account area shall be increased.

The findings including the recommendations, if any, related to the identified weaknesses shall be included in the report in order to inform those concerned and to ensure that the necessary measures are taken by the entity.

The related form is prepared as to bring the assessment activities into force. Usage of the control questions in the form completely or partially, or making additions to those questions are up to the auditor's decision. The related control questions are designed to accelerate the process and are not restrictive.

If the auditor needs to examine information systems controls in more detail, he/she may use 'TCA Information Systems Audit Manual' and related legislation, international standards and other framework documents.

Information systems controls may be examined in the following categories (control areas):

- *IT Governance/ Management Controls*
- *Information Security Controls*
- *Execution and Maintenance Controls*
- *Business Continuity and Disaster Recovery Planning Controls*
- *Implementation Controls*
- *Procurement Controls*
- *Project Management Controls*

IT Governance/ Management Controls

Entity's management is responsible for taking measures to ensure that the IT systems operate in accordance with the entity's goals and fulfils its functions correctly. The purpose of IT governance/management controls is to establish suitable management, decision making, guidance and monitoring mechanisms that comply with the institutional strategy and goals to provide a secure and sufficient informatics environment. These controls give the auditor reasonable assurance on the existence and effectiveness of the detailed controls in lower levels.

The basic controls that can be examined in this area are as follows:

- *The entity should have a written updated strategy related to the information systems approved by the top management and plans for implementation of this strategy.*
- *The entity should have an organisational structure enabling the information systems' governance/management activities effectively.*
- *Regular risk assessments should be conducted on information systems.*

- *Policies on information systems should be written, regularly updated and their implementation should be followed.*

Information Security Controls

Information security controls aim to ensure the confidentiality, accessibility and integrity of information portfolio. Particularly, whether the entity has established the necessary control for cyber security should be assessed primarily.

The basic controls that can be examined in this area are as follows:

- *Written procedures should be adopted for physical and environmental security.*
- *Preventive measures should be taken to prevent any unauthorized access to buildings, computer rooms and working areas.*
- *Procedures should be defined for users' access management.*
- *Usage of strong password should be an obligation.*
- *Access to systems and implementation programs should be recorded and monitored.*

Execution and Maintenance Controls

The execution and maintenance controls aim to ensure the operation of the systems in use with minimum problem and the continuity of the system.

The basic controls that can be examined in this area are as follows:

- *Service level agreements should be made.*
- *Monitoring and reporting of the services should be done.*
- *The entity should have incident and problem management systems, practices and procedures for recording, analysing and solving the incidents and errors.*
- *The entity should ensure that the management is notified about the statistics of incidents.*
- *The necessary resource capacity and performance need for IT services should be estimated and planned.*

Business Continuity and Disaster Recovery Planning Controls

The controls related to the business continuity and disaster recovery planning aim to ensure that the entity's functions continue and that the ability to process, access and protect data is not lost in case of a temporary or constant fail in information systems due to disasters.

The basic controls that can be examined in this area are as follows:

- *The entity should be ready for any business interruptions arising from internal or external factors which can or cannot be predicted beforehand. Therefore, management processes and organisation should be established for disaster recovery and business continuity.*
- *Business processes should be defined, and critical ones should be identified.*
- *Risk assessment should be made to identify the events or environmental factors*

that may suspend or damage the work flow or affect the entity or buildings adversely.

- *The effects of a loss or a malfunction on the main functions in case of a disaster should be assessed for all the risks that are identified through risk assessment, and necessary measures should be taken for preventing the possible loss or minimising the effects with an appropriate cost.*

Implementation Controls

The implementation controls aim to ensure that the data entries are done completely, timely and only for once; all the procedures and processes in digital environment are realized within the desired line and order; the reports are produced completely and reliably; the reports are delivered to authorized personnel and archived suitably.

The basic controls that can be examined in this area are as follows:

- *The technical documents, manuals and source documents related to application programs should be prepared.*
- *All data preparations, data entries and modifications in master files should be done within authorization; automatic control mechanisms should be established to prevent incorrect data entry; and incorrect or exceptional data entries should be reported.*
- *The procedures including detailed technical information should be determined that would guide the personnel responsible for data transfer, and there should be manual or automated controls ensuring that the data transfers are done correctly and completely.*
- *Work and time schedules should be prepared, and the operations can be restarted from the final point by the personnel in case of failure or problem.*

Procurement Controls

The procurement controls, including cloud information services, aim to minimise the risks related to the outsourced information system services like application development, operation, maintenance and back up services.

The basic controls that can be examined in this area are as follows:

- *The agreement with the contractor should include provisions on: information security, rights and obligations, service definitions and service delivery places, service quality indicators, requirements for back up and business continuity, criminal sanctions, audit procedures, service period and business hand over when service period ends.*

- *In case of the end or termination of service agreement, the necessary measures should be taken for the handover of software, hardware, data, etc. to the entity.*
- *The necessary measures should be taken against any intellectual property rights demand of the contractor over the software that is developed for the entity.*

Project Management Controls

The project management controls aim to ensure that project management approach, crucial for successful completion of the projects, is applied for e-state and other IT projects executed by the entity, if any; and thus ensure that the outputs and outcomes are attained in the planned time, scope and budget; the user needs are met; and the projects serve the entity's strategic goals.

The basic controls that can be examined in this area are as follows:

- *The necessary assessments and analyses should be made before the project.*
- *The project manager should be assigned, and appropriate project team should be formed.*
- *Project activities should be carried out, monitored and coordinated according to a plan.*
- *Project requirements and scope should be determined and documented.*
- *Activity list and time schedule of the project should be made and monitored.*

1.2 DETERMINING MATERIALITY

1.2.1 Introduction

ISSAI 1320

The auditor shall apply duly the concept of materiality in planning and performing an audit.

Materiality is the criterion used by the auditor in detecting whether the accuracy and reliability of the financial reports and statements are affected by errors or misstatements and if so, which errors or misstatements.

Materiality is used as a criterion in forming an audit opinion and is not a concept relevant to the judicial report prepared for the public loss detected in the course of the audit. The judicial report is prepared regardless of the amount of the public loss. In this respect, an error associated with public loss cannot be considered as immaterial, or cannot be disregarded.

Materiality is used at the same time as data in identifying the significant and insignificant account areas during the planning process and in the application of the sampling formulas.

1.2.2 Materiality by Value

If the financial amount of an error in the financial reports and statements changes the opinion of the users of these reports and statements, that error is regarded to be material by value. The materiality in the planning phase of the audit is determined only by value. The materiality determined at the planning process shall be reviewed and revised in the reporting phase.

Materiality level is the acceptable amount of error and is determined through applying the materiality rate to materiality base.

Materiality level should be determined by the audit teams, and may be determined by the Presidency if necessary. The audit opinion is given to whole financial statements based on the materiality level.

Additionally, materiality level can be determined by the audit teams for each account area

Materiality Base: According to the main operating field or objectives of the auditee, its total revenue or expenditure, or total profit is designated as the materiality base. For entities based on expenditure, the total expenditure; for revenue earning entities, the total revenue and for profit-based entities, the total profit is taken as the materiality base. Assets and owner’s equity can also be taken as materiality base.

Since the regularity audit is to be performed in the current year, to determine the materiality base, the auditor shall either consider the previous year data or make a yearly estimation regarding the current year data as of the month the auditor initiates the audit. In both cases, since the current year data become final at the reporting phase, the materiality base shall be revised as of the current year.

If the materiality level is determined by the audit teams on the basis of account area, the overall size of each account area will be taken as the materiality base.

Materiality Ratio: refers to the rate to be applied to the determined materiality base. With regard to the materiality level to be applied, the auditor shall pay due consideration to the established policies of the TCA regarding the auditee, the sector in which it operates or the overall entities under the scope of the audit. If not, the auditor shall determine the materiality level based on the information obtained through understanding the entity within the percentage ranges as mentioned below:

Percentage Ranges in respect of Materiality Base

Materiality Base	Percentage
Total Revenue/Expenditure	Between 0.5-2 %
Profit	Between 5-10%
Assets - Resources	Between 5-10%
Owner’s equity	Between 5-10%

(Source: European Implementing Guidelines on INTOSAI Auditing Standards)

The auditor shall determine the materiality level based on the percentage ranges as listed above and to the extent to which the decisions of the users of financial reports and statements are affected by the information provided in these reports and statement. For the public sector entities, the users of the financial reports and statements are the parliament and the public. Therefore, the auditor shall determine the level of interest of the parliament and the general public in the financial statements.

If the materiality level is determined on the basis of account area, different materiality ratio can be selected for each account area. However, the materiality ratio to be selected in this case shall be within the range determined for the above-mentioned materiality base to which the account area is related.

1.2.3 Materiality by Nature and Context

If the error affects a figure in the financial reports and statements that the users most likely to hope to be provided accurately, or is significant for the users of the financial statements, this error is material by nature. For instance, findings that include the cases of corruption such as misuse of public resources, embezzlement, etc. shall be considered as material regardless of its monetary value.

Likewise, if a subject matter has a significant materiality for the auditee, the errors associated with this subject shall be considered as material based on its effect, regardless of its monetary value. For instance, the errors that cause some of the accounts to be seen low or high; for instance, if the profit/loss status of the entity is changed due to lacking or excessive records; this error is regarded to be “material” although it is under the materiality threshold by value.

It is hard to assess materiality by nature and context at the planning phase; however, at the reporting phase, it can be determined based on the assessment made on the audit evidence. What is significant at this point is that the error is to be regarded as material by its nature and context, not by its monetary value.

1.2.4 Materiality in the Planning Phase

Planning materiality is in the core related to materiality by value. At the planning phase, the auditor shall calculate the highest tolerable error level that shall not impair the reliability of the financial reports and statements as a whole.

The auditor shall explain the underlying reasons for his selection of a particular materiality thresholds and materiality base in the working papers related to planning. Moreover, the auditor shall also include in the audit plan how the materiality level is calculated and the underlying reasons.

The working papers regarding how the materiality is determined shall be reviewed by the head of audit group.

1.2.5 Materiality in the Reporting Phase

Reporting materiality is used at the end of the audit while evaluating the effect of all the errors to the financial statements (See 2.2. Evaluating Audit Results). Again, in this phase, the auditors shall assess his findings by nature and by context along with the value. After assessing the audit findings at the end of the audit, the auditor shall revise the materiality level based on the realization figures at the end of the current year, if the materiality is to be considered solely by value, not by nature or context.

While evaluating materiality by value, the auditor shall pay attention to the errors that are relatively in small amounts, but when aggregated, have material effect on the financial reports and statements. The auditor shall consider the materiality both at the levels of overall financial reports and statements and of account areas.

Some errors, which are not regarded as material by value, might be regarded as material in terms of their nature and context. Evaluation of what is material by nature and context depends on the professional judgment and experience of the auditor.

1.3 IDENTIFICATION AND CLASSIFICATION OF ACCOUNT AREAS

1.3.1 Introduction

The auditor shall determine the account areas based on the accounts and transactions having similar features and processes and including similar internal control processes in the light of the information obtained through understanding the entity, particularly from its financial system and accounting system.

1.3.2 Identification of Account Areas

Account area refers to the group of accounts and transactions, which are of similar nature and processed in similar ways; exposed to similar inherent risks and subject to similar type of controls. While planning the audit, the auditor shall classify the accounts and transactions in the financial statements under different account areas based on the information obtained through understanding the entity. This classification can be done based on either the account codes in the detailed account plans or the subject matter and/or transaction.

The account areas of an entity can be identified based on:

- Main account groups such as 10 Cash and Cash Equivalents (Liquid Assets), 11 Marketable Securities,
- Accounts such as 100 Cash Account, 120 Account Receivables, 300 Bank Loans,
- Groups of topics and transactions such as revenues, salaries, furniture and fixtures, stocks, purchases, investments, treatment costs, etc.,
- Analytical budget system codes such as 03 Purchases of Goods and Services, 06 Capital Expenditures.

The auditor shall use his professional judgement in identifying the account areas. The auditor should find an appropriate balance between identifying too few account areas and too many. Identifying too few account areas would lead the auditor to fail in recognising the different characteristics of transaction streams and tailoring his approach accordingly. Identifying too many account areas would lead to unnecessary waste of time and resources and thus, renders audit inefficient. The most significant consideration is to identify the account areas in a manner to cover all the accounts and transactions of the entity and to pay due regard to not excluding any particular account or transaction.

Although the basic principle is not excluding any accounts or transactions in classifying the entity's accounts under account areas, there may be exceptional cases in which the scope of the audit may need to be limited not because of the auditee but due to the reasons explained below. The limitation in the scope of the audit may be in the form of excluding certain accounts and transactions from the audit or performing the audit on the accounts and transaction of the public entity in certain regions or provinces.

The circumstances that require scope limitation are listed as follows:

- The audit priorities established by the Board of Auditing, Planning and Coordination,
- Insufficiency of the workforce and time spared for the audit engagement,
- The auditee may have a countrywide operating environment,
- The auditee's all accounts and transactions may be too many and diverse to be audited in a single audit term.

The limitation in the scope of the audit may be notified to the auditor by the TCA Presidency in his letter of assignment, or the auditing groups may decide on limiting the scope of their audit based on the information gathered in understanding the entity. Such decisions on the scope limitations shall be notified to the auditee.

In cases where the audit group decides on limiting the audit scope, the content and justification of the limitation shall be explained in the audit plan.

In cases of such limitations, an audit opinion on the financial statement of the auditee, covering all the accounts and transactions, cannot be formed. In the audit reports, the audit scope shall be explained without providing any justification, and it shall be stated that the audit opinion is limited to the scope of the audit.

In cases of scope limitations that are not stemming from the auditee, the materiality base shall be calculated based on the scope of the audit, not on the overall transactions of the auditee.

The entity's account is distributed among the members of the audit team based on the identified account areas by the team leader with the approval of the head of the audit group. The account areas that are interrelated and required to be examined together shall be distributed among the team members to ensure that the audit is performed in an effective and coordinated manner. For instance, 120 Account Receivables, 600 Revenue Account and 800 Budget Revenue Account; 105 Currency Account and 106 Currency Transfer Account shall be examined by the same auditor.

Considering the evaluation of the account areas in respect of their significance during the audit process as explained below, changes may be done in the distribution of tasks; however, every auditor shall perform all the works related to the account areas under his responsibility by following the steps set forth in this manual.

1.3.3 Classification of Account Areas According to Materiality Level

In order to decide on the audit approach related to account areas, first the account areas shall be classified according to materiality level. Since the risks and controls associated with the account areas may be different, the audit approach related to these shall also be different. That is why the account areas are classified as significant/non-significant based on their impact on the entity's financial statements.

Significant account area refers to the group of accounts and transactions having the nature and size to influence the reliability and accuracy of the financial statements and about which the auditor is obliged to obtain sufficient appropriate audit evidence.

The main reasons for classifying the account areas as significant and non-significant are listed as follows:

- It may not always possible to examine all the accounts of an entity with the same focus and within the resources available.*
- For an effective audit, the auditor may be required to focus the audit on the significant account areas.*
- Risk may be higher at certain account areas.*
- At certain periods, the TCA may decide to concentrate its audit activities on particular areas.*
- The auditor may want to obtain control assurance solely for significant account areas.*

The auditor shall assess the significance of an account area according to its financial size or

nature. Although the materiality level is the main criteria used in determining an account area as significant or non-significant, the following circumstances are also possible:

- *The account areas, whose financial size is above the materiality level, but which are easy to examine and verify such as the social security payments may be identified as “non-significant”.*
- *The account areas, whose financial size is below the materiality level, but which are by nature significant for the users of the financial statements or the operations of the auditee, or open to misuse, may be identified as “significant”.*

Focusing the audit on the non-significant account areas may lead to waste of time and resources. Concentrating on the significant account areas does not necessarily mean that the non-significant account areas would never be audited. In order to obtain assurance for all accounts and transactions, the auditor shall conduct substantive procedures on the non-significant account areas at a minimum level at the execution phase of the audit.

1.3.4 Preliminary Work on Account Areas

One of the most important phases of the regularity audit is identification of the accounts areas and having sufficient information related to these account areas. Detailed examination of the transactions forming the account areas shall be done at the execution phase of the audit. However, a preliminary work shall be performed on the accounting records and financial data at the planning phase (within the scope of the preliminary analytical procedures) in order to help identify the risks related to account areas and determine the audit approach (See 1.5 Identification of Audit Approach). This work includes at minimum the following examinations on the accounting records and financial data pertaining to previous year(s) and the audit year through using computer programmes:

- *Significant increases and decreases in the amounts of liabilities-receivables in the statements such as monthly trial balances, trial balances and post-closing trial balances, etc. shall be assessed by years or months.*
- *The previous year closing records of continuing accounts shall be compared with the opening records of the current year.*
- *Reconciliation between the general journal, subsidiary ledger, general ledger and trial balance prepared by the entity shall be performed and the amounts shall be verified.*
- *The ledgers, tables and documents that are required to be kept related to the account area by the accounting regulations and other relevant legislation as well as the in-house circulars regarding the tracking and processing of the entity account shall be reviewed.*
- *It shall be examined whether there has been any reverse balance in the account at a certain period of time, and if the account is inter-operating with an account it is not supposed to be operating according to the legislation.*
- *The specific laws, regulations, implementing regulations, communiqué, circulars, etc., if any, regarding the accounting records shall be taken into account.*
- *The process from the start of the transactions related to specific accounts to their accounting shall be traced back and those who realized the transactions shall be identified.*
- *It shall be controlled whether the transactions are recorded to the right accounts and subsidiary accounts codes in accordance with the accounting area of the entity.*

1.4 RISK ASSESSMENT

1.4.1 Introduction

Risk is the likelihood of occurrence of the undesired events that would prevent the entity from reaching its strategic, financial and operational objectives.

Risk assessment is the assessment made by the auditor on the extent to which the inherent risks and the control risks that are faced by the entity and resulting from the ineffective internal controls or their ineffective operation have an impact on the entity's operations and cause material misstatement in the financial reports and statements of the entity.

Risk assessment is one of the important works in the planning phase and helps auditor obtain sufficient appropriate audit evidence with the minimum cost and within the shortest time. Risk assessment shall also guide the auditor in determining the amount of work to be performed and designing the audit procedures focused on significant matters.

The auditor shall determine and evaluate the material risks of error on the level of financial statements in general and on the level of significant account areas. For this purpose, the auditor shall:

- *Make a connection between the identified risks and the errors that may occur at the audit assertion level.*
- *Considers the possibility of the risks to create material misstatement in the financial statements.*

The auditor is also responsible for paying due regard to the fraud and its effects in his risk assessment.

1.4.2 Risk assessment process

In understanding the entity, the auditor shall obtain information regarding the operating environment and internal controls of the auditee. In line with the audit approach based on risk assessment, the purpose of understanding the entity is to obtain data for risk assessment. While understanding the entity, the auditor shall conduct risk assessment in line with the following process.

1.4.2.1 Assessment of Inherent Risks

1.4.2.1.1 Identification of Inherent Risks

Inherent risk refers to the risk that the financial statements include an error that may be material notwithstanding the internal control mechanisms of the auditee. While assessing inherent risks, the auditor shall consider the following factors:

- *Features of the entity such as the size, organisational structure and the complexity of its operations.*
- *Unusual Transactions: transactions falling outside the routine activities of the entity on which the personnel have less experience.*
- *The accounts and transactions that require the entity's management to make estimation and assessment: transactions that include management's estimations such as allowance for decrease in value of inventories, uncollectable receivables, etc.*
- *Assets susceptible to misuse: accounts and transactions related to default values, securities and stocks that are easy to convert money or stocks.*

- The complexity of its legislation or accounting practices,
- *The complexity of its IT systems.*

The factors affecting inherent risk are not limited to above listed factors, and some others may be added in accordance with the characteristics of each and every entity. The auditor shall identify inherent risks after considering all factors. All identified risks are listed.

1.4.2.1.2 Prioritizing Inherent Risks

All inherent risks shall not create the same effect on the financial reports and statements and account areas. The risks shall be ranked to identify the areas to focus the audit work. After identifying the risks that are likely to lead material misstatement, the auditor shall review all the inherent risks identified in order to focus his attention on the risks that may have the highest level of impact on the financial statements and thus, the audit approach. The priority to be given in the audit approach to each risk shall be designated based on the likelihood of its occurrence and if occurs, its impact on the financial statements. The inherent risks are prioritized based on the co-decision of the audit team members, since this prioritization shall have an impact on the overall audit process.

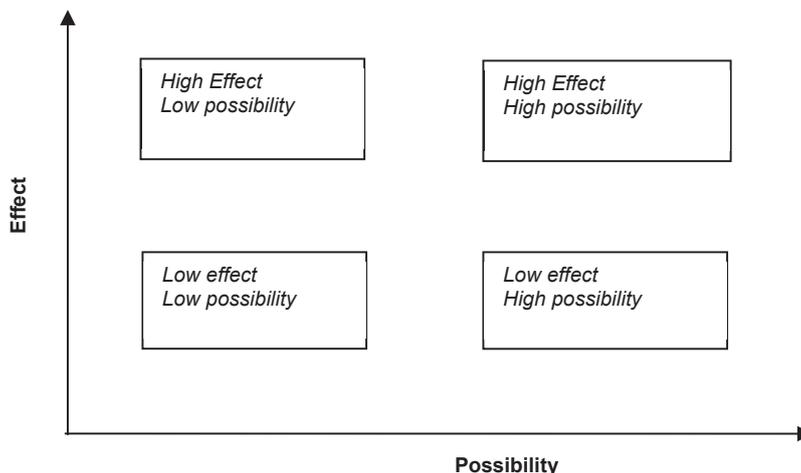
Inherent risks are prioritized considering the criteria as listed below:

High Impact/High Possibility: It is high likely that the risk would occur and have a high impact. Without prejudice to assessments on control risks, the audit may be focused specifically on the areas which are affected by these risks.

High Impact/Low Possibility: The likelihood of risk's occurrence is low; but, its impact would be high in case of its occurrence. The auditor shall always take these risks into consideration, reconsider the likelihood of its occurrence based on newly obtained information and design his audit approach in a manner similar to the case of high impact/high possibility.

Low Impact/High Possibility: Although it is high likely that the risk would occur, its impact would be low. Without prejudice to assessments on control risks, it may not be necessary to focus the audit on the areas that are affected by this risk. Nevertheless, the potential aggregated impact of the risks at this level on the same account area shall be taken into consideration.

Low Impact/Low Possibility: The likelihood of its occurrence is low; even if it occurs, it will create a low impact. Without prejudice to assessments on control risks, it may not be necessary to focus the audit on the areas that are affected by this risk. The following chart illustrates how risks are prioritized:



1.4.2.1.3 Identifying Account Areas Affected by Inherent Risks

Inherent risks may affect the account as a whole as well as multiple account areas. The auditor shall record each inherent risk identified during the phase of understanding the entity in the Inherent Risk Assessment Form in Annex 6. The auditor shall assess the impacts of inherent risks affecting significant account areas based on the prioritization of inherent risks and his professional judgement. In this way, the auditor shall reach an overall inherent risk level (high-low).

