

Uluslararası Muhasebe Standartları Kapsamında Yönetim Kuruluna Bağlı Denetim Komitesinin Yapısının İncelenmesi

Examination of the Structure of the Audit Committee Under the Board of Directors Within the Scope of International Accounting Standards

Abstract

As a result of the accounting scandals that took place in the early 2000s and shook the world, hesitations began to increase about whether the financial statements of the enterprises reflect the real situation of the enterprise. As a result of these hesitations, confidence in accounting outputs decreased. Therefore, some strategies have started to be carried out to restore the belief in the financial statements and accounting outputs declared by the enterprises; one of these strategies is adopting a corporate governance approach and implementing corporate governance principles in businesses. Some committees are affiliated with the board of directors by corporate governance principles. One of these committees is the audit committee. The audit committee assures that the financial statements prepared by the enterprises and presented to the users of financial information reflect the truth and reality. Within the scope of this study, we aim to give information about the concept of corporate governance and then examine the structure and functioning of the audit committee, one of the committees under corporate governance.

Keywords: Audit committee, board of directors, corporate governance

Öz

2000'li yılların başlarında yaşanan ve dünyayı sarsan muhasebe skandalları sonucu, işletmelerin finansal tablolarına işletmenin gerçek durumunu yansıtmadığı konusunda tereddütler artmaya başladı. Bu tereddütlerin sonucu olarak da muhasebe çıktılarına güven azaldı. İşletmelerin beyan ettikleri finansal tabloların ve muhasebe çıktılarının güvenin tekrar sağlanabilmesi adına birtakım çalışmalar yapılmaya başlandı; bu çalışmalardan biri de kurumsal yönetim anlayışının benimsenmesi ve işletmelerde kurumsal yönetim ilkelerinin uygulanması oldu. Kurumsal yönetim ilkeleri gereği, yönetim kuruluna bağlı birtakım komiteler bulunmaktadır. Bu komitelerden biri de denetim komitesidir. Denetim komitesi, işletmelerin hazırlayıp finansal bilgi kullanıcılarının hizmetine sunduğu finansal tabloların doğruluğu ve gerçeği yansıttığına dair bir güvence sağlamaktadır. Bu çalışma kapsamında öncelikle kurumsal yönetim kavramı hakkında bilgi verilip, daha sonra ise kurumsal yönetime bağlı komitelerden biri olan denetim komitesinin yapısı ve işleyişi hakkında inceleme yapılması amaçlanmıştır.

Anahtar Kelimeler: Kurumsal yönetim, denetim komitesi, yönetim kurulu

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Introduction

Technological advances resulting from the impact of globalization allow us to observe a number of changes, from the diversification of products in country economies to the success of large-scale joint stock companies. In addition, the increasing importance of the concept of sustainability around the world is clearly evident on a global scale. However, when we evaluate the effects that emerged after unethical events such as scandals in the accounting world, bankruptcies in banks and

irregularities in businesses in the early 2000s, we see that the financial order and the governance systems of businesses were subjected to serious questioning. Such events have been an important turning point in restoring trust in the financial sector and business world, highlighting the importance of transparency, accountability and ethical standards. Due to these adverse events, trust in the accounting system has decreased, and the concept of corporate governance, which has a vital role in continuing the success of joint stock companies, has begun to be emphasized.

Accounting scandals are serious events that result from companies misleadingly presenting their financial data, manipulating income-expenditure information, or hiding illegal activities. One example is the Enron scandal (2001); this scandal, which resulted in the bankruptcy of Enron, involved the company's misleading preparation of its financial statements. Enron misreported its assets and concealed its debts. While this scandal damaged the reputation of a large accounting firm like Arthur Andersen, it also damaged the reputation of hundreds of thousands of investors and employees. Another example is the WorldCom Scandal (2002); the telecommunications company WorldCom had incorrectly recorded billions of dollars in expenses as capital expenditures and manipulated its financial statements by inflating revenues. This scandal led to the bankruptcy of the company and the loss of more than 30,000 employees. Another scandal that had a significant impact on the accounting world was the Lehman Brothers collapse (2008); the bankruptcy of Lehman Brothers is considered a turning point in the financial crisis. The company had manipulated accounting standards to hide risky assets and undermine liabilities. These scandals are important events that have shaken confidence and led to regulation in the financial world. At the beginning of these regulations is the enterprises' determination of the corporate governance approach. The audit committee is one of the committees corporate governance requires to be in business.