Inherent Risk Assessment Form (Sample)		
Account Area	High Risk Indicators	
Investments	Existence of international tenders	
	High number of tender	
	Diversified bidding topics	
	Service units located at different towns	
	Too many changes in the legislation	
	Inherent risk level identified for the account area	High/Low
Procurements	New tender legislation	
	Service units located at different towns	
	Increased rate of purchases planned by the auditee in the year audited in comparison with previous year	
		Inherent risk level identified for the account area
Salaries	Service units located at different towns	
	Diverse staffing structure such as public officers, officers working on contract basis, workers and others, etc. and the complexity of the legislation and salary calculations specifically related to the staff working based on contract	
		Inherent risk level identified for the account area
Revenues	Revenue generating activities being too technical and complex	
	Revenue generating activities being too diverse and conducted by physically distant units	
	Legislation regarding revenues being obscure and complex	
		Inherent risk level identified for the account area

The risk indicators and account areas in the form above are given as examples. The auditor shall identify by himself the account areas and low or high inherent risk indicators related to the auditee. Although it is possible to associate an inherent risk indicator with all account areas, this risk indicator may not affect each account area at the same level.

1.4.2.2 Assessment of Control Risks

1.4.2.2.1 Identification of Control Risks

Control risk is the risk that a material misstatement that may affect the financial statements could not be prevented, detected or corrected timely by the entity's internal control system. Control risk is relevant to the internal control structure of the entity. Therefore, in cases where the controls have been established properly and are operating effectively, the auditor shall rely on the controls. However, in cases where there is lack of controls or the controls are too weak or operating ineffectively, the auditor shall not rely on the controls.

The auditor shall detect the control risk through assessing the internal control system of the entity. While detecting the control risk, the auditor shall review in detail the control environment and other components that constitute the internal control system of the entity (See 1.1.4 Understanding the Entity's Internal Control System)

Based on his assessments regarding the elements of the internal control system and the information received from the units, the auditor shall detect the existing and lacking controls and assess whether there exist any control weaknesses.

1.4.2.2.2 Identification of Account Areas Affected by Control Risks

The auditor shall identify the account area(s) affected by the control risks and make a control risk assessment in respect of account areas. As a result of this work, the auditor shall prepare the Evaluation Form for Control Risk in Annex 7.

Evaluation Form for Control Risk (Sample)		
Account Area	Risk Indicators	Control Risk Level
<i>Investments</i>	<i>Tender manual has been published.</i>	<i>Low</i>
	<i>" The tender committee is composed of incompetent persons.</i>	<i>High</i>
	<i>" The accounting officers have insufficient accounting knowledge.</i>	<i>High</i>
	<i>" The IT systems produce reliable data.</i>	<i>Low</i>
	<i>" There exists an effective internal audit function.</i>	<i>Low</i>
	<i>" Officers controlling construction works are competent persons devoted to ethical rules.</i>	<i>Low</i>
Control Risk Level Identified for the Account Area:		High
<i>Procurements</i>	<i>Tender manual has been published.</i>	<i>Low</i>
	<i>" The tender committee is composed of incompetent persons.</i>	<i>High</i>
	<i>" The accounting officers have insufficient accounting knowledge.</i>	<i>High</i>
	<i>" The IT systems produce reliable data.</i>	<i>Low</i>
	<i>" There exists an effective internal audit function.</i>	<i>Low</i>
	<i>" There exists an effective system for equipment and office supply inventory</i>	<i>Low</i>
Control Risk Level Identified for the Account Area:		High
<i>Salaries</i>	<i>The accounting officers have insufficient accounting knowledge.</i>	<i>High</i>
	<i>" The IT systems produce reliable data.</i>	<i>Low</i>
	<i>" There exists an effective internal audit function.</i>	<i>Low</i>
	<i>" Personnel expenditures (such as salaries, treatment costs and travel allowances) are subject to a centralised control based on an IT system.</i>	<i>Low</i>
Control Risk Level Identified for the Account Area:		Low
<i>Treatment Costs</i>	<i>The accounting officers have insufficient accounting knowledge.</i>	<i>Low</i>
	<i>" The IT systems produce reliable data.</i>	<i>Low</i>
	<i>" There exists an effective internal audit function.</i>	<i>Low</i>
	<i>" Personnel expenditures (such as salaries, treatment costs and travel allowances) are subject to a centralised control based on an IT system.</i>	<i>Low</i>
Control Risk Level Identified for the Account Area:		Low

The risk indicators and account areas in the form above are given as sample. The auditor shall identify the account areas and low or high inherent risk indicators related to the auditee. Although it is possible to associate an inherent risk indicator with all account areas, this risk indicator may not affect each account area at the same level.

The risks occurred due to weak control environment cannot be reduced to certain account areas. For instance, weaknesses such as the incompetency of the manager might have a broader impact on the financial reports and statements. The auditor shall consider the impact of this case on the overall account areas. On the other hand, some control activities may have an impact on an audit assertion in certain account area/s. For instance, the control activities that an entity has established for its personnel to count and record the physical stocks correctly would be directly related to the audit assertions of existence and completeness that are valid for the stock account balance.

1.4.2.3 Combined Risk Assessment

Understanding the relation between the inherent risks and control risks related to account accounts is important in developing an effective and efficient audit approach.

The auditor shall identify a single level of risk through assessing together the inherent and control risk levels related to specific account areas. In combined assessment of inherent and control risks, the auditor shall use the Combined Risk Assessment Form in Annex 8.

Combined Risk Assessment Form(Sample)			
Account Area	Inherent Risk Level	Control Risk Level	Risk assessment (High/Medium/Low)
Procurements	High	High	High
Travel Allowance	Low	High	Medium/ High
Severance Pay	Low	Low	Low
Treatment Costs	High	Low	Medium

The risk indicators and account areas in the form above are given as sample. The auditor shall identify the account areas and low or high inherent risk indicators related to the auditee.

1.5 IDENTIFICATION OF AUDIT APPROACH

1.5.1 Introduction

The auditor shall identify an effective, efficient and value-adding audit approach that would minimize the audit risk with a view to reducing the cost of the audit and giving constructive recommendations to the auditee regarding its financial management and control processes through obtaining sufficient appropriate audit evidence to corroborate the audit opinion and directing audit on the account areas with high risks.

Audit approach is the general name given to the planning work done by the auditor in order to obtain and evaluate evidence related to each account area during planning, execution and reporting phases of the audit. Audit approach indicates the scope, timing and nature of the audit procedures. The objective is to decide on the most effective and appropriate audit procedure.

The audit approach selected shall reflect all the data obtained regarding the auditee, take note of the materiality level and respond to the risk factors detected during risk assessment.

The auditor shall explain his audit approach as part of the audit plan. However, the auditor shall be able to modify the audit approach later once the auditor obtains more information regarding the activities of the auditee during the course of audit.

The audit approach shall be identified for each account area since the controls may be operating effectively at some accounts, while not operating at others. The auditor shall identify at which account areas the controls can be relied on and decide on the appropriate audit approach. There is likely that the auditor shall use a different audit approach for different account areas, but also a different audit approach for different assertions relating to the same account area.

In public entities audited in previous years, control tests may not be conducted for the account areas considered appropriate by the head of group. In this case, the assurance factor is determined from the level indicated in the decision tree according to the determined risk level.

1.5.2 Risk Reducing Controls

The auditor, who has identified, until this stage, the entity's risks in respect of account areas and reached a certain risk level for significant account areas, shall determine based on his professional judgement whether to test the controls that reduce the risk for this account area. If the auditor decides to test the controls, he shall determine whether the controls are operating based on the results of the tests of control.

Risk Reducing Controls are all kinds of measurements and control processes that the entity has taken to minimize the effects of risks it faces.

The auditor shall assess whether the management has risk reducing controls for each risk factor that have been identified during the phases of understanding the entity and understanding and assessing the internal controls. Risk reducing controls can be exemplified as follows:

- *In cases where the entity has complex legislation, the entity may prepare clear-cut directives for all relevant personnel based on the legal requirements.*
- *For the services provided by the third parties, the management may demand independent confirmation from the internal auditors.*
- *The entity management may require a higher level of internal control for extraordinary transactions.*

Where the entity has no preventive controls for the risks identified by the auditor, the auditor shall notify the entity management of the controls he recommends to be established.

1.5.3 Tests of Controls

The auditor shall evaluate whether the internal control systems operate effectively through testing them. To rely on internal controls, the auditor shall collect evidence on the effectiveness of the control systems during the course of the audit.

Tests of controls are performed to obtain assurance that the internal control system operates effectively. While collecting audit evidence on the effectiveness of internal controls, the auditor shall consider how the controls are performed and by whom, and whether the controls are appropriate.

The existence of an effective internal control system and obtaining audit evidence on the operation of these controls are different from each other. The auditor shall reach an opinion that the internal control systems exist and are operated effectively by the entity, when the auditor obtains audit evidence on the operation of the control systems through implementing risk assessment procedures.

Principally, the tests of controls are performed at the audit planning phase and current year audits. At the execution phase, the auditor shall perform additional tests of controls on the effectiveness of the controls in cases where there are different controls operated at different periods, or to confirm the validity of the internal control assurance obtained at the audit planning phase.

Tests of controls shall be conducted on significant account areas. For non-significant account areas, the auditor shall not test the controls and conduct directly substantive procedures at minimum level. For this, the auditor shall identify the controls related to significant account areas and test whether these controls actually exist. The auditor shall prepare the Tests of Controls Form in Annex 9 in respect of the account areas and indicate in this form the “main control questions” at the audit assertion level for each account area to be tested and the controls related to these.

In testing the controls, following methods may be employed:

- Examination of the expenditure or revenue documents and the evidencing documents annex to these, collection of audit evidence confirming that the entity fully implements the internal controls as well as the selection of documents to be examined for tests of controls are based on the auditor’s judgement. However, the auditor may use sampling methods. The auditor shall examine documents sufficient to obtain audit evidence on whether the controls are operating.

- Observation, written and oral debriefing; for instance, checking who are actually performing the work.

- Reapplication of internal controls by the auditor; for instance, comparing bank confirmation letters and entity’s accounting records.

The auditor shall obtain audit evidence that corroborates the control risk assessment determined to be low by the internal control tests. The lower the control risk is identified, the more the auditor collects audit evidence on the appropriateness and effectiveness of the accounting and internal control systems.

In collecting audit evidence on the operation of the internal controls, the auditor shall also consider how the controls are performed and by whom based on which document. The reasons underlying deviations in the controls such as changes in key positions, aggregation of transactions such as payments, revenue, etc. at certain periods and errors caused by personnel.

1.5.4 Evaluating the Results of Tests of Controls

In performing tests of controls, the auditor may face with cases where the controls are not operating as expected. This is defined as control deviation and all the control deviations identified shall be considered.

When a control deviation is identified, the auditor shall inquire the following questions:

- *Have the entity management recognized the deviation?*
 - *Have the entity management eradicated the underlying reasons of the deviation?*
 - *Have the entity management made corrections in time?*
 - *Have the entity management performed work on the possible effects of control deviations on the financial statements?*
- *If the entity management has not performed any assessment, how would internal controls affect the audit assertions of the auditor?*

Based on the answers to these questions, the auditor shall identify alternative control mechanisms, if any, and may test them. Finally, the auditor shall decide whether or not to rely on the internal controls according to the results of tests of controls and based on his professional judgement. If the control deviation is considered significant as a result of the assessment, the auditor shall decide not to rely on the internal controls for the relevant account area. In such cases, the auditor shall obtain assurance through substantive procedures.

1.5.5 Audit Assurance Model

The overall objective of the audit is to obtain reasonable assurance about whether audited financial statements are free from material misstatement.

Reasonable assurance is a concept related to the auditor's obtaining audit evidence required to reach the conclusion that the financial report and statements as a whole and the underlying transactions are free from "material" misstatement. Reasonable assurance is relevant to the whole regularity audit process. The auditor cannot obtain absolute assurance, since there are restrictions in the audit that may affect auditor's detection of all errors. The audit cannot provide 100% assurance; there is always risk. The objective is to reduce risk to acceptable level. The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated is known as audit risk. When the auditor wants to reduce audit risk, the auditor shall obtain more assurance that the financial statements are free from material misstatement.

Reasonable assurance level is dependent on the entities' own policies; it is in general set as 95%.

The purpose of the audit assurance model is to give auditors an opportunity to collect sufficient, appropriate and reliable audit evidence to support audit opinion in the most efficient way using statistical and mathematical methods.

Audit assurance model is a model that can be used by the auditor in making decisions related to audit approaches in the planning stage of the audit and in determining the scope of his work.

The auditor shall implement the audit assurance model for each account area. In this model, the auditor shall select appropriate assurance factors for each assurance level as given in the table below. In this assurance model, 0,7 factor indicates minimum level of substantive procedures; 1,3 factor standard level, 2 factor focussed level and 3 factor maximum level of substantive procedures. For instance, if the assurance factor is set as 3, this means that all evidence forming the audit opinion are to be collected through substantive procedures.

Assurance Factors and Levels in Audit Assurance Model	
A Factor	Assurance Level
0,7	50
1	63
1,3	74
2	86
2,3	90
3	95

The assurance factors (A factor) in this model and assurance levels are data obtained based on the generally accepted and statistical studies in the international auditing community.

The auditor shall determine the assurance factor according to the risk level he has identified as a result of the risk assessment for significant account areas and the results of the tests of controls.

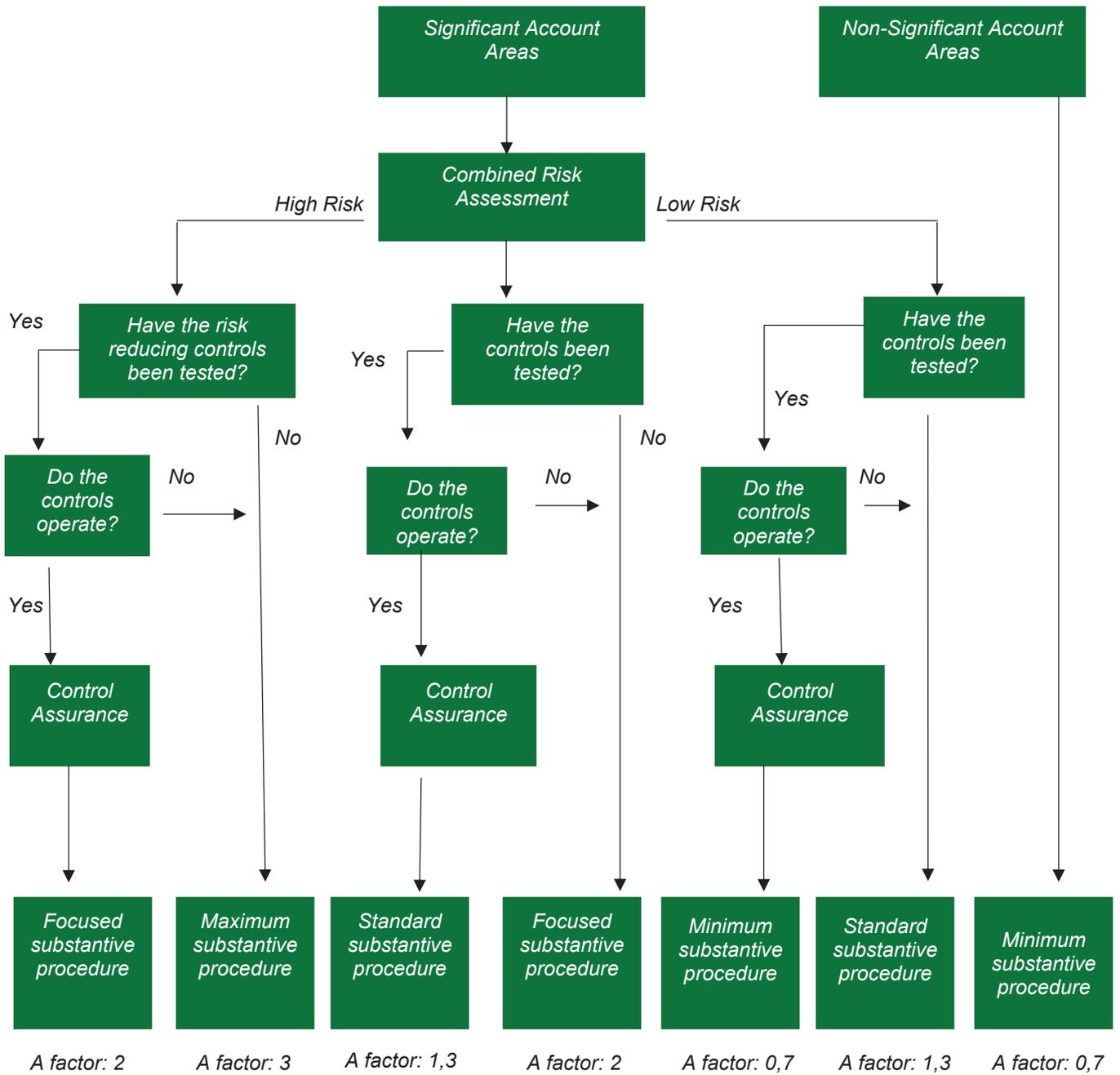
When the auditor does not need to perform control tests as a result of the risk assessment; auditor may set the A factor value between 1,3-2 for auditees considered to have a well-established internal control system, and between 2-3 for auditees considered to not to have a well-established internal control system according to the professional judgment established in the understanding and evaluation stages of internal controls.

The audit decision tree helps auditor determine the level of substantive procedures to be performed at significant/non-significant account areas. With the help of this tree, the auditor shall determine an audit approach based on the risk level he has identified and the results of the tests of controls.

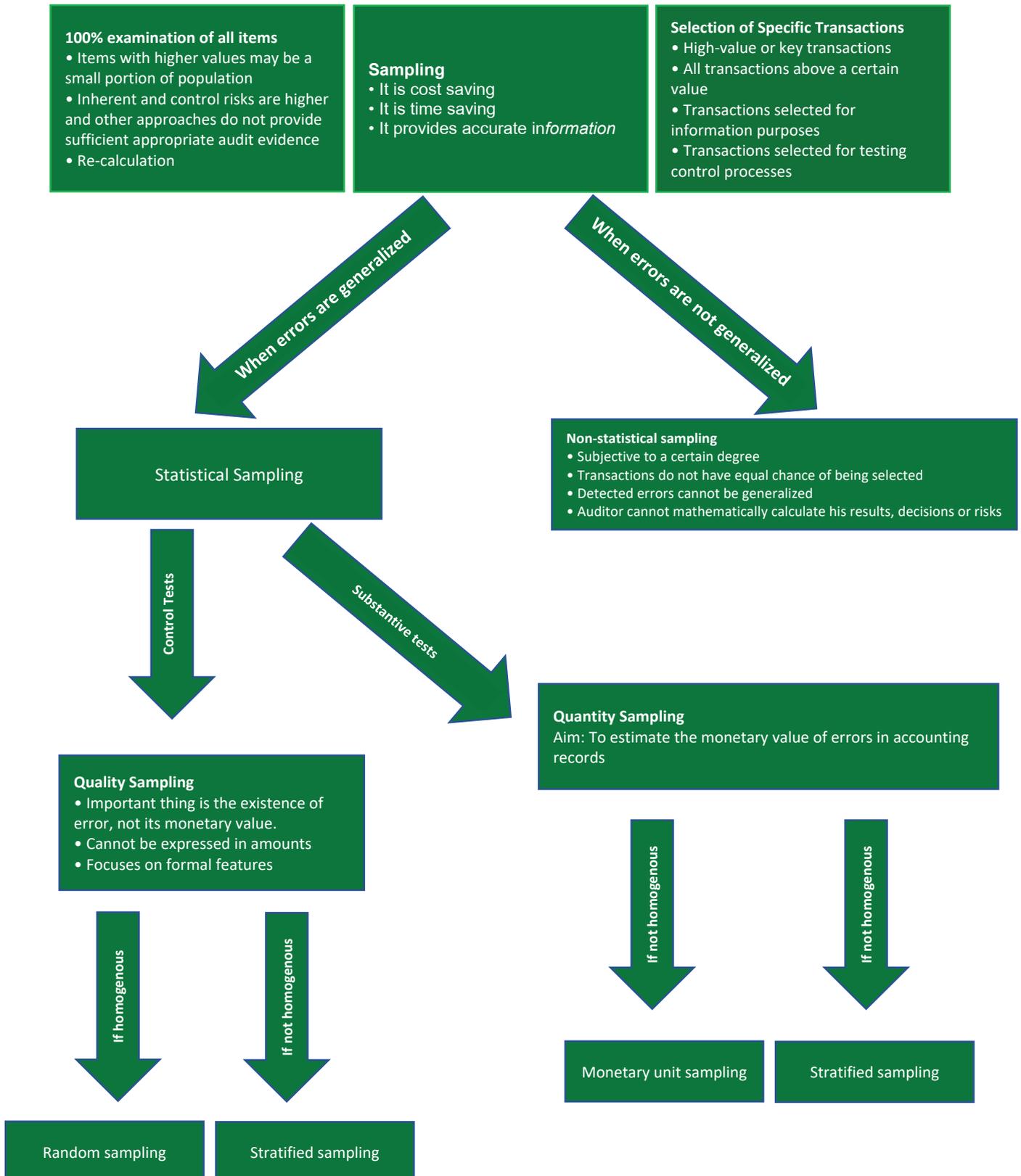
According to audit assurance model, an audit cannot be performed without implementing the substantive procedures at minimum level. Even if the auditor obtains maximum level of control assurance about the significant account areas for which the combined risk level is detected to be low, the auditor shall perform substantive procedures at minimum level.

For non-significant account areas, the auditor shall perform the substantive procedures at minimum level.

Audit Decision Tree



Decision Tree for Sampling



1.6 SELECTION OF ITEMS FOR TESTING AND SAMPLING

1.6.1 Introduction

The aim of regularity audit is to obtain reasonable assurance. Even though it is possible, obtaining high assurance is very costly. An effective and efficient execution of an audit is possible with obtaining sufficient appropriate audit evidence, which is necessary to form an opinion on the financial reports and statements and their underlying accounts and transactions, with the least cost and in the shortest time.

While drafting the audit procedures, the auditor shall determine the proper approaches for selecting the items for testing in order to obtain audit evidence in line with the objectives of the audit tests.

1.6.2 Selection of Items for Testing

To obtain audit evidence, the auditor may select the items for testing by performing one or more of the following methods based on the audit objective of each account area that is audited.

- Selection of all transactions
- Selection of specific transactions
- Audit sampling

The decision for selecting a method will be based on the circumstances, and it may be proper to execute one or more of the above-mentioned methods in some circumstances. While deciding which method/s to perform, the auditor must be convinced that the methods used for achieving test objectives are effective in obtaining sufficient appropriate audit experience.

1.6.2.1 Selection of All Transactions (100 percent examination of all items, Analytical Procedures)

The auditor may decide to examine all of the items within a population that form an account balance or a transaction cluster (or a stratum within this population). In cases such as the shortage of transactions in an account area, being able to analyse transactions only on a certain database, or due to the nature of transactions, the auditor may draw conclusions about the whole account area either by examining all transactions or by using analytical procedures.

Examination of 100% of all items is not usually performed in control tests but it is commonly performed for substantive techniques.

For example, the auditor may examine 100% of transactions pertaining to investment expenditure due to their nature or transfer expenses due to their low amount. Similarly, he may examine the payrolls through analytical procedures with the help of computer-aided audit techniques. Analytical procedures are applied onto the electronic data in cases where it is not possible to draw a conclusion by examining transactions one by one or when such examination is not deemed proper due to time and cost. Analytical procedures are very effective methods in terms of their results.

There is no need to do sampling if it is possible to obtain sufficient audit evidence for the accuracy and reliability of transactions in an account area through analytical procedures or if an evaluation of accounting records will suffice. Performing analytical procedures may ensure time and resource savings and also, they enable the auditor obtain more exact audit findings. For example, in an entity, the process of examining each bank transfer on documents, consolidating the examination results and drawing a conclusion is very time and effort consuming. In addition, through such an examination, the auditor faces the risk of not being able to see the whole and not detecting the

inconsistencies that cannot be seen in single transactions. However, performing analytical procedures on electronic data covering all bank transfers provides the auditor with opportunities such as seeing the whole, comparing accounts and years, recalculating, and verifying some accounts.

In populations where analytical procedures are performed, the auditor shall decide whether it is necessary to perform additional examination. In case he concludes that it is necessary to perform additional examinations, the erroneous transactions that are detected through analytical procedures may be removed from the population, and the remaining transactions may be subjected to sampling. In this case, the errors found through analytical procedures are considered known errors. Estimated error amount is found by adding the known errors and generalized errors, which are detected by sampling the remaining population. (See 2.2 Evaluating Audit Results).

1.6.2.2 Selection of Specific Transactions

The auditor may decide to select specific transactions within a population by focusing on factors such as the information obtained on the auditee, assessments of inherent and controls risks, and the tested characteristics of the population. In such a case, the auditor examines 100% of the transactions he selects, and uses the sampling method, which is proper for obtaining audit evidence in relation to the remaining population.

The selected specific transactions may be the following ones:

High-value or key transactions: The auditor may decide to select specific transactions within a population because they have a high value or certain other properties (For example, transactions that are suspicious, extraordinary, partially risky, or with a history or error).

All transactions above a certain value: The auditor may want to examine the transactions, values of which exceed a specific amount. In this way, he may examine the part of an account area or population, which makes up the most of its total amount.

Transactions selected for information purposes: The auditor may examine specific transactions to obtain information on issues such as entity's operations, the structure of its transactions, its accounting and internal control systems.

Transactions selected for testing control processes: The auditor may select specific transactions to determine whether the entity's available control processes are applied.

While selecting and examining specific transactions in an account area is an effective way of obtaining audit evidence, it does not constitute an audit sampling. The outcomes of the procedures, which are applied to the transactions selected as such, cannot be associated to the whole population. The auditor uses the sampling method, which is proper for obtaining audit evidence in relation to the remaining population.

1.6.2.3 Audit Sampling

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When the auditor decides to use audit sampling, he tries to draw a reasonable conclusion about the population based on the selected samples.

Sampling is the application of audit techniques to less than 100% of items within a population/account area. It enables the auditor to obtain and evaluate audit evidences to draw conclusions about the population from which the sample is selected.

Sampling method should be considered as one of the methods that can be used for obtaining audit evidence and enable the auditor to draw a conclusion about a population/account area while preparing the audit plan.

1.6.3 Sampling Process

1.6.3.1 Reasons for Sampling

The auditor may obtain audit evidence on the auditee's financial statements and the accounts and transactions underlying those financial statements either by examining 100% of transactions that he identified and wanted to draw conclusions about or by examining the transactions selected through the sampling method. However, due to the following reasons, he may prefer the sampling method instead of 100% examination of all items.

It is cost-saving: When the volume of the population and the number of items to be examined increase, it is no longer economic to examine all transactions (100% examination of all items). It is possible to obtain sufficient appropriate audit evidence with a very low cost through sampling.

It is time-saving: Compared to 100% examination of all items, sampling provides information in a shorter period of time. This quality of sampling is important particularly when information is needed in a short period of time.

It provides accurate information: Sampling may provide information as much as the 100% examination of all items because more careful and intense examination is performed on a sample including less items, and thus information on errors is obtained more easily and accurately.

1.6.3.2 Principles of Sampling

1.6.3.2.1 Basic Principles

While designing the audit sampling and determining the sample size, the auditor shall primarily:

- define the specific objectives to be achieved,
- identify the qualifications of the population from which the samples will be selected,
- decide the combination of audit techniques that will ensure achieving the objectives in the best manner.

1.6.3.2.2 Using the Knowledge, Experience and Professional Judgement of the Auditor

Sampling is one of the effective methods for obtaining evidence in auditing. The effectiveness of sampling method can be increased by using the audit knowledge, experience and professional judgement of the auditor. The auditor uses his professional knowledge, experience and judgement for selecting the proper sampling method for the audited population, determining the audit techniques to be applied to selected transactions and evaluating the results.

1.6.3.2.3 Considering the Sampling Risk

When the auditor decides to perform sampling, he shall consider that the conclusion he draws based on the selected samples may be different from the conclusion he will draw when the same audit technique is applied to the whole population. When using the sampling method for examination, the auditor shall take great care that the selected samples represent the general population. It may be possible to draw a wrong conclusion about the whole population due to sampling risk. Therefore,

the auditor shall select the proper sampling method to keep the sampling risk at an acceptable level and examine a sufficient number of samples.

While applying sampling in an audit, the auditor faces two types of risks:

- *Sampling risk*
- *Non-sampling risk*

Sampling risk: *It is the risk that the auditor's conclusion based on a selected sample may be different from the conclusion if the entire population were subjected to the same audit technique. There are two types of sampling risk:*

• *It is the risk that in the case of a test of controls, the auditor decides that the control risk is higher than it actually is; or in the case of substantive procedures, he concludes that there is a material misstatement when in fact there is not. Such a risk affects audit efficiency because it would require more/additional work to confirm the conclusions.*

• *It is the risk that in the case of a test of controls, the auditor decides that the control risk is lower than it actually is; or in the case of substantive procedures, he concludes that there is no material misstatement when in fact there is. Such a risk affects audit efficiency negatively and leads to an inappropriate audit opinion.*

Sampling risk may derive from the following:

- *misidentifying the population,*
- *misidentifying the sampling units,*
- *selecting a wrong sampling method,*
- *misidentifying the sample size.*
- *misidentifying the sample selection technique,*

Non-sampling risk: *This risk derives from the factors that cause the auditor to reach erroneous conclusion due to any reason not related to sampling. The auditor may use an inappropriate audit technique or misinterpret the audit evidence and thus fail to recognize a misstatement.*

1.6.3.2.4 Characteristics of a Good Sample

A good sample has the following qualities:

• **Representative:** *After examining selected samples, if the auditor can accurately estimate the actual error rate in the population, then the sample is representative.*

• **Unpredictable:** *The samples shall be selected in such a manner that the management of the entity cannot predict which transactions will be examined in the audit.*

• **Enables correcting misstatements:** *The sample shall be able to detect the misstatements as much as possible. Thus, it is possible to correct the misstatements at the end of the audit.*

• **Neutral:** *The samples shall be selected without any prejudice. For example, sample planning should not be made particularly to select the known misstatements. When planning is done as such, the sample does not represent the population accurately.*

While planning the sampling, the auditor shall make an effort that the selected sample has those qualities. For this purpose, he shall analyse the population well, and prefer the sampling methods that will enable him reach those qualities. However, it should be kept in mind that; it will not always be possible to have all of those four qualities in one sample perfectly. Therefore, the most reasonable method will be to try to balance those four qualities in accordance with the audit objective.

1.6.3.3 Phases of Sampling

The phases of the sampling process are executed by following steps.

Phases of Sampling	
1. Phase Planning the sampling	1. Step <i>Identifying the population</i>
	2. Step <i>Identifying the sampling unit</i>
	3. Step <i>Identifying the sampling methods</i>
	4. Step <i>Calculating the sample size</i>
2. Phase Selecting and examining samples	5. Step <i>Selecting the samples</i>
	6. Step <i>Examining the selected samples (performing the audit procedures)</i>
3. Phase Evaluating the results of sampling	7. Step <i>Generalizing the errors</i>
	8. Step <i>Considering additional sampling</i>

While planning the audit sampling, the auditor shall consider the audit assertions and the characteristics of the population from which the sample is selected. Moreover, the auditor shall plan the sampling so that the selected samples are representative of the general population in terms of quality and quantity.

1.6.3.4 Identifying the Population

Population (statistical universe) is the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions. For example, all items within an account area or a cluster of specific transactions can form a population. Population can be divided into strata or sub-groups, and each stratum can be examined separately. The term population can also refer to a stratum.

The auditor shall determine the population in accordance with the audit assertions. He shall take care that the population is homogenous as far as possible. For example, if the objective is to test the compliance of domestic per diems to legislation (compliance), the population will be the domestic per diems. If the auditor wants to sample the account area of investment expenditures, the sample unit will be the values that represent an operation as a whole (for example, card numbers of commitments), instead of the accounting records pertaining to each progress payments related to those expenditures.

The audit shall make sure that the population is complete. If the transactions and items constituting the population are not fully recorded, opinion cannot be formed on the entire population. For example, if domestic per diems are not recorded in full or if the auditor excludes some of them, he cannot draw a conclusion about the whole domestic per diems.

The auditor may increase the audit efficiency by dividing the population into strata that have similar characteristics. The purpose of stratification is to decrease the variability of the transactions and items in each stratum and to decrease the sample size without increasing risk in proportion. The results of the audit procedures applied to one stratum can be generalized only to the transactions constituting this stratum.

1.6.3.5 Identifying the Sampling Unit

A sample unit is an element within the population, and it can be a document, a payroll line, a journal entry or a computer record. For example, the sample unit for the general journal entries is each entry in the general journal; or the sample unit for the movable items is each asset record in the list of movable items. The audit shall determine what constitutes a sample unit in the population he will examine.

1.6.3.6 Factors Affecting the Sampling Size

The following factors affect the sample size. Those factors should be evaluated together. They should be taken into consideration by the auditor in the formula, table or computer applications which he will use while determining the sample size. Thus, the auditor may reach the sample size that best represents the population.

Factor	Sample size	Explanation
Error expectation	Increase	<p>Expected error: It refers to the deviation rate that is considered to exist in the population by the auditor. The auditor's error expectation is based on the inherent risks and control risks.</p> <p>The auditor may reach the expected error by examining the guiding samples taken from the population by using his previous year experiences with the auditee or his judgement in the absence of previous year information.</p> <p>If the auditor's error expectation from the population is high, the sample size also increases.</p>
Precision level	Increase	<p>Precision level defines the relationship between the error amount found by sample examination and its closeness to real error amount in the population. When the precision level is high, generalized error amount found by sample examination will be close to the real error amount in the population. Therefore, the sample represents the population better. If the auditor wants the sample to have a high representative value, the sample size increases.</p>
Acceptable error (Upper error limit /Materiality) level	Decrease	<p>It refers to the maximum acceptable deviation rate which does not require the auditor to change the control risk level he foresees.</p> <p>If the acceptable error level for an account area is high, the auditor examines fewer samples. For example, the auditor examines fewer samples by keeping the acceptable error level high for the insignificant account areas. He keeps the acceptable error level low for the account area regarding the auditee's principal activities, and examines more samples for this account area.</p>
Number of records in population	Negligible effect	<p>The number of records in a population does not affect the sample size because it is not used as an element in the statistical formula used for determining the sample size. However, if the auditor wishes to examine more samples in case of the existence of many records, he may increase the sample size by defining high levels for the expected error and precision level in the formula.</p>
Monetary size of population	Effect varies based on sampling method	<p>In the monetary unit sampling method, if the monetary value of the population increases, the sample size also increases. In the random sampling method, the monetary value of the population does not affect the sample size.</p>
Assurance level	Increase	<p>An increase in the assurance level also increases the number of samples.</p>

1.6.3.7 Identifying Sampling Method

1.6.3.7.1 Statistical (Probability) Sampling Methods

Statistical sampling refers to an approach to sampling that has the following characteristics:

- *Random selection of the sample items,*
- *The use of probability theory to evaluate the sample results, including the measurement of the sampling risk.*

Audit evidence is obtained from the proper combination of control tests and substantive procedures. To obtain audit evidence, quality sampling is used for the tests of control, while quantity sampling is used for substantive tests.

1.6.3.7.1.1 Quality Sampling

Quality sampling methods are used for detecting whether the transactions in a population have the formal characteristics. For example, whether a document has the authorized signature; whether a procurement file has the necessary order form; whether a journal item has the formal requirements etc.

In quality sampling, the auditor focuses on whether the transactions are right or wrong. For this sampling method, the important thing is whether there is an error, rather than its monetary value. In this respect, the auditor wishes to identify the deviations from the controls in the auditee's accounts and transactions.

Quality sampling methods are used when the auditor tests the controls and transactions.

Due to this approach of quality sampling, it is a sampling method which is particularly suitable for the internal control compliance tests.

Quality Sampling Methods

Random Sampling Method

In the quality sampling method, the sampling is conducted without considering the monetary values of the samples to be examined.

In the random sampling method, the samples are selected from the whole population randomly. Every transaction in the population has the same probability of being selected.

Calculating sample size and selecting samples in random sampling method

Sample size is determined through the Table for Statistical Sampling Volume (ANNEX 15) by taking the population's characteristics into consideration, and the selection is made by using Excel or Audit Software Programs.

Stratified (Layered) Sampling Method

In this method, the whole population is divided into two or more homogenous strata according to specific criteria, and the samples are selected by considering each stratum as a separate population.

In stratified sampling, different transaction groups within the population are divided into homogenous groups. Proper criteria are defined to divide the population units (which differ significantly in terms of their characteristics to be examined) into "strata", i.e. into more homogenous sub-groups. Here, the important thing is to identify which criteria will increase the homogeneity for the strata.

According to the defined criteria, the population is divided into more homogenous strata with N_1, N_2, \dots, N_h volumes, on condition that each unit pertains to only one stratum and no unit remains uncovered. Each stratum obtained in this way is considered a new population in itself.

While performing stratification, the following aspects of transactions may be taken into consideration:

- Its location-where it happened (For example, central or provincial organization of an entity).
- The values with close monetary sizes.
- The expense unit where the transaction is made.
- Governing legislation (For example; different tendering methods defined in the procurement law).

Calculating sample size and selecting samples in stratified sampling method

In the stratified sampling method, first the account area is divided into strata. In order for this method to be effective, the units in strata should be homogenous and there should be a real difference between the strata.

Since it will not be possible to have an equal number of records in each stratum, the question is how many records will be sampled from each stratum. There may be two ways of doing this. In the first one, same number of records is sampled from each stratum without considering the number of records in the strata. This is called disproportionate selection. In the second one, in proportion to the number of records in the stratum to be sampled, more samples are taken from the stratum with more records, and less samples are taken from the stratum with less records.

The method for determining the sample size for the specified strata is the same with the one used in the random sampling, and the selection is made by using Excel or Audit Software Programs.

1.6.3.7.1.2 Quantity Sampling

Quantity sampling methods are used for estimating the monetary values of the errors by using the substantive tests.

While rather formal tests are performed in quality sampling methods, in quantity sampling methods, the auditor makes a decision of the validity of an account balance. In such sampling methods, the purpose is to estimate the monetary values of the errors in accounting records.

Quantity Sampling Methods

Monetary unit sampling method

Monetary unit sampling method is performed by considering the monetary size of the transactions within a population. In monetary unit sampling method, the transactions with higher monetary values are more likely to be selected as samples.

Calculating sample size and selecting samples in monetary unit sampling method

When using the monetary unit sampling method, the following formula is used to calculate the sample size:

Sample size = (Population x Assurance factor) / Precision level

The following data is used while calculating the sample size/number of samples:

Materiality level: *It is the monetary amount obtained by applying the detected materiality rate to the data, which is accepted as the materiality base.*

Assurance factor: *It is the assurance coefficient, which is identified for the account area as a result of the risk assessment.*

Probable error: Probable error depends on the auditor's estimate regarding the error amount he may find in an account area. If the auditor has information on the account area from previous years, this information may form the basis for the estimate. The auditor estimates the error, which he expects to detect, based on the errors found in the audits of previous years. If the expected error level is low, 10% of the materiality level is calculated as the probable error; if the expected error level is high, 20% of the materiality level is calculated as the probable error. Based on the characteristics of the population, a value between those rates may also be specified.

Probable error formula

Probable error = Materiality level x Rate between 10%-20%

Example: Calculating probable error

For the xxxx account of the Ministry of Finance, the previous materiality level had been 6 million TL. Since the account was audited in previous years and the evaluations for internal controls were positive, the auditor preferred 10% in calculating the probable error. Therefore, the probable error was calculated as 600.000 TL. (Probable error = 6 million TL x 10%)

Precision level: Precision level is needed because of the uncertainty in the auditor's error estimation. It is a level that is between probable error and materiality in an account area and that indicates the expected accuracy level. Normally, precision is the difference between materiality level and probable error. However, since it will lead to a smaller sample size than what should be, the auditor determines a specific percentage of this difference as the precision level in order to execute the audit within a certain confidence interval.

Precision level forms the basis for the calculations that are used to determine the sample size, which should be examined to obtain audit assurance. If the auditor depends only on probable error and materiality level in determining the sample size, it will not be possible to detect the unforeseen errors. Therefore, 80% or 90% of the difference between the materiality and probable error is taken as the precision level. If the auditor thinks that there are only a few changes in the account' nature (variability of account areas, variability of activity areas etc.) from year to year, the rate is taken as 90%; if he thinks that there are a lot of changes in the account' nature or if he cannot evaluate the change, the rate is taken as 80%. Based on the characteristics of the population, a value between those rates may also be specified.

It is necessary to make sure that the estimated error in the account area is close to the truth. Probable error should not be specified higher than what it should be, because this would lower the precision level, and a low precision level would increase the sample size. In turn, this will generally lead to performing more examinations than what is necessary.

The following formula is used to calculate the precision level:

Precision level formula

Precision level = (Materiality level - Probable error) x Rate between 80%-90%

Example: Calculating precision level

The auditor decided that the sample size must be bigger. In this respect, he preferred 80% as the rate. In this case the planned precision is = 6.000.000 TL - 600.000 TL x 80% = 4.320.000 TL.

Probable error and precision level are calculated separately for each account area to be sampled by considering the issues, which should be considered for the above mentioned calculations, for each account area.

“Precision level” in the formula is the adapted version of the precision level mentioned in “1.6.3.6 Factors Affecting Sampling Size” into the monetary unit sampling method.

As the precision level increases, the sample size increases. The precision level increases when the “precision level” variable in the formula decreases in number.

In the monetary unit sampling method, Excel or Audit Software Programs are used to select the samples.

Stratified (Layered) Sampling Method

“Stratified sampling method”, mentioned under the title of Quantity Sampling is executed in line with the principles of the stratified sampling method, mentioned under the title of “1.6.3.7.1.1 Quality Sampling”.

1.6.3.7.2 Non-statistical (non-probabilistic) Sampling

In some cases, the decision whether to use a statistical or non-statistical sampling approach is important in the auditor’s determination of the most effective approach for obtaining sufficient appropriate audit evidence. For example, in tests of controls, the auditor’s analysis of the nature and cause of errors is often more important than the statistical analysis of numerical presence or absence of errors. In such cases, non-statistical sampling may be a more appropriate approach.

The basic principles of non-statistical sampling are the same with the principles of statistical sampling. The only difference is that when the auditor uses the non-statistical sampling method, he makes several judgements to replace the statistical measures. Therefore, non-statistical sampling is subjective to a certain degree and includes a certain level of risk. In this method, the selection chance of every transaction within a population is not equal.

When non-statistical sampling method is used, again the main principles are: the selected samples are representative of the general population, and the auditor remains neutral and unbiased towards some transactions. In applying this method, the choice of sampling method is important. In deciding which sample selection technique to apply, the auditor considers factors such as the type of sample units/transactions within population, their amount, and alignment order.

This method has the following disadvantages:

- *As the auditor determines the sample size by estimation, he has no way of measuring the accuracy level of his estimation.*

- *The auditor does not have an objective, reliable and systematic method in determining the number of transactions to be selected.*

- *As the selected samples are determined in line with the auditor’ subjective decisions, the neutrality of the selected sample is doubtful. For example, if the auditor is inclined to select account items with high values, he may not examine the items with small amounts, totals of which make a large sum of money.*

- *With this method, the auditor cannot mathematically calculate the results of the examination/audit he performs, the decisions he makes and the risk he takes.*

- *It is not possible to generalize the errors found in this method.*

Due to the issues mentioned above, non-statistical sampling method makes it difficult to defend the audit opinion.

Determining Sample Size in Non-statistical Sampling

In the non-statistical sampling method, the sample size is determined based on the auditor's professional judgement. In this method, the number (how many samples) and selection (how to select samples) of samples is based fully on the auditor's professional judgement.

Sample Selection Techniques in Non-statistical Sampling Method

If the auditor decides to perform the non-statistical sampling method, he may prefer one of the following sample selection techniques:

- *Selection according to a list of random numbers based on consecutive order of many numbers selected randomly by lottery,*
- *“Systematic” selection based on keeping the interval stable between the number of items to be sampled,*
- *Selection of sample units with specific dates (date-based selection),*
- *Selection based on initial letters,*
- *Selection based on transaction type.*
- *Cluster sampling.*
- *Computerized selection.*

1.6.4 Examining Selected Samples and Evaluating Results

1.6.4.1 Examining Selected Samples

The auditor performs the audit techniques defined in the audit program in order to determine whether each selected sample has an error based on the audit assertion to be tested. (See 2.1 Obtaining Audit Evidence)

1.6.4.2 Generalization of Errors (Estimation of Total Error)

*The auditor calculates the total error in the population by analysing the errors he detects. The generalization of errors forms the basis for forming an audit opinion. See “2.2.3 Evaluating Monetary Errors” for the topics of how to generalize errors and whether errors can be *generalized based on the selected sampling method.**

1.6.4.3 Considering Additional Sampling

The errors detected by performing audit procedures may be more than the amount of errors that the auditor initially estimates, or the examined transactions may not satisfy the auditor in terms of quality and quantity. In this case, the auditor may need to perform additional works in the relevant account area in order to obtain sufficient appropriate audit evidence.

When the auditor needs to perform additional works in the relevant account area, he performs re-sampling as mentioned above. He removes the selected samples (selected in the first sampling) from the number of transactions (that form the population), and he takes the remaining part as the basis for the re-selection.

1.7 COMPLETION OF PLANNING

1.7.1 Introduction

With the planning works, the auditor identifies the inherent risks and control risks as per account areas based on the information he obtained regarding the entity's environment and internal controls, and identifies the audit approach to be executed in the account areas depending on this risk assessment.

In this phase, the auditor prepares an audit plan, which contains the summarized information including the rationale and bases for the audit approach, which he obtained from the planning works, in order receive the approval of the head of group for the audit approach he adopted.