Audit committees are crucial in terms of accounting scandals. These scandals highlight the importance of financial reporting and auditing processes and show how much attention companies should pay to transparency and honesty. One of the most effective ways to prevent accounting scandals is for businesses to present their financial data transparently and provide realistic information. Financial reports should be prepared accurately and honestly. In addition, businesses should establish effective internal control systems to ensure financial transactions are accurately recorded and reported. This includes monitoring, authorizing, and supervising financial processes. In addition, using independent audit companies allows businesses to evaluate their financial data with an independent eye. Audits can help confirm the accuracy and appropriateness of financial reports. Businesses should teach and encourage ethical behavior standards and rules to employees. Promoting ethical compliance can help prevent potential abuse and fraud. Boards of directors must work effectively to oversee the company's financial affairs, review company policies, and make strategic decisions. At this point, the most effective solution is audit committees attached to the board of directors.

The study, which was designed based on the crucial role of corporate governance in businesses, emphasized the importance of corporate governance principles, and the committees affiliated with the board of directors were mentioned. Furthermore, within the scope of Organisation for Economic Co-operation and Development (OECD) principles, we examine the structure and functioning of the audit committee, which is one of the committees under the board of directors, and explain the contribution of corporate governance to businesses.

Material and Methods

A qualitative research method was used in the study by examining various regulations and guidelines related to corporate governance and audit committees. In addition, the effectiveness of audit committees, their responsibilities, and the principle of accountability have been critically examined. The reviewed guidelines and regulations were selected from studies and standards affecting audit committees within the scope of accounting standards.

Many criteria can be used to evaluate the effectiveness of audit committees. Members of the audit committee are usually independent board members. Members' independence and potential conflicts of interest are evaluated. It is examined whether the audit committee members have the necessary skills and expertise in financial, accounting, auditing, and sectoral issues. It is evaluated whether the audit committee effectively audits financial reports, internal control systems, independent auditing, and risk management. It is checked that the audit committee effectively evaluates and manages the company's risks and internal control systems. It is reviewed that the audit committee takes the necessary steps to ensure that the company's financial reports are accurate and reliable and that audits comply with legal regulations. It is considered that the audit committee effectively audits and monitors fraud and ethical issues and audits the company's ethical standards. It is examined whether the audit committee communicates effectively with the board of directors, external auditors, and stakeholders and whether it reports regularly. The audit committee's capacity and readiness to act quickly and effectively in crises are evaluated. It is reviewed whether the audit committee members constantly benefit from training and development opportunities and whether they are knowledgeable about current issues. Ethics committee approval was not required since the study was conducted in the light of the data obtained by examining the studies examining the effectiveness of the audit committee in the literature.

Corporate Governance Concept

The concept of corporate governance has more than one definition and interpretation. However, the basis of all descriptions of this concept is that corporate governance is a set of rules that aim to create an ideal order in managing joint stock companies (Demir, 2013; p. 24).

History of Corporate Governance

One of the difficulties experienced in the transition from the traditional management approach to today's management approach is the occurrence of scandals as a result of conflicts of interest with the removal of business owners from the business. The first of these scandals occurred in the Wall Street in the USA in 1929. After the great scandal, the study named "The Modern Corporation and Private Property" was published in 1932, and the concept of corporate governance was used for the first time in this study (Karayel & Gök, 2009; p. 11).

Corporate governance was first published in the USA in 1978 as a regulatory work. In the following years, corporate governance principles were published in Hong Kong in 1989. With the Cadbury Report in England in 1992, studies in the field of corporate governance began to gain importance. Among the items in the Cadbury Report, it is emphasized that the compliance of enterprises with the principle of accountability and the development of the country's economy are interconnected, especially in the first three. While the Cadbury Committee, which prepared the Cadbury Report, made recommendations on optimal corporate governance practices of businesses, they emphasized the audit role within the business management organization in the processes of the board of directors to perform their audit and oversight activities. The primary purpose of the Cadbury Report is; To raise the standards established for corporate governance in a way that protects the rights of all stakeholders benefiting from the business and to support increasing the level of trust in financial reporting and auditing. Transparency, honesty, and accountability are emphasized under all the rules and principles applicable in businesses, especially under the Basic Principles title of the Cadbury Report (Cadbury Report, 1992: The Setting for the Report 1.1–1.11). Later, many studies were published on corporate governance (Ataman et al., 2017; 167). These are as follows:

- 1994–King Report I,
- 1995–Greenbury Report,
- 1998–Hampel Report,
- 1998–Unified Code (1998) and 2003–Update,
- 1998–Millstein Report
- 1999–OECD Corporate Governance Principles,
- 2002–King's Report II,
- 2002–Sarbanes–Oxley Act,
- 2009–King's Report III.