Audit plan is a document that summarizes the planning works performed. Audit plan also serves as a tool for monitoring the progress in audit and increase audit quality.

1.7.2 Audit Plan

1.7.2.1 Format of Audit Plan

Audit plan is organized according to the following section titles:

Legal basis for the audit: This section explains the legal arrangements (in the TCA law and other relevant laws) that invest the TCA with the power to audit the auditee.

Audit objective: This section states that the audit objective is to express an opinion on the accuracy and reliability of financial statements and the compliance of the transactions underlying those statements with the laws and other legal arrangements. Moreover, this section explains the special audit objectives, if any.

Brief information on the auditee: *Brief information is given on the following topics by using the information obtained while understanding the entity.*

1- *Legislation regarding the entity: This section briefly explains the primary and secondary legislation governing the entity and its activities.*

2- *Entity's activity area: This section gives brief information on the entity's field of activity and its environment.*

3- *Human resources: This section gives information on the entity's human resources policies, recruitment types and personnel structure.*

4- *Entity's financial structure: This section summarizes the financial information related to the entity. For example, it provides information on balance sheet size, income-expense and profit/loss status, the sources of its funds and the main revenue and expenditure items.*

5- *Entity's relationship with other entities: This section explains the auditee's relationship with other entities, particularly with the Ministry of Finance and, if any, the authority of Ministry of Finance or other relevant entities, (such as the Treasury or SPO) on the entity's financial activities.*

6- *Entity's relationship with affiliated or other relevant entities: This section explains the auditee's relationship with the affiliated entities or relevant entities.*

7- *Possible changes related to the entity: This section explains the possible legal or administrative changes related to the entity or its activities, if any. For example, closing the entity,*

affiliating it to another entity, or merging it with another entity or possible changes related to its activities.

Information on IT system: This section explains the entity's IT system and evaluations made about this system.

Information on accounting system: This section explains the accounting system governing the entity and the evaluations made about this system. It specifies the documents used in the recognition of transactions and specific accounting transactions, if any.

Entity's internal control environment: This section gives brief information on the entity's internal control environment, its own risk assessment, control activities and internal audit.

Scope of the audit: If audit groups decide to restrict the audit scope, this section explains the content and rationale for this restriction.

Materiality level: This section specifies the materiality level that has been determined. It also explains the selected materiality base and rationale for the materiality rate.

Account areas of the entity: This section specifies the account areas that are determined for the entity's financial statements separately as significant and insignificant account areas.

Risk assessment: This section indicates the inherent and control risk assessments made for significant account areas.

Audit approach: This section explains the audit approach determined for account areas by specifying which audit procedures will be executed in each account area along with its level.

Audit schedule: This section specifies the time periods foreseen for audit planning, execution and reporting.

Auditors working in the audit team: This section lists the names, titles and responsibilities of the auditors, who working in the audit team for the audit work (if necessary, it covers the auditors or external experts specialized on IT).

Contact persons of the Auditee: This section lists the names, titles, phone numbers and emails of those responsible or concerned people from the auditee, who will be contacted.

1.7.2.2 Approval of Audit Plan

The audit plan drafted by the audit team is submitted to the head of group for approval. The head of group reviews the audit plan and approves it, if he finds it sufficient. If not, he discusses the deficiencies and uncertainties with the audit team. Necessary changes are made on the plan in line with the suggestions of the head of group.

The auditor completes the audit plan by using ANNEX 12 Control Form for Audit Planning.

1.7.3 Audit Program

After the audit plan is approved and before launching the audit work, the auditor prepares an audit program that presents the details of the audit work for each account area.

In the audit plan, the auditor specifies which audit procedures will be performed for each account area. In the audit program, the auditor explains in detail which audit techniques will be used to execute those procedures in each account area for the audit assertions.

Audit program is a written list, which indicates the nature, timing and extent and executioner of audit procedures and techniques that are selected to be performed by the auditor in order to obtain audit evidence with the purpose of achieving the audit assertions for each account area.

While preparing the audit program, the auditor designs the substantial procedures and techniques according to the assurance level determined. If additional tests of controls will be made, the auditor specifies their timing and account areas. In addition, the auditor indicates in the audit plan the need to use the works of an expert and how to use other works.

1.7.3.1 Scope of Audit Program

The auditor prepares the audit program in order to show how to achieve the audit assertions for the account areas.

Audit program is not only an important tool that specifies the details of audit work and thus guides the auditor in performing audit procedures, ensures a division of labour between the auditors in the audit team, saves time, and enables the recording and control of audit works, but also a guide for the subsequent audit works.

Since the audit techniques to be performed to obtain sufficient audit evidence will have different aspects and methods in each account area, the auditor will prepare an audit program with a different scope for each account area.

After the audit program is reviewed and approved by the head of group, it is added to the audit plan. ANNEX 10 Audit Program Form is used for drafting the audit program.

During the audit, the auditor shall make the necessary changes in the audit program based on the emerging conditions by using his professional judgement. The changes made in the audit program are submitted to the head of group for approval.

1.7.3.2 Combined Application of Tests of Controls and Audit Program

While the regularity audit is divided into phases such as planning, execution and reporting, it is not always possible to separate those phases from each other during the conduct of an audit. Sometimes, an activity foreseen for the execution phase concerns the planning, and sometimes an activity performed in the planning phase can directly generate an audit outcome. In this context, while according to this manual, the planning phase of an account area entails testing the controls, determining the control assurance and writing proper audit programs, and while the execution phase entails performing those programs, it is possible to perform the tests of controls and audit procedures foreseen in the audit program simultaneously for some account areas based on the nature of the auditee.

Tests of controls and substantive procedures may be applied together; if it is possible to examine an entity's accounts, which are not directly linked to the activities related to revenues, expenditures and assets (such as cash and allocation transactions, advance payment, deposit and guarantee transactions, memorandum accounts) but which are affiliated and complementary to those activities with techniques such as analytical procedures, confirmation, comparison and process analysis; and if the audit team thinks that they can obtain sufficient audit assurance for the said accounts through those techniques.

If decision is made to perform the tests of controls and audit programs together for specific account areas, combined audit forms are prepared for the said account areas by using the form in ANNEX 11.

Combined audit forms are added to the audit plan after they are reviewed and approved by the head of group.

1.7.3.3 Audit Assertions

While obtaining audit evidence on which to base the audit opinion, the auditor specifies the audit procedures and techniques in the audit programs, which will correspond to the audit assertions, by considering the relevant assertions he wants to achieve in each account area so that there is no doubt about the accuracy of the audit opinion he will form.

Audit assertions are the representations expressed explicitly or implicitly by the auditee in the financial statements and its attachments. Testing the truthfulness of those representations is an audit assertion for the auditor. Assertions fall into three categories: assertions about income and expenditure accounts/income statements, assertions about assets and resources accounts/balances and assertions about the financial statement presentations and footnotes.

Audit assertions about Income and Expenditure Accounts /Income Statement

Completeness: All income and expenditure transactions pertaining to the period covered by the financial statements should be recorded and reflected to the financial statements.

Accuracy: All income and expenditure transactions should be recorded with their real values. All incomes and expenditures should be stated in their own financial statement with the appropriate amounts.

Occurrence: All income and expenditure transactions should have occurred in the period covered by the financial statements, and their records should reflect the entity's real transactions.

Cutoff: All transactions included in the records should belong to the relevant period or pertain to that period as per its results.

Compliance: Entities are liable to act in accordance with legislation while performing the duties assigned by laws. The records and information in the entity's financial statements and their underlying income, expenditure and asset transactions should comply with the laws and other legal arrangements.

Classification: All income and expenditure transactions should be recorded in the proper accounts.

Audit assertions about Assets and Resources Accounts /Balances

Completeness: Financial statements should indicate all assets and resources of the auditee as of the date of their issuance. The assets and resources that should be included in the entity's balance or financial statements should not be left unrecorded.

Ownership: Assets and resources should pertain to the entity or be in its use as of the balance sheet date or the date of the issuance of financial statements.

Valuation: Assets and resources should indicate their value as of the balance sheet date or the date of the issuance of financial statements. Valuation entailed by legislation in relation to assets and resources should be made.

Existence: Assets and resources should exist at the auditee as of the balance sheet date or the date of the issuance of financial statements. The assets that do not physically exist or liabilities that will not be legally paid should not be included in the balance or financial statements.

Compliance: The transactions regarding the acquisition and use of assets and resources should comply with laws and other legal arrangements.

Classification: Assets and resources should be recorded in relevant accounts.

Audit assertions about the Financial Statement Presentation and Footnotes

Occurrence: Information in valuation accounts and footnote disclosures should be based on the transactions and events that occurred.

Completeness: All disclosures that should be included in the footnotes on the financial statements and valuation accounts should have been stated.

Classification and Understandability: Information in the financial statements should be recorded in proper accounts (appropriately classified), appropriately presented and their footnotes should be clearly expressed.

Compliance: Information included in the footnotes on the financial statements and valuation accounts should comply with the laws and other legal arrangements.

Accuracy and Valuation: Information included in the footnotes on the financial statements and valuation accounts should be stated fairly and with true amounts.

The auditor uses the audit assertions to assess the material misstatement risks in all accounts and transactions underlying financial statements and the footnotes and disclosures on the financial statements and to plan the audit procedures and techniques.

The auditor shall obtain audit evidence for each audit assertion. Audit evidence obtained for an assertion may not mean obtaining audit evidence for another assertion. (For example, the audit evidence obtained for the “existence” of inventories does not automatically mean that audit evidence is obtained for the “valuation” of those inventories.)

However, if it is possible to obtain sufficient appropriate audit evidence in an account area by performing an audit procedure, it may not be necessary to prepare an audit program for each audit assertion in this account area. For example, if the auditor knows the total income size (tax base) for the payable treasury share in a revolving fund entity, and if he finds, on the financial statements, that the annual amount to be paid as a certain percentage of this size is fairly calculated and sent, he may not prepare a separate audit program at assertion level.

EXECUTION



In the execution phase, the auditor shall perform the audit procedures and techniques, which are designed in the audit plan, its annexed programs and any combined audit forms in order to achieve the audit assertions, and also collect the audit evidence, on which to base the audit opinion. The auditor shall also perform the procedures to find any public loss (which will be the subject of a judicial report) in the execution phase. This phase is where the auditor obtains sufficient appropriate audit evidence by performing the procedures and techniques defined in the audit programs to achieve the audit assertions.

Audit procedures are the methods used for obtaining audit evidence. Audit procedures consist of Substantive Procedures and the Tests of Controls.

Substantive procedures include the analytical procedures and the detailed examination of the accounts and transactions underlying the accounting records.

Tests of controls refer to the testing of the accounting and internal control systems of an auditee in order to obtain audit evidence about whether these systems operate effectively enough to prevent any material misstatements.

In the audit plan, the auditor shall indicate the nature, timing and extent of the audit procedures to be performed for each account area. The audit program shall indicate in detail which audit techniques (examining records and documents, operational-physical audit, observation, written and oral debriefing, confirmation, comparison, recalculation, reperformance, etc.) will be used to perform those procedures, which are designed according to audit assertions in each account area.

2.1 OBTAINING AUDIT EVIDENCE

2.1.1 Introduction

ISSAI 1500

The auditor shall design and perform the audit procedures to obtain sufficient appropriate audit evidence on which to base the audit opinion.

Audit evidence is the information used by the auditor in arriving at conclusions on which to base the audit opinion. Audit evidence shall be obtained from the accounting records and documents covering information on the accounts, transactions and other sources underlying financial statements. In certain cases, audit evidence obtained by a predecessor auditor shall be accepted as audit evidence, if it is relevant to the current period.

For the auditor, the most important source for audit evidence is the documents related to the accounts and transactions underlying financial statements. Particularly the evidence related to income-expense accounts shall be obtained by examining those documents.

Accounting records include: general journal that records the entity's operations, debts, receivables, rights and obligations; general ledger; auxiliary books; all records that are kept in books and tables.

The management of an entity is responsible for preparing the entity's financial statements. The auditor shall obtain audit evidence by applying techniques such as analysing the entity's accounting records and documents, inquiry, and recalculating certain transactions according to relevant legislation. Through performing such audit techniques, the auditor shall decide whether the accounting records are internally consistent and information in the financial statements is accurate. However, it is not possible to obtain sufficient audit evidence about the financial statements, on which to base the audit opinion, solely from the accounting records and documents. Therefore, the auditor shall also obtain audit evidence from other sources. The other sources of evidence, which the auditor can use, include the minutes of meetings, confirmations from third parties, management's instructions, experts' reports, internal directives and guidelines.

The sources of audit evidence are:

- *Accounting records and documents (general journal, general ledger, auxiliary books etc.);*
- *Minutes of meetings;*
- *Confirmations of third parties;*
- *Management's instructions;*
- *Experts' reports;*
- *Internal directives; and*
- *Guidelines.*

2.1.2 Sufficient Appropriate Audit Evidence

ISSAI 1520

The auditor shall obtain relevant and reliable audit evidence by using substantive analytical procedures. The auditor shall use the substantive analytical procedures near the end of the audit or at the end of the audit, to assist him when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

Sufficiency is a measure of the quantity of audit evidence. Appropriateness is a measure of the quality of audit evidence; it refers to the relevance and reliability of audit evidence with respect to the audit assertion. The concepts of sufficiency and appropriateness are interrelated, and they should be taken into consideration while obtaining audit evidence to ensure that the audit opinion has a strong basis. When there is a risk of material misstatement, it is necessary to obtain more audit evidence in terms of quantity. However, quantity is not important when there is audit evidence highly reliable in terms of quality. In this respect, there is a correlation between sufficiency and appropriateness.

Reliability of audit evidence is influenced by certain factors such as its source and nature. While assessing those factors, the auditor shall use his own professional judgement. However, the following generalizations can be made regarding the reliability of different types of audit evidence:

- Audit evidence obtained from an independent source outside the entity is more reliable than the one obtained within the entity.*
- Audit evidence that passes through effective control processes within the entity is more reliable.*
- Audit evidence obtained by auditor's observation directly is more reliable than the one obtained indirectly.*
- Documented or digital audit evidence is more reliable than the one based on oral statement.*

The auditor shall consider that the information and documents to be used as audit evidence must be reliable and sufficient.

Reliability of audit evidence increases when the evidences obtained from different sources or of a different nature are consistent. If the audit evidence obtained from one source is not consistent with the one obtained from another source, the auditor shall determine which additional methods to perform to solve this inconsistency.

Since it will not always be possible to examine all information and documents obtained during the audit, the auditor shall use sampling and other selection methods to reach a conclusion related to audit assertions. The auditor shall exercise professional judgement and professional scepticism while evaluating the quantity and quality i.e. sufficiency and appropriateness of audit evidence that will support the audit opinion.

2.1.3 Audit Procedures

Audit procedures are the methods of obtaining audit evidence. An audit procedure is a body of activities, which have a logical relationship and unity, and which include different phases such as planning, execution and result assessment. Each audit procedure has its own purpose. For example, tests of controls, as an audit procedure, aim to evaluate the effectiveness of an auditee's control

systems and identify their control deficiencies, while substantive procedures (another audit procedure) aim to test the assertions in the financial statements and determine the material misstatements influencing the financial statements. The auditor shall use one or more audit techniques while performing these audit procedures. For example, while performing internal control tests, the auditor shall use one or more techniques together, such as observation, written or oral debriefing, examining documents; and while performing substantive procedures, he may use one or more techniques together, such as examining documents, operational-physical audit and confirmation.

In the audit plan, the auditor shall indicate the nature, timing and extent of the audit procedures to be performed for each account area. The audit program shall indicate in detail which audit techniques will be used to perform those procedures, which are designed according to the audit assertions in each account area. Audit procedures comprise the substantive procedures and the tests of controls.

2.1.3.1 Substantive Procedures

Substantive procedures are performed to detect material misstatements at the assertion level. They comprise the analytical procedures and the detailed examination of accounts and transactions underlying accounting records. The auditor shall plan and perform the substantive procedures so as to decrease the material misstatement risks identified at the planning phase.

There are two types of substantive procedures:

- Direct Substantive Procedures,
- Substantive Analytical Procedures.

2.1.3.1.1 Direct Substantive Procedures

Direct substantive procedures are the detailed examination of accounts and transactions. In order to maintain the planned level of assurance related to audit assertions, the auditor can obtain audit evidence through a detailed examination of accounts and transactions by considering the identified risks. The detailed examination of accounts and transactions is more appropriate for certain audit assertions, particularly for obtaining audit evidence with respect to “accuracy”, “compliance” and “existence”.

2.1.3.1.2 Substantive Analytical Procedures

The analytical procedures performed in the execution phase are substantive analytical procedures. Substantive analytical procedures are performed to detect or confirm the accuracy of the information included in the financial statements through analysing financial and non-financial data. Those procedures are used particularly for large-scale transactions, of which realization quantity over time can be estimated.

Various techniques can be used while applying the analytical procedures. Those techniques vary from simple comparisons to complex analyses utilizing advanced level statistical techniques. Analytical procedures can be applied to the entity’s financial statements, their underlying statements and tables, and the individual items on the financial statements. The techniques to be applied and their application level depend on the auditor’s professional judgement.

2.1.3.1.3 Application of Substantive Procedures

The auditor may use either the direct substantive procedures (detailed examination of accounts and transactions for reaching audit assertions) or the analytical procedures or both.

While selecting the procedure to be applied, the auditor exercises professional judgement to decide which method will be more effective. In some cases, the auditor may decide that the application of substantive analytical procedures by themselves provides sufficient audit evidence. For example, if the applied tests provide sufficient appropriate audit evidence that the internal control systems are operating effectively, the auditor may find it sufficient to apply only substantive analytical procedures for certain transactions. In other cases, the auditor may decide that, based on risk assessment, the detailed examination of accounts and transactions by themselves or with the substantive analytical procedures will be sufficient.

The decision about which audit procedures will be used for reaching specific audit assertions depends on the auditor's expectations related to the efficiency and effectiveness of the existing procedures in decreasing the detection risk.

There is a linear relationship between the scope of substantive procedures and the account areas where these procedures are applied and the material misstatement risk related to the relevant audit assertions. As the risk increases, the scope of the substantive procedure applied by the auditor extends. In other words, as the control assurance obtained by testing controls gets lower, the scope of the substantive procedures to be applied gets wider. When using sampling method, extending the scope of substantive procedures would mean increasing the sample size.

2.1.3.2 Tests of Controls

The auditor tests the effectiveness of internal control through the tests of controls during the planning phase and obtains a control assurance. Then, he designs the substantive procedures that he will execute based on this control assurance. In this phase, if there are different controls operated at different times, the auditor executes the tests of controls regarding their effectiveness or additional tests of controls in order to validate the accuracy of internal control assurance (obtained in the planning phase) throughout the period. If a change occurs in the accounting and internal control systems after the tests of controls made in the planning phase, the auditor shall test the effectiveness of the internal controls after this change.

After the internal control tests in this phase, if an outcome occurs that requires a change in the control assurance obtained by the auditor in the planning phase, the auditor shall make the necessary change in the audit approach and revise the audit plan and program.

2.1.4 Techniques to Obtain Audit Evidence

While applying the audit procedures, the auditor obtains audit evidence by using one or more of the techniques given below. An audit technique may provide audit evidence for one or more audit assertions. On the other hand, obtaining audit evidence for different audit assertions may require the application of different audit techniques. For example, while a physical audit of fixtures (tangible assets) provides evidence that they are among the entity's assets i.e. for the assertion of "existence" it may not provide evidence for the assertions of "ownership" and "valuation". Obtaining audit evidence for the assertions of "ownership" and "valuation" would require the examination of records and documents pertaining to the fixtures. Main techniques for obtaining evidence are:

- Examining records and documents*
- Operational-physical examination*
- Observation*
- Written or oral debriefing*
- Confirmation*

- Comparison
- Recalculation
- Reperformance

2.1.4.1 Examining Records and Documents

Inspection is the examining of records or documents, generated either inside or outside the entity, in paper form, electronic form, or other media. Examining records and documents provides reliability at different levels based on these documents' nature, sources, and the effectiveness of internal control systems applied while generating them in the case of documents generated inside the entity.

2.1.4.2 Operational-Physical Examination

Operational and physical examination involves the physical audit of tangible assets and contract commitments. While this examination provides audit evidence for the "existence" of tangible assets, it does not provide evidence for other audit assertions such as "valuation" or "ownership".

2.1.4.3 Observation

Observation refers to the monitoring and observation of processes or transactions performed by the entity. For example, the auditor may accompany the stocktaking by the entity personnel or observe the operation of internal control systems. Although it is possible to obtain audit evidence through observation, one should consider the effect of the timing of observation or the act of observation itself on the work.

2.1.4.4 Written or Oral Debriefing

Written or oral debriefing means receiving information from informed people inside or outside the entity. Examples include requesting information from third parties through official letters or receiving information through oral interviews with the people inside the entity. The responses received in this way may provide the auditor with information about audit evidence that was previously unidentified or non-corroborated.

2.1.4.5 Confirmation

Confirmation refers to the inquiry and inspection made by the auditor for validating the information included in the accounting records.

2.1.4.6 Comparison

Comparison is made for examining the accuracy of transactions, and means the cross-examination and similar works.

2.1.4.7 Recalculation

Recalculation means checking the mathematical accuracy of the records and documents underlying financial statements. For example: controlling the accuracy of existing amortization records by recalculating the amortizations.

2.1.4.8 Reperformance

Reperformance involves the auditor's independent execution of the processes and control mechanisms originally performed by the internal control systems of the entity. Reperformance is a rarely executed technique for obtaining audit evidence for evaluating the effectiveness of internal control systems, and in general, computer aided audit techniques are used for it.

2.1.5 Implementation of Audit Programs

In the audit plan, the auditor determines the audit approach based on the risk assessment made during the planning phase and he designs the nature, timing and extent of the audit procedures suitable for this approach for each account area. In the audit program, he indicates in detail which audit techniques will be used to perform the audit procedures, which are designed to obtain sufficient appropriate audit evidence in each account area for each audit assertion. In the audit program, he also identifies the type and quantity of the transactions to be examined in each account area, in other words, whether he will use sampling, and, if so, which sampling method to use.

In this phase of the audit, the auditor obtains audit evidence by performing the audit techniques which he indicated in the audit program to achieve audit assertions. The audit evidence obtained would be the basis for the audit opinion the auditor will express. The auditor obtains the audit evidence by examining the accounts and transactions in the following way.

2.1.5.1 Examination of Opening Balances and Data Transferred from a Prior Period

2.1.5.1.1 Examination of Opening Balances

“Opening balances” are the account balances that exist at the beginning of the current period. Opening balances are based upon the closing balances of the prior period. They reflect the effects of transactions of prior periods and accounting policies applied in the prior period.

The sufficiency and appropriateness of the audit evidence to be obtained by the auditor regarding the opening accounts is based on the following:

- The accounting policies followed by the entity,
- Whether the prior period’s financial statements were audited and, if so, the nature of the auditor’s report (opinion),
- The risk of material misstatement in the current period’s financial statements, and accounts’ nature/structure,
- The significance of the opening balances relative to the current period’s financial statements.

If the prior period’s financial statements are audited by another auditor, the auditor may obtain sufficient appropriate audit evidence by reviewing the working papers of the predecessor auditor.

If the prior period’s financial statements are not audited or the methods used are not satisfactory, the auditor performs additional audit procedures.

2.1.5.1.2 Examination of Data Transferred from a Prior Period

Data transferred from a prior period comprises the amounts and disclosures of a prior period included in the financial statements of the current period. This data constitutes an integral part of the financial statements of the current period.

The examination of data transferred from a prior period covers the comparison of the current period’s figures with the prior period’s figures, and it constitutes an element of the financial statements of the current period.

The accuracy of the data transferred from a prior period is important in terms of the accuracy of the current period data in the financial statements.

The auditor shall obtain audit evidence on the following issues regarding the data transferred from a prior period:

- Accuracy of the data transferred from a prior period,
- Consistency of the prior period's accounting policies and the current period's accounting policies.

2.1.5.2 Examination of Current Year Accounts and Transactions

In the planning phase, the auditor indicates in the audit program which audit procedures and techniques will be used and how many transactions in each account area will be examined for the income and expense accounts, asset and resource accounts, financial statement footnotes and valuation accounts.

In this phase, the auditor shall examine the following in detail to achieve the audit assertions for the financial statement covering that account area;

- If he has decided on 100% examination: all records and documents regarding that account area.
- If he has decided on examining certain transactions: records and documents pertaining to the selected transactions and the records and documents identified through sampling the remaining population,
- If he has decided on sampling: records and documents identified through sampling the whole population.

2.1.5.3 Examination of Financial Reports and Statements

When the examination of current period's accounts and transactions is completed, the auditor examines the financial statements organized by the management of the entity in terms of the following aspects. However, if the prior periods are audited, the examination on the financial statements is performed at the beginning of the execution phase.

For this purpose, the following is considered:

- Whether the financial statements are in accordance with legal requirements,
- Whether accounting policies are in accordance with the account directives, whether they are disclosed as necessary, whether they are executed consistently, and whether they are fit for the auditee,
- Whether the financial statements, as a whole, are consistent with the information on auditee and suitable for the outcomes of the audit procedures,
- Whether the disclosures in the financial statements are reasonable,
- Whether the sub-totals in the financial statements are consistent with the total amounts.

2.1.6 Use of Additional Procedures in Obtaining Evidence

2.1.6.1 Examination of Related Party Transactions

The aim of examining related party transactions is to assess:

- The effect of significant related party transactions on the financial statements and
- Fraud risk factors arising from them.

Related party exists when one party can exert control over the other party or can exert influence over the other party in its financial and administrative decisions or is subject to joint control with the other party. In public sector, the related parties may include:

- The entities that, directly or indirectly, control or are controlled by the auditee,
- *Affiliated units,*
- The entities that exert influence over the auditee and have a direct or indirect interest or their *close family members,*
- Key management personnel or their close family members.

If the entity's management provides information on related parties and transactions with them, the auditor shall test the sufficiency and accuracy of this information. If the entity's management does not provide information on the related parties and transactions with them, the auditor may do the following to identify the related parties and transactions with them:

- examining the legislation pertaining to the entity,
- meeting with the prior period's auditor,
- examining the prior period's working papers,
- inquiring the people who are in close relationships with those charged with governance and *their relation with the auditee,*
- meeting with the key personnel within the entity or other personnel related to the entity,
- examining the decisions made by *those charged with governance.*

If there is a legislation regarding such transactions between an entity or entity's personnel and related parties, the auditor shall consider this legislation. There may be regulations that forbid public sector employees (particularly their close family members) from entering into professional or commercial relations with the entity. In such cases, audit procedures shall be extended to inquire the executions against regulations.

2.1.6.2 Examination of Other Information and Documents Produced by Entity

Other information and documents include the reports prepared by the entity's management, annual activity reports, financial summaries or disclosures, human resources data and investment plans.

Since any inconsistency between financial statement and the other information and documents would damage the reliability of the financial statements, the reasons for such inconsistencies shall be investigated, and their effect on audit opinion shall be considered.

2.1.6.3 Obtaining External Confirmation

External confirmation is a substantive procedure, which refers to the process of obtaining and assessing the audit evidence through a direct communication with a third party about a certain matter that influence the entity's disclosures on the financial statements.

While determining the need for external confirmation, the auditor shall consider the risk assessment made for account areas and whether the evidence obtained through other audit techniques are sufficient to decrease the risk of material misstatement for those account areas. If the evidence obtained through other techniques is sufficient, external confirmation may not be needed. In some cases, obtaining evidence only through external confirmation may be sufficient for an audit assertion. In some cases, the auditor may need external confirmation to test the accuracy and reliability of the existing audit evidences.

The auditor shall prepare the external confirmation requests in accordance with specific audit assertions. While preparing the confirmation requests, the auditor shall consider the financial statement assertions and factors that influence the reliability of confirmations.

While designing the shape of the external confirmation request, the auditor shall consider previous audit experiences, experiences in similar works, the nature of confirmed information, the entity's environment, and the executions (related to confirmation) of confirming party.

While considering the reliability of the evidences obtained through external confirmation, the auditor shall exercise his professional judgement by considering the sufficiency, independency, authority to respond, the knowledge on the subject of confirmation request and the neutrality of confirming party.

The auditor may request external confirmation from banks, other audit personnel, other entities (SSI, Land Registry Office etc.) or other real or legal persons, as necessary.

2.1.6.4 Use of Other Works

The auditor uses the works of other auditors and experts during the audits. The auditor is authorized and responsible for forming the audit opinion, the content of audit procedures and techniques, and the timing and extent of the audit, and he may use other works partially.

Other auditors mean: internal auditors, independent external auditors, other public auditors, controllers or inspectors. Experts mean: real or legal persons who have specialized knowledge, skills and experiences in a specific area other than auditing and accounting.

The auditor uses the other works for the following purposes:

- *To obtain sufficient appropriate audit evidence regarding the audit assertions when the auditor's knowledge and experiences are limited or when certain works cannot be performed due to time limitation,*
- *To perform the audit in a timely, effective, efficient and economic manner.*

2.1.6.4.1 Using the Work of Internal Auditors

Before using the work of an internal auditor, the auditor shall consider whether this audit work is reliable and adequate for the purposes of the audit. This consideration is made during the audit planning, and the areas where internal audit works will be used are also determined.

While using the findings included in the works or reports of internal auditors, the auditor may use those findings directly as audit evidence or re-examine the transactions, which the internal auditors examined, or examine similar transactions based on the evaluation of internal audit, which he has performed during the planning phase.

2.1.6.4.2 Using the Work of Experts

The auditor may use the work of an expert to obtain audit evidence. Obtaining sufficient appropriate audit evidence for reaching the audit assertions may require an expert's evaluation, opinion or report. While using the work of an expert, the auditor shall make sure that the said work is adequate for the audit purposes.

Experts mean: real or legal persons who have specialized knowledge, skills and experiences in a specific area and who are assigned during the audits for using these specialized knowledge, skills and experiences.

The auditor cannot use an expert for the issues which he should know as per his profession. The need to use an expert is determined by the auditor during the audit planning. However, experts may be used in other phases of audit as necessary.

In the rationale for the need to use an expert, the auditor shall state the qualifications, work area and estimated work period of the expert to be used. If the auditor had doubts about the expert's competency and objectivity he shall consider whether he will obtain sufficient audit evidence from the expert's work. In such cases, the auditor may deem it necessary to obtain audit evidence from another expert or perform additional audit procedures and techniques.

The auditor shall consider whether the expert's findings and report are adequate as audit evidence, whether they contradict the data in the financial statements and whether they can support the audit opinion. While considering those, the auditor shall consider:

- *whether the information and sources used by the expert are sufficient, appropriate and reliable;*
- *whether the working methods and techniques used by the expert are appropriate and reliable.*

If the work of an expert does not provide sufficient audit evidence or if the outcomes are not consistent with the other audit evidence, the auditor shall resolve the matter. For this purpose, the auditor shall consider discussing this with the auditee or expert or performing additional audit procedures including the use of another expert.

If decision is made to use an expert, the auditor shall follow the procedures in the relevant legislation.

2.1.6.4.3 Using the Reports of Independent External Auditors

Upon the TCA's request or pursuant to the entity's laws or other relevant legal arrangements, the auditor may obtain audit evidence by using the reports prepared by independent external auditors during the audit of public entities, whose accounts and transactions are audited by external auditors.

If the auditor uses the reports of independent external auditors, he shall make sure than those reports provide sufficient appropriate audit evidence.

2.1.6.4.4 Using the Work of Other Auditors

The auditor may use the works of other audit personnel during an audit to obtain audit evidence. In this framework, the auditor may use the works of other auditors who have audited the auditee's:

- Accounts and transactions *of the period being audited*,
- *Financial statements of the prior period*,
- (under partial audit) one or more of the significant accounts in the financial statements being *audited*,

- Consolidated or affiliated or relevant unit financial statements,

While planning to use the work of other auditors, the auditor shall:

- consider the professional competency and experience of other auditors.
- make sure that the works of other auditors *are adequate for his purposes*.
- consider the independency of other auditors *and/or their units and whether independence is maintained*.
- consider whether other auditors follow rules regarding accounting, auditing and reporting.

While evaluating the other auditors' work to use their significant findings, the auditor may *mutually discuss the audit methods and techniques they performed or review the written documents (checklists, question forms) and working papers*.

2.2 EVALUATING AUDIT RESULTS

2.2.1 Introduction

The auditor shall evaluate the audit results to reach a conclusion as to whether the financial statements present accurate and reliable information, the design and effectiveness of internal controls, whether the entity's transactions and operations comply with the laws and other regulations. While evaluating the audit results as a whole, the auditor shall consider all significant matters including the errors, control deficiencies and fraud indications that are detected.

The auditor shall evaluate the audit results as a whole with accounts areas and financial statements. While making this evaluation, the auditor shall focus on the results of the direct substantive procedures, analytical procedures and tests of controls, which he has performed for the account areas.

While making this evaluation, the auditor shall also determine whether the errors detected during the audit are material. The materiality of errors should be considered in terms of both quantity and quality/effect.

The auditor shall discuss with the auditee's management to confirm whether the detected misstatements are actually errors. If the auditee's management corrects the errors, the auditor shall consider this while evaluating and generalizing the errors.

2.2.2 Evaluating the Results of Audit Procedures

2.2.2.1 Evaluating the Results of Tests of Controls

During the audits, the tests of controls can be executed in two levels. The first one is the tests of controls that are performed during the planning phase to understand whether the controls are operational in significant account areas. The auditor evaluates the results of the tests of controls, performed during the planning phase, again in the planning phase. Then, he identifies a suitable audit approach for each account area accordingly (See 1.5 Identification of Audit Approach). The second one is the tests of controls that are performed to understand whether the additional controls that he finds during the execution phase (field work), and to review his evaluation as to whether the controls are operational in the planning phase. If the tests of controls performed during the execution phase indicate the existence of control deficiencies or deviations, which the auditor could not detect in the planning phase, the auditor informs the management of the entity and revises the audit plan as necessary.

Tests of controls normally do not find errors based on monetary amounts.

The auditor informs the management of the entity on all control deficiencies detected with the tests of controls and the measures to be taken for their removal.

2.2.2.2 Evaluating the Results of Substantive Analytical Procedures

If the analytical procedures reveal a difference between the recorded value and the value estimated by the auditor in an account area, the auditor considers whether this difference is acceptable. If the difference is acceptable, it means that the analytical procedures provide sufficient assurance. If the difference is not acceptable, in other words, if the difference is material, the auditor shall resolve this by applying the proper substantive procedures and techniques to investigate the causes of this difference and detect the monetary errors, if any.

2.2.2.3 Evaluating the Results of Direct Substantive Procedures

Evaluating the results of direct substantive procedures (detailed examination of accounts and transactions) reveals the monetary errors. The evaluation of the detected monetary errors varies based on whether the auditor examines all records and transactions in an account area, whether he examines all the high-value or key transactions in an account area and performs sampling for the remaining transactions, or whether he examines the account area by applying sampling to the whole account.

2.2.3 Evaluating Monetary Errors

If the substantive tests applied to each account area reveal any monetary error, the auditor first identifies to which audit assertion/s this error is related.

If the auditor thinks that the error is a public loss related to the audit assertion "compliance", he shall examine all the similar transactions and calculate all of the public loss in that account area.

If the auditor detects errors related to other audit assertions through sampling, and if the error's nature requires generalization, according to the sample selection method the auditor applies, the said error is generalized to its population, and this provides the auditor with the estimated error amount in that account area. (See 2.2.3.5 Considerations in Generalizing Errors)

The auditor shall make an inquiry and evaluation regarding the error's nature. *The errors in an account area may be as follows:*

Individual errors: They exist only in the transactions under scrutiny. (For example, miswriting figures inadvertently)

Systematic errors: They occur in the same way in similar operations under scrutiny. (For example, recording the investment expenditures as current expenses throughout the year)

Exclusive errors: These are the errors that pertain to a specific transaction group, to the transactions made by a specific person or that pertain to a specific unit or are made in a specific region. It is possible to define the borders of exclusive errors. (For example, the errors found in the treatment payments pertain to a specific pharmacy only)

The auditor follows the below process to find the total error in each account area or the estimated total error:

2.2.3.1 Evaluating Errors in Areas Where All Transactions are Examined

When all transactions in an account area are examined (100% examination), the total error amount in the said account area represents the total of all errors detected as a result of the inquiry. The errors detected as a result of the examination are called the known/calculated errors, and since the total error amount is known, there is no need to generalize.

2.2.3.2 Evaluating Errors in Areas Where Specific Transactions are Examined

When all the selected transactions (ones with high values or the key ones) are examined in an account area and the remaining transactions are examined through audit sampling, the total error in the said area is the total of: the total error found by examining the selected transactions (known/calculated error) and the total error found by extending the error found in the sample population to the whole population (generalized error). This is called the estimated total error in the account area.

Error estimation is applicable in the account areas where sampling is made. Estimated error is found by estimating how much error may be in the whole account area based on the amount of error found in the examined sample.

If all sampled transactions are examined and non-statistical sampling method is applied to the remaining transactions, no generalization is made for the mistakes there.

2.2.3.3 Generalization of Errors in Areas Where Statistical Sampling Method is Employed

When a population is examined by the statistical sampling method or when transaction selection or monetary unit selection technique is applied, and then the total error found in the examined sample units is extended to the whole population, this is called the generalization of error. If more than one population is identified in an account area, generalization will be calculated separately for each population. In this case, the total error estimated in the account area is found by adding up the generalized errors for each population. In addition, the amount of known (calculated) errors in the account area, if any, will be added to this total.

2.2.3.3.1 Evaluating Errors in the Use of Monetary Unit Based Selection Technique

Calculating the generalized error: *The following formula is used to generalize the errors in the account areas where monetary unit sampling is made:*

The error amount found in each examined sample is divided into the sample amount, and this gives us the error rate in that sample. Total error rate is found by adding the error rates in the samples that have errors.

The sampling range is found by dividing the population value into the calculated sample number, and then the generalized error is found by multiplying the total error rate by this sampling range.

Formula for Generalized Error (for the Monetary Unit Based Selection Technique)
Generalized Error = Total error rate in population x Sampling range
Example: Calculating generalized error
The whole account area of the additional course expenses is considered as a population, and the monetary units based sampling is applied. Necessary data are:
Population value: 100.000.000-TL

Sample size: 20
Sampling range: 100.000.000 /20 = 5.000.000-TL

Errors	Recorded value (TL)	What should be (TL)	Error value (TL)	Error rate (Error amount / recorded value)
1.	500	450	50	0.10
2.	1500	1200	300	0.20
3.	70	77	-7	-0.10
Total error rate				0.40

Generalized error =0.40 x 5.000.000= 2.000.000 TL
In this example, all transactions included in the account area of additional course expenses are within the sampling so generalized error is also the estimated error.

In cases where the monetary unit based selection technique is applied, if the whole account area is subjected to sampling, the estimated error is the generalized error. If the high-value or key transactions are separated and examined, the errors found in those transactions are considered as the known/calculated error, and they are added to the generalized errors to find the estimated error.

2.2.3.4 Evaluating Errors in Areas Where Non-Statistical Sampling Method is Employed

In the non-statistical sampling method, the sample size, sample quantity and selection method are determined by the auditor’s professional judgement. Therefore, the samples determined through this method are used for information or evaluation purposes rather than representing the population. Errors found by this method cannot be generalized. If the auditor thinks that the detected errors also exist in other transactions in the population, he shall examine all similar transactions.

2.2.3.5 Considerations in Generalizing Errors

If the auditor uses the sampling method for all or some of the transactions in an account area, the selected sample should represent the population. Therefore, the errors found in the sample are generalized to the whole population with certain exceptions. Errors are generalized so that the auditor makes the error estimation for the whole account area. Thus, the auditor is able to compare the estimated error and materiality level for each account area and form an audit opinion for the auditee. However, it is not possible to generalize every error. In order to generalize an error, it is necessary to have sufficient evidence that the said error may also exist in other transactions within the population. For example, if the auditor concludes that the error he found is an individual error, in other words, if he thinks that the error pertains only to the examined transaction, he may not extend this error to the general population.

In some cases, although the auditor applies sampling, he may conclude that the error has certain borders because he concludes that the error exists in certain types of transactions, in transactions performed in certain places or by certain people. In such cases, the auditor shall limit the generalization only to the said transactions.

If the auditor considers that the detected error is systematic, in other words, the error occurs in certain transactions in the same way, he finds the known error value by calculating the whole error. For example, when it is found that provincial auditors are paid the regional audit rates when their per diem allowances are paid by the auditee, the known error is found by calculating the whole error for the per diem allowances paid for the audit assignment only. This error cannot be extended to all allowances.

As per the compliance audit and TCA's judiciary function, the errors related to public loss cannot be extended to the whole population as well because even through the errors related to public loss are similar, their quantity or those responsible for them may be different. In addition, the auditor shall find the exact value and the persons responsible for the public loss in every transaction.

2.2.3.6 Evaluating Audit Results in Respect of Account Areas

The auditor compares the estimated error and materiality for each account area. For each account area the auditor may decide:

- that there is no need to perform an additional work, if the estimated error is less than 50% of materiality.*
- to perform an additional work in the related account area, if the estimated error is more than 50% of materiality.*
- to perform an additional work or express an adverse or qualified audit opinion, if the estimated error is more than materiality.*

The ratios above are given to provide a rough idea, so they are not absolute. The auditor may decide on whether to perform an additional work based on his professional judgement outside those ratios. The determining factor here is that the auditor's judgement about whether the account area presents accurate and reliable information is based on sufficient audit evidence.

If 100% of the transactions of an account area are examined, the comparison of the detected error with the materiality level will be made only to reach a judgement about that area.

2.2.3.7 Combined Evaluation of Results Pertaining to All Account Areas

It is necessary to compile the results obtained from the account areas in order to assess the whole account/ financial statements. Total estimated error for whole account is obtained by adding the total errors found for each account area.

Compiling the results (sample)	
Account area	Estimated error
<i>Salary payments</i>	<i>2.000</i>
<i>Investment expenses</i>	<i>3.000</i>
<i>Service purchase expenses</i>	<i>5.000</i>
<i>Total estimated error</i>	<i>10.000</i>

Total estimated error found for the whole account by compiling the results obtained from account areas is compared with materiality, just like the case with each account area. It may be decided:

- that there is no need to perform an additional work, if the total estimated error is less than 50% of materiality.
- to perform an additional work in the related account area, if the total estimated error is more than 50% of materiality.
- to perform an additional work or express an adverse or qualified audit opinion, if the total estimated error is more than materiality.

Just like the consideration with each account area, the auditor may decide on whether to perform an additional work based on his professional judgement outside those ratios for his considerations of all account areas. The determining factor here is that the auditor's opinion about whether the financial statements, as a whole, present accurate and reliable information is based on sufficient audit evidence.

2.2.3.8 Performing Additional Work

If the auditor decides to perform additional works in an account area he shall detect the source of errors. If errors derive from the transactions made by a person or from certain types of transactions, the auditor performs additional work only for those transactions. If the errors are not limited to a certain field like this, i.e. it is possible for any unaudited transaction in the account area to have an error; he examines more transactions by increasing the sample size.

If the auditor feels the need for an additional work when assessing the results in the account areas as a whole, he performs the additional work in the account areas where errors intensify.

Some errors do not significantly influence the account area (when considered by account areas) although they are common all across the account/account areas, or they do not influence the audit opinion because (when considered together at the level of financial statements) the errors are set off from each other or their total is below the materiality level. In such cases, the auditor considers the need for performing additional works in the areas where those errors derive from and changing the risk assessment in the planning.

2.2.3.9 Evaluating Errors in Respect of Quality and Impact (Reporting Materiality)

Misstatements in the financial statements should not be evaluated only in quantity. An error that stays below the materiality level in terms of the monetary value may be significant in respect of quality or impact (See 1.2 Determining Materiality). If a figure that should necessarily be included in the financial statements is not recorded, this may require forming an adverse or qualified audit opinion, even though the amount is very low. An error that will influence the future years' financial statements may lead to the same result.

2.2.4 Auditor's To-Do-List in Detecting Fraud

Fraud means an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an

unjust or illegal advantage. Without prejudice to the legal matters to be considered by the auditor with respect to fraud, the auditor shall consider the fraudulent transactions that may lead to material misstatements in the financial statements and reports.

When the audit work reveals an error, the auditor shall consider whether this is due to fraud. If the auditor thinks that the misstatement may be due to fraud, he obtains additional corroborative evidence. If the auditor concludes that it is a case of fraud or exploitation based on the audit evidences, he collects all relevant documents and information and concludes the matter by following the procedures in the TCA's legislation.

When the auditor comes across cases that may indicate any material misstatements in the financial statements due to fraud, he shall perform the methods and techniques that will determine whether the financial statements are free from material misstatements.

Here are a few indications of the material misstatements in the financial statements due to fraud:

- Misapplication of accounting principles,
- Management's unwillingness and negligence in providing information and documents, management's attitude that makes the audit works difficult,
- Significant lack of accounting records,
- Significant difference between the results of analytical procedures and estimated ones.

The auditor may encounter fraud while examining the accounts, transactions and financial statements of the auditee, or the TCA may receive denunciations from the entity or third parties.

2.2.5 Matters to be Reported Urgently to Auditee

When the auditor makes significant detections and evaluations regarding the auditee, he informs the entity's management about this case as soon as possible reserving the legal right to make a different evaluation. Such cases are:

- Detection of significant control deficiencies in the entity,
- Suspected fraud even though its impact on the financial statements may not be significant,
- Detection of fraud and material misstatements,

In case of detecting fraud or suspected fraud, the auditor decides which officers to alert in the auditee based on the nature of the detected case, on condition that it does not harm his subsequent works.

2.3 FINALIZATION OF AUDIT

2.3.1 Introduction

After completing the audit process, the auditor performs additional works to assure the accuracy of the resulting audit opinion. Those works are:

- *Performing the complementary analytical procedures;*
- *Determining the competency of the scope and procedures of the audit;*
- *Reconsidering the risk of fraud;*
- *Examining subsequent events.*

The auditor shall make sure that the audit activity complies with the regularity audit manual. The auditor uses “ANNEX 13 Control Form for Finalizing Audit” to determine and document this compliance.

Control form is designed to help the auditors check whether the audit is completed in accordance with the audit manual.

2.3.2 Implementation of Complementary Analytical Procedures

Complementary analytical procedures, performed at the end of the audit, enable the auditor to evaluate the following:

- *whether the initial understanding of the entity's operations is consistent with the data resulting from the audit,*
- *whether the cause of the significant fluctuations detected in the accounts and transactions during the course of audit overlaps with the obtained audit evidence,*
- *whether the performed audit procedures were satisfactory to the auditor.*

The auditor tries to support the results of the audit on the financial statements or components with the data from those inquiries, and makes a general judgement on the consistency on the financial statements. Moreover, this data helps the auditor find the areas that will require the performance of additional procedures.

It may occur that the financial fluctuations and relations detected through the analytical procedures cannot be explained sufficiently or that there is inconsistency with the audit evidence obtained through other audit procedures. In such cases, it is necessary to make more inquiries and examinations to draw a sufficient conclusion and resolve inconsistencies.

2.3.3 Assessing the Sufficiency of the Audit

Based on his first understanding of the entity, the auditor determines the audit approach in the planning phase and performs the audit procedures according to this approach. In the finalization phase of audit, the auditor assesses the sufficiency and appropriateness of the audit procedures he performed and the audit evidence he obtained from those procedures in terms of forming the basis for an accurate audit opinion. If there are hesitations regarding the sufficiency and appropriateness of those procedures and evidences, the auditor considers whether additional audit procedures are necessary to obtain additional audit evidence.

If there is need to perform additional works, the auditor performs the additional audit procedures by changing the audit approach for the relevant account area.

2.3.4 Reconsidering the Risk of Fraud

The auditor shall take the risk of fraud into consideration during the course of the audit. Evidence obtained during the audit may change or support the judgement made previously about fraud. For example, the auditor may find an inconsistency or discrepancy or deficiency in the account records during the audit.

In the finalization phase of audit, the auditor shall consider whether the audit results require an additional or different audit procedure or a change in the previously-made fraud risk assessment.

2.3.5 Examining Subsequent Events

Subsequent events refer to the events that occur between the end of a fiscal year and the completion date of audit (date of the report) and the facts that occur in the audited period but become known after the date of the report. These events have a material effect, either positive or negative, on the financial statements.

2.3.5.1 Events Occurred After the Date of Financial Statements

When the auditor realizes that the events, which occurred after the date of the financial statements, had a material effect on those financial statements (for example; after the end of fiscal year, the entity's assets are significantly damaged or destroyed due to a natural disaster, or the entity enters into or relieves from significant obligation due to a finalized litigation), he considers whether such events are fully disclosed in the financial statements as appropriate. If such events occurred but not disclosed in the footnotes of the financial statements, the auditor requests the entity to correct those footnotes and disclose this matter. If the entity refuses the correction request, the auditor takes this into consideration while forming an audit opinion.

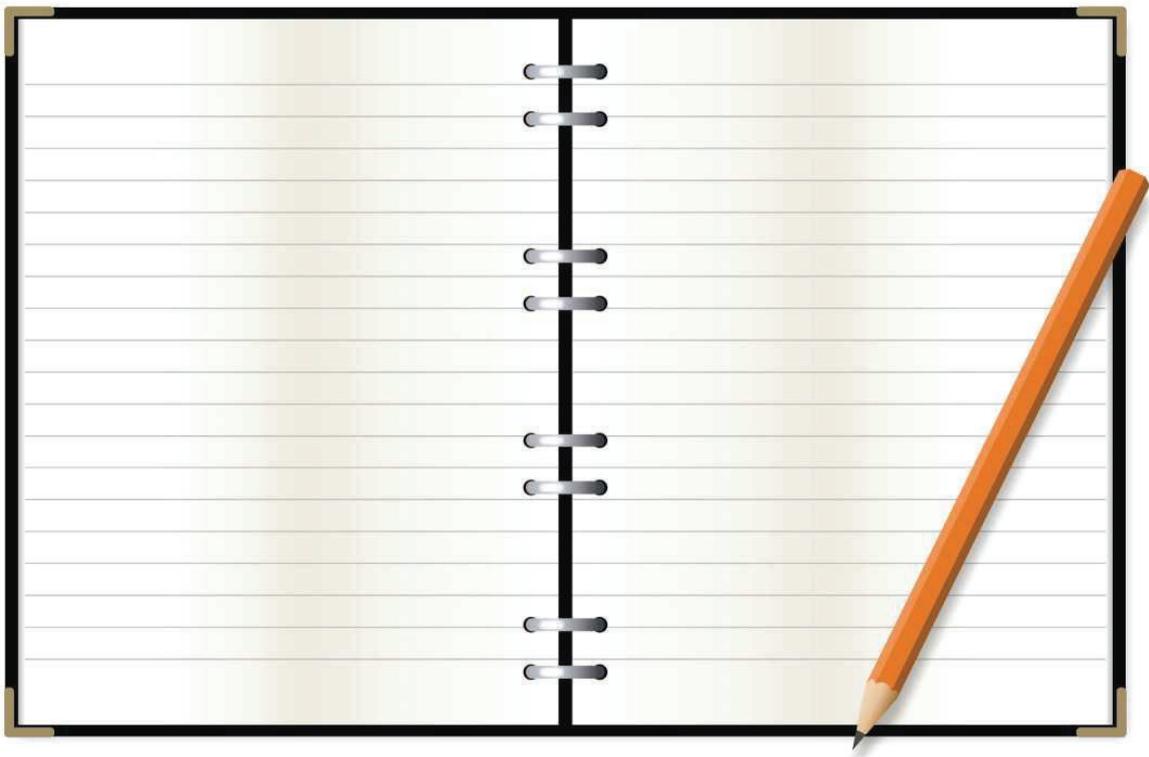
2.3.5.2 Events That Become Known After the Date of Audit Report

After the date of the audit report, the auditor no longer has a responsibility to make any inquiry into the financial statements or perform special audit techniques. However, if the auditor learns or realizes an event that has a material effect on the financial statements after the date of the audit report (for example, a fraud that occurred in the audited period but went undetected), he may need to write a new audit report. In this case, the auditor shall consider whether the financial statements need to be corrected.

If the auditor considers that the said events are material enough to require the correction on the financial statements, and if the correction is not possible due to legal or technical issues or the management refuses to correct the financial statements, the auditor expresses qualified or adverse opinion in his new report.

If the management of the entity makes the necessary corrections, the auditor considers the sufficiency and appropriateness of those corrections, writes a new report based on the new situation and explains the rationale for the corrections and the new report in a paragraph.

REPORTING



In the reporting phase, the audit results, which are obtained in the execution phase, are reported. After a regularity audit, the audit findings are evaluated, and then an Audit Report, which pertains to the financial operations of the auditee for one year, and a Judicial Report, which pertains to the public loss that the auditors find, is drafted.

3.1 DRAFTING AUDIT REPORTS

3.1.1 Introduction

After completing the regularity audit, the auditor shall report his results in a suitable way.

The content of the audit report shall be easy to understand and free from ambiguity. It shall consist of information supported by sufficient appropriate audit evidence. The issues included in the report shall be analysed and concluded in an appropriate way. All findings and conclusions shall be supported by sufficient, appropriate and reliable evidence in the working papers. Audit reports give a true and fair view of the facts and are neutral.

Audit report: *This report indicates whether the financial reports and statements of an auditee present fairly, in all material respects, its financial position and operating results or whether its financial reports and statements are free from material misstatements, after determining whether its revenues, expenditures and assets as well as its accounts and transactions pertaining to those are in compliance with laws and other legal arrangements and assessing whether its financial management and internal control systems are established properly and operate effectively. This report is sent to the auditee for its response.*

TCA audit report: *After receiving the response of the auditee, the relevant group prepares a final report based on the audit report. This report contains the audit opinion and its basis. It forms the basis for the External Audit General Evaluation Report, which is submitted to the Parliament by the TCA.*

3.1.1.1 Form of Audit Report

Different types of reports can be determined by the Presidency by taking into account the budget types or diversity of public entities subject to the TCA audit.

In cases deemed necessary by the Presidency, changes can be made at the Form of Audit Report with regard to its sections and contents.

Audit report has the following parts:

Title Page

It covers the name “Turkish Court of Accounts” and the name of auditee along with the year of the auditee’s account.

Information on the Financial Structure and Financial Statements of the Auditee

This part gives brief information on the auditee’s financial structure (governing applicable financial reporting framework, accounting system, budget size etc.) and financial statements.

It states that the audited documents (from amongst the books, statements and documents), which are required to be sent to the TCA at the end of the accounting period, are counted, as per Article 5 of “Procedures and Principles for Submitting Auditee Accounts to the TCA and Informing Accounting Units and Accounting Officers”. It also states that the audit is performed and concluded by considering those documents and the other documents included in Article 8 of the Procedures and Principles.

It states that the audit opinion is issued for the main financial statements within the scope of the applicable financial reporting framework, to which the auditee is subject.

Summary information shall be given about the resources which are not shown in the auditee's budget (such as social facilities, revolving fund, companies, and special accounts).

Responsibility of the Auditee's Management

The following explanation is given without making any additions or extractions in order to explain the responsibilities of the auditee:

"The management of the auditee is responsible for: submitting its financial reports and statements, which are prepared in accordance with the governing accounting standards and principles with accurate and reliable information, to the TCA in a timely manner; ensuring that its financial statements, as a whole, give a true and fair view of its operations and transactions in all material respects; that its financial reports and statements are free from material misstatements whether due to fraud or error; that its revenues, expenditures and assets as well as accounts and transactions pertaining to those are in compliance with the laws and other legal arrangements; establishing, operating and monitoring its financial management and internal control systems; and preparing and submitting the information and documents that form the basis for the audit on the financial statements."

Responsibility of the TCA

The following explanation is given without making any additions or extractions in order to explain the responsibilities of the TCA.

"The TCA is responsible for determining whether the revenues, expenditures and assets of an auditee as well as its accounts and transactions pertaining to those are in compliance with laws and other legal arrangements; giving an opinion on the reliability and accuracy on the financial reports and statements, and assessing the financial management and internal control system, in its audit reports."

Basis, Objective, Method and Scope of Audit

The following explanation is given without making any additions or extractions in order to explain the basis, objective, method and scope of audit.

*"The bases of audit are: the TCA Law no. 6085, generally accepted *International Auditing Standards*, the secondary legislation of the TCA and audit guidelines.*

The objective of audits are: to determine whether the accounts and transactions of an auditee are in compliance with laws and other legal arrangements; to obtain reasonable assurance about whether the financial reports and statements give a true and fair view of all operations and transactions of auditee; and to assess the financial management and internal control systems.

Audits are performed to obtain evidence on the accuracy, reliability and compliance of the financial statements of an auditee and its accounts and transactions pertaining to those by performing the proper audit procedures and techniques and the risk assessment method. During risk assessment, the financial management and internal control systems that generate the financial statements are also assessed, particularly for determining the audit procedure to be applied.

The scope of audit consists of: the auditee's financial reports and statements; all financial operations, decisions and transactions pertaining to its revenues, expenditure and assets; records, books, information, documents and data pertaining to those (including electronic ones); and financial management and internal control systems."

The following statement is added to this paragraph when there is no scope limitation:

“Sufficient appropriate audit evidence is obtained for forming an audit opinion on this matter.”

The following statement is added to this paragraph when there is partial scope limitation:

“Sufficient appropriate audit evidence is obtained for forming an audit opinion on this matter except for the issues mentioned below.”

When deemed necessary, explanations are made, for example on the excluded matters, their reasons (being unable to obtain sufficient evidence on one or more accounts due to a barrier by the auditee or a failure to provide information/documents, excluding certain areas related to the auditee from the audit scope etc.) and the effect of this situation on the financial statements.

When there is a full scope limitation (a scope limitation causing a disclaimer of opinion), the part titled “Basis, Objective, Method and Scope of Audit” reads as follows:

“The bases of audit are: the TCA Law no. 6085, generally accepted International Auditing Standards, the secondary legislation of the TCA and audit guidelines.

The objective of audits are: to determine whether the accounts and transactions of an auditee are in compliance with the laws and other legal arrangements; to obtain reasonable assurance about whether the financial reports and statements give a true and fair view; and to assess the financial management and internal control systems

Audits are performed to obtain evidence on the accuracy, reliability and compliance of the financial reports and statements of an auditee and its accounts and transactions pertaining to those by performing the audit procedures and techniques and the risk assessment method. During risk assessment, the financial management and internal control systems, where the financial statements are generated, are also assessed, particularly for designing the audit procedure to be applied

The audit scope includes the auditee’s financial reports and statements; all financial operations, decisions and transactions pertaining to its revenues, expenditure and assets; records, books, information, documents and data pertaining to those (including electronic ones); and financial management and internal control systems.

However, the management of the auditee did not/ could not provide the information/ documents/ financial statements that are necessary to execute the audit and form an audit opinion for the year of ... in our audit (Here, information and documents are explained. For example: the books, statements, documents and necessary substitutive documents and information to be submitted to the TCA at the end of account period pursuant to Procedures and Principles for Submitting Auditee Accounts to the TCA and Informing Accounting Units and Accounting Officers).”

Assessment of Internal Control System

A general evaluation of the internal control system of the auditee shall be included, considering answers given to the questions in the “Evaluation Form for Internal Control System” (Annex 4) attached to the report.

Audit Findings

This part covers the findings effecting financial reports and statements, findings related to compliance, and the assessments regarding financial management and internal control. It provides information on how and to what extent the findings affect the financial reports and statements. The matters with the same content and pertaining to different units of the auditee are combined and addressed in the same finding.

Attention is paid to make sure that the findings included in the report are symmetrical to the size of the operations and transactions of the auditee, that they are relatively significant in terms of essence and effect and as systematic as possible. The report does not cover the insignificant and individual matters that will not attract the interest of the parliament or the senior management of auditee.

Those issues mentioned in the individual judicial reports, which are systematic, widespread and generalized, may take part also in financial audit reports as findings without stating the final recipient and amount.

Legislation related to findings is summarized, and the recommendation, if any, is included in the report.

Signature and Date

The audit report is signed and dated by the audit team and the head of group.

Address

Contact information of the TCA is included.

Annexes

The explanations made by the auditee on the corrections (which the auditee has performed in line with the suggestions made by the audit team based on the audit findings) are included in the part titled "Matters Corrected by the Auditee".

3.1.1.2. Form of TCA Audit Report

Different forms of report can be determined by the Presidency by taking into account the budget types or diversity of public entities subject to the TCA audit.

After receiving the responses by the auditee, the relevant group starts to work on the TCA audit report. The TCA audit report includes the following parts:

Title Page

It covers the name "Turkish Court of Accounts" and the name of auditee along with the year of the auditee's account

Information on the Financial Structure and Financial Statements of the Auditee

The part in the audit report is taken verbatim.

Responsibility of the Auditee's Management

The part in the audit report is taken verbatim.

Responsibility of the TCA

The part in the audit report is taken verbatim.

Basis, Objective, Method and Scope of Audit

The part in the audit report is taken verbatim.

Assessment of Internal Control System

A general evaluation of the internal control system of the auditee shall be included, considering answers given to the questions in the “Evaluation Form for Internal Control System” (Annex 4) attached to the report.

Basis for Audit Opinion

This part includes: those findings of the audit report, which affect the financial reports and statements that form the basis for the audit opinion based on relevance, and those findings pertaining to compliance, which affect financial statements, along with their item numbers in the audit report.

Those findings of the audit report, which do not form the basis for audit opinion, are included in the sections titled “Findings and Considerations”, “Other Issues to be Notified to the Auditee (ANNEX-3)”, “Issues to be Notified to the Presidency (ANNEX- 4)” or “Removed Issues (ANNEX-5)” based on relevance, along with their finding numbers in the audit report.

The finding is finalized by referring the points raised by the auditee’s response to the finding. When necessary, recommendations related to findings are explained after the findings under the title of “suggestion”. This part uses appropriate wording for suggestions and explains what the auditee should do. It may also include the legal regulation that should be made by the Parliament.

This section shall give information about the findings affecting the audit opinion in terms of prevalence and materiality, headings and how they affect the audit opinion.

The audit opinion is determined by taking into account the total amount of findings affecting the audit opinion.

In addition, this section shall evaluate the errors that are considered to be important in terms of impact and quality although they remain below the materiality level.

Audit Opinion

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The auditor forms an opinion based on an evaluation of the conclusions drawn from the audit evidence obtained. The auditor clearly expresses that audit opinion through a written report that also describes the basis for that opinion.

The auditor completes all audit procedures to form an audit opinion on the financial statements of the auditee, and evaluates and records the audit evidence he obtains. The auditor’s opinion should be corroborated by the evidence he obtains. While evaluating the audit results, the auditor makes sure that the audit evidences support the conclusions drawn and that the final audit results support the audit opinion.

After compiling all audit evidence and evaluating the audit results as explained above, the auditor forms an audit opinion on the basis of the audit results by evaluating whether the financial reports and statements/accounts are free from material misstatements and whether the accounts are in accordance with legal provisions.

The opinion paragraph includes one of the following audit opinions, which expresses whether the financial reports and statements of the entity, as a whole, give a true and fair view of the entity's financial position and performance in all material respects and whether they are free from material misstatements or errors due to fraud or error:

- *Unmodified opinion*
- *Qualified opinion*
- *Adverse opinion*
- *Disclaimer of opinion*

While forming the audit opinion, if the audit team has a difference of opinion, the decision of the head of the audit team prevails.

The following factors require the auditor to issue an opinion other than the unmodified opinion:

a) Any restriction on the scope of the audit (in the working area): a restriction on the scope of the audit may include a limitation imposed by the auditee, the auditor's failure to obtain sufficient evidence for one or more of the account areas, the auditor's failure to perform some audit procedures, missing documents and records.

b) Significant deviations from the accounting principles or a disagreement between the entity's management and audit team about the acceptance of different accounting policies by the entity, their execution methods or the sufficiency and appropriateness on the financial statement disclosures.

c) Any material misstatements and errors in the financial reports and statements or their underlying accounts and transactions that effect those financial reports and statements.

d) Detecting an issue involving fraud that is submitted to the court and that can have a material effect on the nature of the financial reports and statements.

Under the title of "Audit Opinion", the following are expressed regarding the *unmodified, qualified, adverse opinion or disclaimer of opinion*.

Unmodified audit opinion

This is the opinion expressed when the auditee's financial reports and statements give a true and fair view of the entity's financial position and performance in all material respects.

When the auditor issues an unmodified opinion, he must have obtained sufficient appropriate audit evidence that the auditee's financial reports and statements give a true and fair view of the entity's financial position and are free from material misstatement.

The following is expressed when issuing an unmodified audit opinion:

In our opinion, the above mentioned and attached financial reports and statements of (Name of the Auditee (according to content titles)) for the year ... present accurate and reliable information in all material respects.

Qualified audit opinion

This is the opinion expressed when, without prejudice to some exceptions, the auditee's financial reports and statements, as a whole, give a true and fair view of the entity's financial position and performance in all material respects.

When a qualified opinion is issued, the matters excluded from the unmodified opinion are explained in the section titled "Basis for Audit Opinion".

In case there is a restriction on the scope, if there are no material misstatement that effect the accuracy and reliability on the financial statements except for the area with restrictions, or if, while there are material misstatements in only one or a few account areas, the misstatements do not affect the financial statements as a whole; a “qualified opinion” shall be issued if the auditor thinks that the financial statements are accurate and reliable except for the areas where the scope is restricted or the account areas where material misstatements exist.

The following is expressed when issuing a qualified audit opinion:

In our opinion, the above mentioned and attached financial reports and statements of (Name of the Auditee (according to content titles)) for the year ..., present accurate and reliable information, except for the account areas of ... in all material respects due to the reasons explained in the “Basis for Audit Opinion”.

In case there is a restriction on the scope, while expressing an opinion on the areas that have no restriction, the auditor expresses the scope restriction and chooses the suitable paragraph from the following opinion paragraphs.

(Qualified audit opinion due to scope (partial scope) restriction)

In case there is a restriction on the scope, while expressing an opinion on the areas that have no restriction, the auditor expresses the scope restriction and chooses the suitable paragraph from the following opinion paragraphs.

(Audit opinion when there is restriction on the scope and unmodified opinion is issued for the areas that have no restriction)

We cannot express an opinion for the account area/areas/matters/units of ... of (Name of the Auditee (according to content titles)) for the year ..., for which we could not obtain sufficient appropriate audit evidence, which are explained in the ‘Basis, Objective, Method and Scope of Audit’. However, in our opinion, with respect to the audited areas, the above mentioned and attached financial reports and statements present accurate and reliable information in all material respects.

(Audit opinion when there is restriction on the scope and adverse opinion is issued for the areas that have no restriction)

We cannot express an opinion for the account area/areas/matters/units of ... of (Name of the Auditee (according to content titles)) for the year ..., for which we could not obtain sufficient appropriate audit evidence, which are explained in the ‘Basis, Objective, Method and Scope of Audit’. However, in our opinion, with respect to the audited areas, the above mentioned and attached financial reports and statements do not present accurate and reliable information due to the reasons explained in the “Basis for Audit Opinion”.

(Audit opinion when there is restriction on the scope and qualified opinion is issued for the areas that have no restriction)

We cannot express an opinion for the account area/areas/matters/units of ... of (Name of the Auditee (according to content titles)) for the year ..., for which we could not obtain sufficient appropriate audit evidence, which are explained in the 'Basis, Objective, Method and Scope of Audit'. However, in our opinion, the above mentioned and attached financial reports and statements present accurate and reliable information, in all material respects, for the account areas other than the account areas of ..., among the audited areas due to the reasons explained in the "Basis for Audit Opinion".

Adverse audit opinion

This is the opinion expressed when the auditee's financial reports and statements do not give a true and fair view of its financial position and performance in all material respects.

The auditor shall express an adverse opinion if he thinks that expressing a qualified opinion is not sufficient and appropriate to emphasize that the financial statements are misleading and missing and if the misstatements are very material and general for the financial statements.

When an adverse opinion is issued, its reasons are explained in the "Basis for Audit Opinion".

The following is expressed when issuing an adverse audit opinion:

In our opinion, the financial reports and statements of (Name of the Auditee (according to content titles)) for the year ... does not present accurate and reliable information due to the reasons expressed in "Basis for Audit Opinion".

Disclaimer of opinion (Full scope restriction)

The auditor may express a disclaimer of opinion when, due to a scope restriction, he cannot obtain sufficient appropriate audit evidence on the auditee's financial reports and statements and their underlying accounts and transactions.

The reports that express a disclaimer of opinion gives information about why and which information/documents (required for forming an opinion on the financial reports and statements) the entity could/did not provide in the "Basis, Objective, Method and Scope of Audit", and the opinion paragraph is as follows:

(Audit opinion in case of disclaimer of opinion (Full scope restriction))

We do not express an opinion on the financial reports and statements of ...“(Name of the Auditee (according to content titles)) for the year... because the auditee could/did not provide the financial reports and statements and information and documents (information/documents are disclosed in the "Basis, Objective, Method and Scope of Audit") that are required to form an audit opinion.

Findings and considerations

This section covers those findings (given under the "Audit Findings" in the audit report) which should be submitted to the Parliament but which are not effective on audit opinion, those findings which are related to compliance, and the considerations regarding the financial management and internal controls along with the finding numbers in the audit report.

Follow-up

The situation regarding the fulfilment of the findings in the audit report of previous year/years by the auditee is followed, and the results are evaluated (by ANNEX 2 Follow-up Form Regarding the Audit Reports of Previous Year/Years).

Signature and Date

The audit report of the TCA is signed and dated by the audit team and the head of group.

Signature and date section is removed from the report when it is sent to the Parliament or to the auditee.

Address

Contact information of the TCA is included.

Annexes of the report

Annex-1 Auditee's Financial Statements

Annex-2 Follow-up Form Regarding the Audit Reports of Previous Year/Years

Annex-3 Other Issues to be notified to the Auditee

Annex-4 Issues to be notified to the Presidency

Annex-5 Removed Issues

Annex-6 Report Evaluation Council's Report and Group Evaluation

Annex-7 Auditee's Response

Annex-8 Corrections by the Auditee

The annexes of the report may include: Auditee's Financial Statements, Follow-up Form Regarding the Audit Reports of Previous Year/Years, Other Issues to be notified to the Auditee, Issues to be notified to the Presidency, Removed Issues, Report Evaluation Council's Report and Group Evaluation, Auditee's Response, and Corrections by the Auditee. In case one of those annexes does not exist based on the nature of the report, the annex numbers are continued.

Annex-1: Auditee's Financial Statements

This section covers the auditee's statements (balance sheet and performance table / income statement and cash flow statement, if any) on which the opinion is issued.

If corrections are made in the statements by the auditee after their completion and submission, the corrected statements are attached to the report. However, the original statements (the statements before correction) are also attached to the report by explaining the matter regarding correction. If the corrections made are not taken into consideration during the audit, the auditor explains which statement forms the basis for the opinion.

This section is an annex to the reports that will be sent to the Parliament and to the auditee.

Annex -2: Follow-up Form Regarding the Audit Reports of Previous Year/Years

In relation to the findings of the audit reports of previous year/years, the transactions and explanations made by the auditee are included in this section by filling in the Follow-up Form Regarding the Audit Reports of Previous Year/Years.

Annex-5 Removed Issues

This section covers the matters removed upon the auditee's response, with the finding numbers in the audit report.

This section is removed from the reports that will be sent to the Parliament and to the auditee.

Annex -6: Report Evaluation Council's Report and Group Evaluation

This section covers the report of the Report Evaluation Board and the group's short evaluation based on the commission report.

This section is removed from the reports that will be sent to the Parliament and to the auditee.

Annex -7: Auditee's Response

This section covers the auditee's response.

This section is removed from the reports that will be sent to the Parliament and to the auditee.

Annex -8: Corrections by the Auditee

This section covers the matters which are found during the audit and which are accepted and corrected by the auditee after the discussions made with the auditee.

This section is removed from the reports that will be sent to the Parliament and to the auditee.

3.2 DRAFTING JUDICIAL REPORTS

In the regularity audits, the auditor audits whether the financial reports and statements present accurate and reliable information, whether the internal controls are designed and operated effectively and also whether the revenues, expenditures and assets of an auditee as well as accounts and transactions pertaining to those are in compliance with the laws and other legal arrangements.

During the audit of the accounts and transactions of the public entities under general government; if the auditors find a matter that causes public loss that is against the laws and other legal arrangements, they take the defence statements of those responsible in the framework of the relevant provisions of the TCA's Audit Regulation and draft a judicial report as of the end of fiscal year. However, the end of fiscal year is not waited for the judicial reports, which are drafted for the public loss found during the audits, which are executed on the basis of a sector, program, project or matter, or the audits, which are executed in the year or as of years notwithstanding the account or activity period for the auditee's accounts, transactions, activities and assets.

For the public loss in each transaction examined during the regularity audit; the auditor shall identify the exact amount of the public loss and those responsible for it. If the auditor finds any public loss in the transactions that he examined in an account area and if he thinks that there is public loss in similar transactions, he shall examine all relevant transactions and calculate the exact amount of public loss. It is worth noting that, although sampling is made in an account area, errors found in relation to public loss cannot be generalized. While the errors causing public loss are similar, their amounts and those responsible for them may be different.

The inquiry and judicial reports in relation to the detected public losses are drafted by the teams that execute the regularity audits.

Judicial reports are signed by the reporting auditor /audit team and head of group, and submitted to the Presidency with its attached documents. In the judicial reports, the documents, which constitute the audit evidences, should be attached to the report along with their originals.

FOLLOW-UP



In auditing, all phases of the audit are reviewed to ensure quality and effectiveness.

Reviews that are performed while executing the audit have two stages. The First Level Review is performed by the head of the team, and the Second Level Review is performed by the head of the group.

For the reviews that are performed after completing the audit, the Presidency selects a certain number of audits from the audits completed every year, and teams that are independent from the audit teams carry out the review for quality assurance after the audit. The team assigned with the review shall consist of the auditors who did not take part in the audit of the entity and who have the sufficient professional experience.

Audit results are followed with the purpose of evaluating to what extent the auditee fulfils the recommendations given for the findings in the audit reports, after the TCA's reports are discussed in the Parliament.

The follow-up task shall be performed by the audit team that performed the audit. However, different auditors can perform this task when necessary.

4.1 REVIEW (FOLLOW-UP OF AUDIT)

4.1.1 INTRODUCTION

In auditing, all phases of the audit shall be reviewed to ensure quality and effectiveness. The main purpose of the review is to ensure that the audit opinion on the financial statements is accurate, that sufficient appropriate audit evidence is obtained to base the audit opinion on, and that the audit is in compliance with the legislation, international auditing standards and the TCA's procedures.

Ensuring quality and effectiveness in auditing is achieved by the review during the audit and by the review for quality assurance after the audit.

4.1.2 REVIEW DURING THE AUDIT

The review on the financial audit works ensures that the works performed and the audit results obtained are evaluated by the team leader and the head of group in addition to the auditor who actually performed the audit, so that the results obtained unilaterally are also reviewed by the others.

Review is performed after each audit phase during the course of the audit, instead of just the finalization phase.

Review enables the team leader or the head of group (who performs the review) to perform an effective control over the audit and ensures that the necessary changes are made in time during the audit. The team leader or the head of group (who performs the review) informs the auditor on the deficiencies regarding the audit results along with a correction request. The review works that have been performed are documented by using working papers.

Audit review is conducted in two stages: First Level Review (detailed) and Second Level Review (general).

4.1.2.1 First Level Review

In the First Level Review, each working paper, which supports the audit in all phases of audit, is reviewed in detail by a team leader, who did not draft the said working papers. In the First Level Review, the reviewer first makes sure that all tasks required by the audit plan are fulfilled and that the working papers document the audit works as necessary. Then, he examines and evaluates in detail the works performed in different audit phases and the results obtained.

The team leader (who performs the review) proves his evaluation by initialling and dating all working papers that he has reviewed. The team leader draws conclusions about the areas and questions that need to be clarified during the review by interviewing the audit team. The team leader summarizes the review results and the works made with the audit team regarding the review in the working papers.

4.1.2.2 Second Level Review

In the Second Level Review, the head of group selects and reviews certain working papers. The head of group generally evaluates the audit quality. The scope of Second Level Review may vary depending on the experience and knowledge of the audit team, the complexity of audit, and the risk assessment (of the entity) by the auditor performing the Second Level Review.

The head of group (who performs the review) must be fully convinced that:

- *Audit plan is prepared by considering the concepts of risk and materiality, which are based on an understanding of the auditee,*
- *Audit plan indicates how and when to perform the audit and how to obtain the audit evidence necessary for forming an opinion on the financial statements,*
- *Field work for audit is executed according to the approved audit program, and sufficient appropriate audit evidence is obtained indicating that the financial statements are free from material misstatements and issues against legislation,*
- *Significant changes that occurred after the approved audit plan are taken into consideration,*
- *Significant matters related to audit are taken into consideration during the audit,*
- *Audit is performed in accordance with the legislation, international auditing standards and the TCA's financial audit policies and procedures.*

The head of group (who performs the second level review) shall specifically review the working papers prepared by the team leader (who performs the first level review).

The head of group proves his evaluation by initialling and dating all reviewed working papers. The results of the general review are documented by the head of group by using the working papers. The working papers of the review shall clearly record the issues that should be answered by the auditors, who performed the audit, and the explanations given by the auditors to those issues.

The reviewers, who performed both levels of reviews, shall resolve the issues, which they found regarding the audit process and which affect the audit quality and effectiveness, before the audit is completed by interviewing the relevant auditors and audit team.

4.1.3 REVIEW FOR QUALITY ASSURANCE

Reviews for quality assurance are performed after the audit is completed.

Review for quality assurance contributes to the TCA on ensuring the following matters:

- *Audit works are in accordance with laws, the TCA's procedures and the international auditing standards,*
- *Audit opinion is fully corroborated by the audit evidences,*
- *The formation of the accurate audit opinions by the audit teams,*
- *The generalization of the good practice examples, which have been obtained from the audits, to the whole TCA,*
- *Detecting the areas in the regularity audit manual that need to be developed.*

Reviews for quality assurance are performed by a Quality Control Team, which is established by the Presidency from the auditors who have sufficient professional experience and who have not participated in the audit of the auditee. The Presidency selects a specific number of audits from

amongst the audits completed every year. Then, the teams, which are independent from the audit team, perform the review for quality assurance after the audit. By means of the review, it is possible to evaluate the results in relation to the audit planning, execution, reporting, and review phases in terms of:

- *Timing,*
- *Completeness,*
- *Whether the first and second level reviews of the audit are performed properly,*
- *Whether the documentation and summary of the performed works are done completely,*
- *Whether appropriate works and evaluations corroborating the audit opinion are performed.*

Quality Control Team uses ANNEX 14 Quality Control Form for its works. Quality Control Team evaluates the different audit phases on the annual audit file, prepared by the audit team, by using this form.

Quality Control Team may exchange views with the audit team on any issue that needs to be clarified regarding the selected audit activity.

4.1.3.1 Considerations for Review for Quality Assurance

Attention should be paid that the audits selected for quality control represent every activity area of the TCA and that each audit unit covers the audit activity. In addition, the auditors, who are in the Quality Control Team, should have no participation in the audit of the said account.

Review team shall pay particular attention to the following in its works:

- *Was the audit planned and executed on the basis of understanding the auditee sufficiently?*
- *Was the materiality level identified accurately?*
- *Was the risk assessment made so as to determine the material risks related to financial statements?*
- *Was the selected audit approach appropriate?*
- *Were the controls identified and tested accurately for gaining proper control assurance?*
- *Were all kinds of errors (detected during the audit) evaluated accurately?*
- *Were the audit planning and execution reviewed and approved by the audit team leader or head of group on time?*
- *Was the audit work sufficient to provide a basis for the audit opinion?*
- *Was an accurate opinion expressed on the financial statements and was a report drafted?*
- *Was the wording in the drafted audit report and similar documents appropriate?*

4.1.3.2 Results of Review for Quality Assurance

Quality Control Team informs the audit team at the end of its works and, if deemed necessary, may submit to the audit team a report including suggestions (including the matters that should be taken into consideration in subsequent audits). The audit team shall prepare an activity plan in line with the suggestions of the Quality Control Team so that the significant deficiencies are not repeated in the ongoing audits. The following quality control works take into consideration the progress made in fulfilling the recommendations addressed to the audit team in the previous year.

Every year, Quality Control Team prepares an Annual Audit Quality Assurance Report, which summarizes the results of the reviews pertaining to that year, and this report is submitted to the Presidency. This report covers the good practice examples, and gives advices on how to generalize them to the other audits to be performed by the TCA. It indicates those areas of the regularity audit manual that need to be improved. It also includes the practices which could not be implemented as indicated in the manual and the recommendations for necessary measures to be taken for implementing the manual accurately.

4.2 FOLLOW-UP OF AUDIT RESULTS

4.2.1 INTRODUCTION

One of the main objectives of the regularity audit is to increase the performance of the auditees by implementing the audit recommendations and to ensure accountability in the public sector. This objective is realized through the follow-up activity. The follow-up of the audit results is made with the purpose of evaluating to what extent the auditees fulfil the recommendations given for the findings in the audit reports. Therefore, the follow-up plays an important role in the regularity audits. Effective and timely implementation of the recommendations given in reports will become easier with the follow-up activity.

Follow-up activity shall focus on encouraging the implementation of recommendations rather than detecting the unfulfilled recommendations. The auditor shall focus on correcting the weaknesses detected previously.

4.2.2 Assignment for Follow-up

The TCA makes the necessary appointments in groups to detect the developments regarding the implementation of recommendations given in the audit reports, in accordance with the annual work program and the strategic priorities determined by the Audit, Planning and Coordination Council.

The follow-up task shall be performed by the previous audit team. However, when necessary, different auditors can perform this task

4.2.3 Planning, Implementation and Reporting of Follow-up

The follow-up activity is the systematic control of whether the auditees took the necessary measures regarding the significant findings and recommendations given in the TCA reports of previous years.

The follow-up planning is the design of the works to be performed for follow-up. The audit team shall document this design with a working paper. During the planning phase, the audit team lists the recommendations given in the audit report for the follow-up, and identifies the interviews and inquiries to be made for those.

When planning the follow-up activity, the audit team shall consider the following:

The follow-up will focus on evaluating only the implementation of recommendations,

Whether sufficient time has passed to enable the auditee to implement the recommendations given in the report,

The legislative and similar changes in relation to the recommendations.

The execution of follow-up activity means that the audit team detects whether the auditee takes the necessary precautions for each recommendation given in the audit reports and makes the necessary evaluation for this. The auditors shall consider the progress in fulfilling the recommendations or the success rate in fully implementing the recommendations. At the end of the follow-up, the audit team shall share its evaluations with the auditee and receive their opinion.

Reporting the follow-up activity means submitting the evaluations regarding the fulfilment of recommendations to the relevant authorities. This reporting may be done in the audit report of the subsequent years or as a separate report. If the entity performed none or insufficient works for solving the problems and fulfilling the recommendations, then the follow-up report may include new recommendations.

Works performed for the follow-up are shown in working papers.

ANNEXES



ANNEX 1: Form of Working Paper

...GROUP PRESIDENCY-...AUDIT TEAM

Working Paper No:

WP ...

AUDIT ACTIVITIES FOR YEAR...

Name of entity:

Activity name:

Assignment:

Prepared by(Auditor/s)

Reviewed by:(Team leader)

Review date: (■■■■/ /)

Reviewed by(Head of Group)

Reviewed by (■■/■■■/■■■)

Date:

Working
paper
prepared
on:

(■■/■■■/■■■)

WORKS PERFORMED:

REFERENCES:

ANNEX 2: Control Form for Understanding the Entity

Type of information	Work (Performed/ Not performed)	Reference working paper
<i>Legal arrangements related to the entity</i>		
<i>Secondary legislation related to the entity</i>		
<i>Entity's main field of activity and position in the relevant sector</i>		
<i>Entity's organizational structure and operations</i>		
<i>Using the entity's Strategic Plan, Performance Program and Work Schedule to understand its operations and budget sizes as the basis for the audited year</i>		
<i>Analysing the entity's budget estimates and accruals, including the audited year, and the revenues-expenditures and asset-liability items</i>		
<i>Possible legal and administrative changes related to the entity and their effects</i>		
<i>Auditee's relations with the entities to which it is affiliated or related financially or administratively</i>		
<i>Personnel structure and activities of the entity's spending units</i>		
<i>Effect of the Parliament, Government, Media and NGOs on the auditee's operations and reporting of its operations</i>		
<i>News about the entity in written and oral media, internet and other communication platforms</i>		
<i>Legal controversies with financial outcomes, to which the entity or its units are parties, and the accounts and transactions they effect</i>		
<i>Issues mentioned in the audit reports of the previous years of the entity (reports and other kinds of reports prepared by the TCA, (if any) Inspection Council and Internal Audit), the audit and inquiry matters included in the current year audit program of the Internal Audit Unit</i>		
<i>Examining the legislation governing the entity in the recognition of the financial transactions, active accounting system, and financial reporting process</i>		
<i>Examining the IT systems used by the entity in reporting its financial transactions and managerial processes</i>		
<i>Determining the materiality level, which is the basis for planning</i>		
<i>Dividing the entity's account into the account areas, and the preliminary analytical procedures related to the account areas</i>		
<i>Additional works related to the specific accounts and transactions</i>		
<i>Compiling the legislation related to account areas, all published notices and principles, and the entity's internal arrangements</i>		
<i>Understanding the process flows related to the account areas</i>		
<i>Detecting the account areas affected by the IT systems</i>		
<i>Classifying the account areas as significant and non-significant</i>		
<i>Determining the inherent risks</i>		
<i>Identifying the control risks</i>		
<i>Conducting evaluations in relation to the internal control systems *For this evaluation, ANNEX 4: Evaluation Form for Internal Control System will be the basis.</i>		

ANNEX 4: Evaluation Form for Internal Control System

Questions Regarding the Evaluation of the Internal Control System	Evaluation
1. Have the internal control system and its operation been adopted and supported by senior managers and staff?	
2. Have all staff members in the auditee signed the "Ethics Agreement" in the Annex 1 of the "By-Law on Principles of Ethical Behaviour for Public Officials and the Procedures and Principles of Application", and are these contracts included in the personnel files of staff?	
3. Are the duties, authorities and responsibilities clearly defined in the organizational structure of the auditee?	
4. Are the limits of authorities and delegation of authority clearly defined and notified in writing?	
5. Is the strategic plan prepared in accordance with the legislation with the contribution of the auditee's own units and staff?	
6. Has a performance program been prepared including the programs, activities and projects (to be executed by the auditee) and their resource needs, performance targets and indicators?	
7. Has the auditee prepared its budget in accordance with the strategic plan and performance program?	
8. Are corporate risk management studies conducted? Has the auditee assessed the internal and external risks that could prevent the realization of its goals and objectives by conducting systematic analyses and identified measures?	
9. Is the preliminary financial control system established in accordance with the "Procedures and Principles on Internal Control and Preliminary Financial Control"?	
10. Are the job descriptions of the work made in all units of the auditee, and are the processes and/or work-flow charts of these works have been described?	
11. Is there a management information system that will produce the necessary information and reports and provide the possibility of analysis	

<i>needed by the management?</i>	
<i>12. Are the operating results and assessments shown and announced in the administrative accountability report?</i>	
<i>13. Is the Internal Control Monitoring and Steering Committee assigned with the approval of the senior manager?</i>	
<i>14. Is the Action Plan on Compliance with Internal Control Standards (including 18 public internal control standards and 79 general requirements that meet these standards) prepared?</i>	
<i>15. Does the action plan identify the actions for the provincial organization of the auditee and the revolving funds that are bound to and accountable to the senior manager?</i>	
<i>16. Are the results of realization of the actions included in the Action Plan on Compliance with Internal Control Standards followed, and are the studies for revising the plan are monitored and reported?</i>	
<i>17. Is the internal control system evaluated at least once a year, and are the evaluation forms and reports are prepared? (Public Internal Control Guide Annex 1: Sample Internal Control System Questionnaire, Annex 2: Internal Control System Evaluation Report, Annex 4: Consolidated Risk Report)</i>	
<i>18. Has Internal Control Monitoring and Steering Committee evaluated the Internal Control System Evaluation Report and if available, after the completion of the updates to the report, has it submitted to the approval of the senior manager with its assent?</i>	
<i>19. Is the internal audit unit established? Are the foreseen internal auditor cadres full?</i>	
<i>20. Has the internal audit unit planned and conducted the audit works regarding internal audit system? If the internal audit unit conducted works regarding the examination and evaluation of the internal control system, has it reported these reports to the senior manager and has the senior manager submitted these reports to the Internal Audit Coordination Board?</i>	

ANNEX 5: Evaluation Form for Basic Level IT System Controls

Control Evaluation Questions	Evaluation and findings	Reference working paper
IT Governance/ Management Controls		
<i>Does the auditee have a written and independent IT strategy?</i>		
<i>Is there a mechanism for ensuring strategic planning and coordination regarding IT? (Such as an IT Steering Committee)</i>		
<i>Is there a risk index for information systems security?</i>		
<i>Does the auditee have a written information security policy?</i>		
<i>Is the information security officer assigned?</i>		
<i>Does the internal audit unit audited the information systems?</i>		
<i>Is there a classification table that classifies information assets according to security requirements?</i>		
<i>Do the IT financial statements include the assets?</i>		
<i>Is there an appropriate procedure specified for the assets that will be taken out of use or disposed?</i>		
<i>Are the roles and responsibilities of employees working in the IT department determined?</i>		
<i>Do the contracts made with the staff of the auditee include provisions on information security?</i>		
<i>Is the processing, storage and disposal of personal data conducted in accordance with Law No. 6698 on the Protection of Personal Data?</i>		

Information Security Controls		
<i>Are the procedures for physical and environmental controls specified in writing?</i>		
<i>Is physical access to the institution, IT workplaces and system rooms carried out within the authority?</i>		
<i>Are fire detection and extinguishing systems established?</i>		
<i>Are the information systems positioned above the flooding level and installed away from the water installations to protect them from water-borne risks?</i>		
<i>Are uninterruptible power supplies, generators, alternative power cabling and other regulators installed to protect the information systems from electrical damage?</i>		
<i>Are appropriate ventilation and cooling systems installed to protect the information systems from damages due to dust, humidity and temperature?</i>		
<i>Is there a requirement for having a strong authentication (password) in accessing the systems and applications?</i>		
<i>Are the accesses to systems and applications recorded?</i>		
<i>Are the unauthorized accesses to systems and applications reported to management?</i>		
<i>Are the privileged users' operations (such as system administrators) recorded? Are they reported to management?</i>		

Execution and Maintenance Controls		
<i>Are the documents (Service Level Agreement-SLA) prepared to identify the service conditions and information security elements between the IT unit and the beneficiaries of the services provided?</i>		
<i>Are the procedures identified regarding the follow-up, management and resolution of incidents (system failures, denial of service, security breaches, etc.) that have caused IT services to fail?</i>		
<i>Has a help desk been established to solve incidences and problems?</i>		
<i>Are there procedures for managing changes on IT assets?</i>		
<i>Does the auditee carry out capacity planning regular intervals?</i>		
<i>Are capacity and performance competencies for services and resources monitored and reported?</i>		
Business Continuity and Disaster Recovery Planning Controls		
<i>Has a team been created for business continuity?</i>		
<i>Is the risk assessment performed by taking the work processes of the auditee into consideration?</i>		
<i>Is there a written business continuity plan?</i>		
<i>Is the business continuity plan tested regularly?</i>		
<i>Is there a disaster recovery plan within the business continuity plan or separately?</i>		
<i>Does the auditee have a written backup procedure?</i>		
<i>Are back-ups of system software, applications and databases taken regularly?</i>		
<i>Are the back-ups kept in a different and safe environment in the geographical location where the corporate information systems are located?</i>		

Implementation Controls		
<i>Is there a job and timeline chart describing the business process?</i>		
<i>Are the user privileges distributed appropriately according to the business logic and the separation of tasks (such as preparing, executing, registering, and approving)?</i>		
<i>Are control mechanisms for validation (such as double signatures or checking initials) established to ensure accurate and complete data recording?</i>		
<i>Are there automatic controls to prevent incorrect data entries?</i>		
<i>Are users' transactions recorded for review when necessary?</i>		
<i>Are the accesses restricted to prevent the modification or deletion of finalized data by unauthorized persons?</i>		
<i>Does the management review the error and contingency reports for the process implementation?</i>		
<i>In case of change in work process, is the way for implementing the change in practice specified?</i>		
<i>Are there established procedures for safe data transfer?</i>		
<i>Is there a procedure regarding obtaining, protecting, storing and accessing the right place/user?</i>		

Procurement Controls		
<i>Is a Service Level Agreement (SLA) made with the Contractor?</i>		
<i>Does the contract include the provisions of information security?</i>		
<i>Have confidentiality agreements been made with the contractor and its staff?</i>		
<i>Does the contract define the requirements for the transfer of assets (such as software, hardware, data etc.) to the auditee in case of expiration or termination of the service contract?</i>		
<i>Does the contract define the auditee's authority for oversight and audit?</i>		
Project Management Controls		
<i>Before the project; is the project associated with national strategic plans, national transformation programs, top policy documents, and the strategic plan-goals of the auditee?</i>		
<i>Has the auditee evaluated the interaction between previous and current projects and other projects done by other institutions and other projects?</i>		
<i>Is the project manager assigned?</i>		
<i>Is a central document (Project Management Plan - PMP) prepared and updated to determine how the project will be conducted, monitored, controlled and closed?</i>		
<i>Is the developed software documented in terms of availability, management, support, and maintenance?</i>		
<i>Is there a control procedure for transferring existing data to the new or changed environment in full and accurately?</i>		
<i>Is user satisfaction measured by surveys or other methods?</i>		

ANNEX 6: Inherent Risk Assessment Form

Account area	Inherent risk indicators
1. Account area	<i>Inherent risk level identified for the account area:</i>
2. Account area	<i>Inherent risk level identified for the account area:</i>
3. Account area	<i>Inherent risk level identified for the account area:</i>
4. Account area	<i>Inherent risk level identified for the account area:</i>
5. Account area	<i>Inherent risk level identified for the account area:</i>

ANNEX 7: Control Risk Assessment Form

Account area	Control Risk Indicators	Risk Level
1. Account area		
<i>Control risk level identified for the account area:</i>		
2. Account area		
<i>Control risk level identified for the account area:</i>		
3. Account area		
<i>Control risk level identified for the account area:</i>		
4. Account area		
<i>Control risk level identified for the account area:</i>		
5. Account area		
<i>Control risk level identified for the account area:</i>		

ANNEX 8: Combined Risk Assessment Form**Inherent Risk and Control Risk Assessment Form**

Account area	Inherent risk level	Control risk level	Combined Risk assessment (high/medium/low)

ANNEX 9: Form for Tests of Controls

Form for Tests of Controls is given below. This form includes the controls and the main control questions in order to test the controls with respect to audit assertions on the basis of account areas. Form for Tests of Controls should be organized on the basis of account areas for ease of reference. However, while evaluating an entity's important control mechanisms, the auditor shall not miss the controls that concern more than one account areas.

Prepared by:			
Applied by:			
Reviewed by:			
Main control questions	Example controls	Evaluation	Reference working paper
Completeness			
Occurrence			
Accuracy			
Compliance			
Classification and Understandability			
Cutoff			
Ownership			
Valuation			
Existence			

ANNEX 11: Combined Audit Forms (Tests of Controls and Audit Programs Form)

Tests of controls and substantive procedures may be applied together; if it is possible to examine an entity's accounts, which are not directly linked to the activities related to the revenues, expenditures and assets (such as cash and allocation transactions, advance payment, deposit and guarantee transactions, memorandum accounts) but which are affiliated and complementary to those activities with techniques such as analytical procedures, confirmation, comparison and process analysis; and if the audit team thinks that they can obtain sufficient audit assurance for the said accounts through those techniques. Combined audit forms, which indicate the tests of controls and audit programs together, are used for this.

Prepared by:			
Applied by:			
Reviewed by:			
Control and inquiry questions	Audit procedure to be performed	Evaluation	Reference working paper

ANNEX 12: Control Form for Audit Planning

The control form prepared for audit planning:

- controls whether the audit *is properly planned and approved*,
- ensures that the auditors, who take part in the audit planning, execution and review processes, *obtain information about the audit process, and*
- ensures that the audit process is controlled properly.

The control form for audit planning is filled by the audit team leader or a senior auditor in the team. The following questions in the tables are YES/NO questions, and when the answer is NO, it should be considered as an indication that there are issues to be resolved.

Activities for the planning phase	Yes/ No	Reference working paper	Explanation
<p><i>Have you evaluated the relevant factors for understanding the auditee?</i></p>			
<p>Understanding the auditee's accounting system, IT system and controls;</p> <p>1. <i>Have you evaluated the legislation governing the recognition of the financial transactions, and the accounting system used?</i></p> <p>2. <i>Have you evaluated the IT system used by the entity for reporting the financial transactions and work management processes?</i></p> <p>3. <i>For the control activities applied by the entity:</i></p> <ul style="list-style-type: none"> • are they executed regularly? • do they comply with the entity's legal environment and regulations? • are they effective in revealing and preventing the fraud that may derive from entity's management, staff or third persons? 			
<p>Materiality</p> <p><i>Have you determined planning materiality and documented it with justifications?</i></p> <p>Account areas</p> <p>1. <i>Have you divided the entity's financial statements, assets, liabilities, revenues and expenditures into account areas in terms of having similar features and being subjected to similar transactions?</i></p> <p>2. <i>For each account area, have you done the following?</i></p> <ul style="list-style-type: none"> • covered the main account groups and transactions? • considered the controls and processes in each account area? 			
<p>Risk assessment</p> <p>1. <i>Have you identified and documented all risk factors (These factors can be at the entity level, in certain account areas or in terms of audit assertions.)</i></p> <p>2. <i>When certain types of risks are identified, are the controls effective in decreasing this risk?</i></p> <p>3. <i>Have you assessed the risk of having material misstatements due to fraud in the financial statements or risk of having illegal transactions?</i></p>			

<p>Using analytical method in the planning phase <i>1. Have you performed the analytical methods that help understand the entity or identify potential risk areas?</i></p>			
<p>COMPLETION OF PLANNING <i>1. Have you identified a proper approach to keep the audit risk at a reasonable level?</i> <i>2. Have you made the following decisions for each account area where certain risk factors are detected?</i></p> <ul style="list-style-type: none"> • testing controls that reduce risks and examining document at a minimum level • detailed account examination <p><i>3. Have you made the following decisions for each account area where certain risk factors are not detected?</i></p> <ul style="list-style-type: none"> • planning the account examination at a minimum level • planning the document examination at a standard level <p><i>4. Have you evaluated the work of other auditors?</i> <i>5. Have you considered the computer-aided audit techniques?</i> <i>6. Have you considered using the work of an expert?</i> <i>7. Have you prepared a detailed audit program that explains the procedures to be followed by the audit team in order to ensure the application of the selected audit approach?</i></p>			
<p>Administrative procedures related to audit <i>1. Have you made a detailed planning about the roles and responsibilities of audit team?</i> <i>2. Was the audit team informed about its authorities and responsibilities?</i></p>			

ANNEX 13: Control Form for Finalizing the Audit

The control form for finalizing the audit ensures assurance that:

- *Audit evidences form a basis/support the audit opinion, and those evidences are properly documented;*
- *The audit is performed in accordance with the approved **audit plan and the audit programs**;*
- *The financial statements and documents obtained from the auditee are in accordance with the relevant legislation.*

The control form for finalizing the audit is filled by the audit team leader or most senior auditor in the team.

The following questions in the tables are YES/NO questions, and when the answer is NO, it should be considered as an indication that there are issues to be resolved.

Activities	Yes/ No	Reference working	Explanation
1. Are the books and reports of the audited account (management period account) complete?			
2. Have you considered the issues which could not be made during the audit planning and postponed to execution phase? Have you performed works on them?			
3. Is the materiality level determined during the planning phase still valid? Was a materiality work done in terms of content and scope?			
4. Do the audit findings support the estimates made during the planning phase?			
5. Has there been a change in the audit plan?			
6. Were the changes (made in the audit plan) processed through the relevant approval process and approved?			
7. Have you informed the head of group about the matters that required the use of significant professional judgement?			
8. Are there any issues left to the reporting phase?			
9. Is there an issue that should be informed to the auditee officially and urgently? (Errors, control deviations or change in audit duration etc...)			
10. Have you evaluated, clarified and documented the audit findings in terms of materiality, errors, and issues against legislation?			
11. Have you evaluated the data obtained from the internal audit unit, other auditors and third parties and gained an assurance?			
12. Are there any events that occurred after the date of the financial statements and effected the financial statements? Have you considered those events in the audit opinion?			
13. Have you reached a consensus with the auditee regarding the corrections to be made in the financial statements? Have the necessary corrections been reflected to the accounts?			

Activities	Yes/ No	Reference working paper	Explanation
14. Are there any issues left from the previous years and needed to be followed in the current year audit? Have you performed and documented works on them?			
15. Have you obtained sufficient appropriate evidence for the audit opinion on the financial statements?			
16. Have you sent the audit report to the auditee and evaluated their response and taken necessary action?			
17. Have you performed any action on frauds and misconducts?			
18. Have you completed all works regarding the auditee and concluded that there was no issue left to affect the audit opinion?			
19. Have you updated the audit file continuously by considering the audit results?			
20. Are there any issues transferred to the next year?			

ANNEX 14: Quality Control Form

Auditee		
Audit year		
Audit team leader		
Other auditors in the audit team		
Audit duration		
Auditor performing the audit quality control		
Starting and completion date for the audit quality control		
Audit phase	Activities examined	Evaluation
A	Planning phase: Understanding the auditee, understanding the accounting and internal control systems, determining materiality, assessing material risks and determining the audit procedures	
A1	<p>Has the audit team understood the auditee sufficiently by considering all factors related to understanding an entity?</p> <p>For example, has the audit team performed the following activities for understanding the auditee?</p> <ul style="list-style-type: none"> - Sufficiently understanding the legal regulations governing the auditee, - Evaluating the auditee's relations with the entity it is affiliated to, - Evaluating the auditee's organizational structure, - Collecting new information about the auditee and updating the existing information, - Ensuring that the information obtained on auditee are sufficient and form a basis for the risk assessment 	
A2	Were main analytical processes (appropriate for understanding the auditee and identifying possible risk areas) applied?	
A3	<p>Was the entity's IT system sufficiently understood and documented?</p> <ul style="list-style-type: none"> - Did the audit team made a sufficient evaluation on the auditee's IT system? - Was this evaluation documented appropriately? - Were the control deficiencies found in the IT system considered while identifying the audit approach? <p>For example:</p> <p>Was there an evaluation on whether the structure of the IT systems was complex? Were its results reflected to the audit approach?</p>	
A4	Was the entity's account system sufficiently understood?	

Auditee		
A5	<ul style="list-style-type: none"> - Did the audit team investigate the existence of available control systems in the auditee? - Were the controls evaluated? - Was the information on whether the controls are operational documented? - To what extent the evaluations regarding the controls were taken into consideration in identifying the audit approach? 	
A6	<p>During the planning phase, did the audit team decide on the extent it would use the works of other auditors, works of internal auditors and works of experts? Was the audit team consistent on its decision about this matter?</p>	
A7	<p>How was the materiality determined in the planning phase?</p> <ul style="list-style-type: none"> - While determining the materiality level, were the entity's main features, the public's and parliament's interest in the auditee's operations and other factors considered? - Was the materiality determined at a sufficient level? 	
A8	<p>Did the audit team evaluate:</p> <ul style="list-style-type: none"> - the inherent risks deriving from the entity's activity area and the entity's activities, - the risks' probability of occurrence - the possible effects of risks on the financial statements - the attitude of the entity's management towards risks? <p>Do the documents in the current file indicate that the risk analysis was made appropriately in line with the works made above?</p>	
A9	<p>Were the account areas defined properly as significant-insignificant ones?</p>	
A10	<p>If the audit team relied on controls during the planning phase, did they evaluate whether those controls functioned effectively?</p>	
A11	<p>While combining the works for understanding the entity and risk assessment, did the audit team develop an audit approach focused on specific risk factors providing reasonable assurance about the financial statements as a whole?</p>	
A12	<p>Was the audit approach, that was determined after risk assessment, reflected to the detailed audit plan appropriately?</p>	
A13	<p>Evaluating whether the audit planning is:</p> <ul style="list-style-type: none"> - built on a consistent logical framework, - comprehensive - made and evaluated by the auditors that have sufficient professional experience - made on time - documented appropriately 	

Auditee		
B	Execution phase: Executing the audit processes and evaluating their results	
B1	<p>Evaluating the audit approach and performed works for the accounts areas that were determined during the planning phase</p> <ul style="list-style-type: none"> - Did the audit processes foreseen during the planning phase sufficiently cover the risks faced during the execution phase? - Were all transactions that were selected for audit purposes examined? Was the effect of detected errors on initial audit program evaluated? - Were the analytical procedures properly performed and evaluated? - Were the works that were performed by the audit team consistent with the results and evaluations they had? - Were the two-phased reviews detailed and made on time? Were solutions found sufficiently for the problems that occurred during the review? 	
B2	<p>Despite the additional risks that occurred during the audit, did the audit continue with the same procedures or was an audit program prepared and approved for additional risks, and was this process sufficiently documented?</p>	
B3	<p>Was there a logical relation established between the risks that were detected during the planning phase and the evidences that were obtained with the audit approach? (This can be made by relating the risks that were detected during the execution phase with the risks in the planning phase.)</p>	
B4	<p>Were tests performed on the IT system during the execution phase? If so, was the effect of results on the financial statements sufficiently evaluated?</p>	
B5	<p>Was enough data obtained showing that all controls related to the audited period were functional?</p>	
B6	<p>Were the results of audit approaches that were performed for the account areas combined and evaluated?</p> <p>In case there were transactions that included material misstatements, were additional works performed, were those works resulted in the collection of sufficient evidence supporting the judicial process or financial reporting?</p>	
B7	<p>Do the works that were performed during the execution phase give the following results?</p> <ul style="list-style-type: none"> - Existence of a basis for the interpretations made during the audit - Completeness of the transactions performed - Proper documentation and summary - Proper review of the audit - Timely completion of the works 	

Auditee		
C	FINALIZATION OF AUDIT- REPORTING	
<i>C1</i>	<i>Were final reviews made in line with the data obtained on the financial statements as a whole?</i>	
<i>C2</i>	<i>Was other information that was disclosed as an addition to financial statements sufficiently considered?</i>	
<i>C3</i>	<i>Was the effect of events that occurred after the date on the financial statements on audit report considered?</i>	
<i>C4</i>	<i>While making decisions on important issues related to audit, was the opinion of the audit team leader or head of group received based on the nature of the situation?</i>	
<i>C5</i>	<i>Regarding the problems related to audit process and all important issues that require an urgent decision from the entity's management: Were they brought to the agenda of the entity's management on time and constructively.</i>	
<i>C6</i>	<i>Was the report drafted by the audit team in consistence with the reporting section in the financial audit manual?</i>	
<i>C7</i>	<i>Were the activities that were conducted in the finalization phase of audit:</i> <ul style="list-style-type: none"> - Supportive of the audit opinion, - Comprehensive, - Completed on time - Sufficiently performed and reviewed - Properly documented and summarized 	
D	Audit Management, Review and Other Audit-Related Issues	
<i>D1</i>	<i>During the course of audit, did the audit team leader or the head of group evaluate the efficiency of the audit team in relation to executing the work? If any lack of information of experience required the use of additional personnel or an expert, were the necessary actions taken?</i>	
<i>D2</i>	<i>Were all reviews made in a timely and detailed manner that contributed to the audit?</i>	
<i>D3</i>	<i>Were the reviews made by the authorized people?</i>	
<i>D4</i>	<i>Did the team leader and head of group review the working papers that fall under the scope of their relevant responsibilities?</i>	
<i>D5</i>	<i>Was due diligence exercised for the other matters that were not included in this control form but were important in terms of the TCA's financial audit policies.</i>	
<i>D6</i>	<i>Was the review process properly documented?</i>	
<i>D7</i>	<i>Were the reviews completed on time?</i>	
<i>D8</i>	<i>In case of the events including fraud and criminal act, were the necessary actions taken?</i>	

ANNEX 15/1: TABLE OF STATISTICAL SAMPLING VOLUME FOR 95% SECURITY LEVEL												
Expected coefficient of error (%)	Higher coefficient of error											
	2%	3%	4%	5%	6%	7%	8%	9%	10%	15%	20%	
0.00 %	149	99	74	59	49	42	36	32	29	19	14	
0.25	236	157	117	93	78	66	58	51	46	30	22	
0.50	★	157	117	93	78	66	58	51	46	30	22	
0.75	★	208	117	93	78	66	58	51	46	30	22	
1.00	★	★	156	93	78	66	58	51	46	30	22	
1.25	★	★	156	124	78	66	58	51	46	30	22	
1.50	★	★	192	124	103	66	58	51	46	30	22	
1.75	★	★	727	153	103	88	77	51	46	30	22	
2.00	★	★	*	181	127	88	77	68	46	30	22	
2.25	★	★	*	208	127	88	77	68	61	30	22	
2.50	★	★	*		150	109	77	68	61	30	22	
2.75	★	★	*	*	173	109	95	68	61	30	22	
3.00	★	★	*	*	195	129	95	84	61	30	22	
3.25	★	*	*	*	*	148	112	84	61	30	22	
3.50	*	*	*	*	*	167	112	84	76	40	22	
3.75	*	*	*	*	*	185	129	100	76	40	22	
4.00	*	*	*	*	*	*	146	100	89	40	22	
5.00	*	*	*	*	*	*	*	158	116	40	30	
6.00	*	*	*	*	*	*	*	*	179	50	30	
7.000	*	*	*	*	*	*	*	*	*	68	37	

ANNEX 15/2: TABLE OF STATISTICAL SAMPLING VOLUME FOR 86% SECURITY LEVEL

Expected coefficient of error (%)	Higher coefficient of error										
	2%	3%	4%	5%	6%	7%	8%	9%	10%	15%	20%
0.00 %	99	66	50	40	33	29	25	22	20	14	10
0.25	174	116	87	70	58	50	44	39	35	24	18
0.50	174	116	87	70	58	50	44	39	35	24	18
0.75	242	116	87	70	58	50	44	39	35	24	18
1.00	370	161	87	70	58	50	44	39	35	24	18
1.25	★	205	121	70	58	50	44	39	35	24	18
1.50	★	★	121	97	78	50	44	39	35	24	18
1.75	★	★	154	97	81	50	44	39	35	24	18
2.00	★	★	185	97	81	50	44	39	35	24	18
2.25	★	★	216	123	81	69	44	39	35	24	18
2.50	★	★	*	148	103	69	61	39	35	24	18
2.75	★	★	*	173	103	69	61	54	35	24	18
3.00	★	*	*	197	124	88	61	54	49	24	18
3.25	★	*	*	245	145	88	61	54	49	24	18
3.50	*	*	*	*	165	106	77	54	49	24	18
3.75	*	*	*	*	185	106	77	69	49	24	18
4.00	*	*	*	*	224	124	93	69	49	24	18
5.00	*	*	*	*	*	258	139	99	74	33	18
6.00	*	*	*	*	*	*	283	150	99	33	25
7.000	*	*	*	*	*	*	*	314	170	41	25

ANNEX 15/3: TABLE OF STATISTICAL SAMPLING VOLUME FOR 74% SECURITY LEVEL												
Expected coefficient of error (%)	Higher coefficient of error											
	2%	3%	4%	5%	6%	7%	8%	9%	10%	15%	20%	
0.00 %	68	46	34	27	23	20	17	16	14	10	7	
0.25	132	89	66	53	45	38	33	30	27	18	14	
0.50	132	89	66	53	45	38	33	30	27	18	14	
0.75	132	89	66	53	45	38	33	30	27	18	14	
1.00	193	89	66	53	45	38	33	30	27	18	14	
1.25	310	129	66	53	45	38	33	30	27	18	14	
1.50	★	129	66	53	45	38	33	30	27	18	14	
1.75	★	168	97	53	45	38	33	30	27	18	14	
2.00	★	245	97	78	45	38	33	30	27	18	14	
2.25	★	★	126	78	65	38	33	30	27	18	14	
2.50	★	★	155	78	65	38	33	30	27	18	14	
2.75	★	★	212	101	65	56	33	30	27	18	14	
3.00	★	★	296	124	65	56	33	30	27	18	14	
3.25	★	*	*	147	84	56	49	30	27	18	14	
3.50	*	*	*	170	84	56	49	43	27	18	14	
3.75	*	*	*	237	104	72	49	43	39	18	14	
4.00	*	*	*	324	123	72	49	43	39	18	16	
5.00	*	*	*	*	360	137	78	56	39	18	16	
6.00	*	*	*	*	*	400	168	82	62	18	16	
7.000	*	*	*	*	*	*	*	156	85	26	16	

ANNEX 15/4: TABLE OF STATISTICAL SAMPLING VOLUME FOR 50% SECURITY LEVEL												
Expected coefficient of error (%)	Higher coefficient of error											
	2%	3%	4%	5%	6%	7%	8%	9%	10%	15%	20%	
0.00 %	35	24	18	14	12	10	9	8	7	5	4	
0.25	84	56	42	34	28	24	21	19	17	12	9	
0.50	84	56	42	34	28	24	21	19	17	12	9	
0.75	84	56	42	34	28	24	21	19	17	12	9	
1.00	84	56	42	34	28	24	21	19	17	12	9	
1.25	134	56	42	34	28	24	21	19	17	12	9	
1.50	184	56	42	34	28	24	21	19	17	12	9	
1.75	284	56	42	34	28	24	21	19	17	12	9	
2.00	★	90	42	34	28	24	21	19	17	12	9	
2.25	★	123	42	34	28	24	21	19	17	12	9	
2.50	★	156	67	34	28	24	21	19	17	12	9	
2.75	★	289	67	34	28	24	21	19	17	12	9	
3.00	★	★	92	54	28	24	21	19	17	12	9	
3.25	★	*	92	54	28	24	21	19	17	12	9	
3.50	*	*	142	54	28	24	21	19	17	12	9	
3.75	*	*	292	74	45	24	21	19	17	12	9	
4.00	*	*	*	74	45	24	21	19	17	12	9	
5.00	*	*	*	*	78	39	34	19	17	12	9	
6.00	*	*	*	*	*	82	46	33	17	12	9	
7.000	*	*	*	*	*	*	71	41	27	12	9	