During the processes until the Sarbanes–Oxley Act, identified with the Enron scandal that broke out in the USA in 2001, came into force, meetings, and conferences were held in some countries, especially in the UK, on the development of corporate governance understanding. For example, the Greenbury Report, published in England in 1995 after the Cadbury Report, put the wages of business managers on the agenda. The Greenbury Report emphasized that the salaries of business managers should be calculated based on performance rather than on a share basis (Keasey, 2005; p. 30).

The Cadbury Report is one of the most important reports published in the field of corporate governance. The report includes topics such as the board of directors, audit, shareholders, remuneration of the board of directors (Çetinkaya, 2014: 6).

The Greenbury Report is a report titled "Managers' Payments", which was established in 1995 by a working group chaired by the British Industrial Association Sir Richard Greenbury, in order to examine the remuneration of managers. The report includes a study of executive salaries in the United Kingdom. Within the scope of the report, it is emphasized that managers have to disclose their salaries due to transparency (Çetinkaya, 2014: 16).

The OECD Principles of Corporate Governance are some rules and standards published by the OECD in 1999 to guide all countries on corporate governance. The G20/OECD Corporate Governance Principles were adopted in 2015, and several new topics continue to be developed. Two critical features are specific to the OECD Corporate Governance Principles; first, these principles are not binding. Instead, they provide a guide for countries to set their targets. Second, each country can revise these principles through its legislative structure (Orbay, 2018; p. 20).

Corporate Governance Principles

Four basic principles are considered the building blocks of corporate governance. These are as follows: fairness, transparency, accountability, and responsibility.

The principle of fairness emphasizes that all rights holders should be treated equally. The focus of justice aims to treat all enterprise shareholders equally, regardless of their share ratios, and to have equal rights by law. With this principle, it tries to prevent conflicts of interest. The guide of fairness covers not only the shareholders of the business but also all stakeholders who benefit from the business (Eminoğlu, 2014; p. 17).

The transparency principle is also known as the disclosure principle. To the principle of transparency, disclosing information about business partners' management, assets, and financial status is essential. However, some information that should remain confidential, such as information for the benefit of the business, customer information, and patent information, are excluded from the scope of this principle (Bahtiyar, 2019; p. 15). Therefore, the main goal of the principle of transparency is the disclosure of information such as financial statements. This information includes the status of the business, the performance status of the company, business management, the capital structure and partnership structure of the business. Transparency includes sharing information that falls within the scope of trade secret, reflects the truth, is sufficient, clearly stated and allows comparison. It is also important that all stakeholders are aware of the magnitude of the dates that need to be announced and therefore the business management. This includes the public who want to be informed and influenced by the decisions the company makes. The combination of all these elements contributes to the organization creating a structure

that is trusted by its business partners and to the benefit of all stakeholders in the sector (Paslı, 2005; p. 97).

Six basic principles have emerged in the studies of the boards within the OECD on the optimal implementation of corporate governance in enterprises. Corporate governance principles developed by OECD are encouraged to be widely used by businesses, private organizations, investors, and all stakeholders who want to improve corporate governance practices. To protect the rights of business stakeholders with the OECD Corporate Governance Principles, it has been tried to regain the trust that has been shaken due to accounting scandals. For this purpose, transparency has gained tremendous importance (Lessambo, 2014; p. 12). Organisation for Economic Co-operation and Development Corporate Governance Principles have been established as follows:

- Effective Corporate Governance Framework
- Shareholder Rights
- Fair Treatment of Shareholders
- Role of Stakeholders in Corporate Governance
- Public Disclosure and Transparency
- Responsibilities of the Board of Directors (OECD, 2004; p. 23)

Board of Directors Within the Scope of Corporate Governance Principles

The board of directors is one of the legally obligatory organs of enterprises (Karahan, 2015; p. 389). According to Article 356 of the Turkish Commercial Code (TCC), businesses are managed by boards of directors, and boards of directors represent businesses. Only the board of directors has the authority to make decisions about the activities of the enterprises. While managing the company internally, the enterprise's board of directors represents it externally (Pulaşlı, 2018; p. 1192). Collecting and representing the business by the board of directors starts from the beginning of the business's legal entity and continues until its termination. With this feature, the board of directors is accepted as a body that provides continuity (Poroy et al., 2014; p. 329).

Committees Affiliated to the Board of Directors

The National Association of Corporate Directors, which carries out its activities in the USA, made suggestions in 2002 on developing the corporate governance approach. The concept of independence is at the center of these suggestions. Based on independence, the National Association of Corporate Executives emphasized the importance of establishing an audit, nomination, and remuneration committee within the enterprise, reporting to the board of directors (Rezaee, 2003; p. 532). According to the provision of article 366 of the TCC, an audit committee formed by experts, utterly independent of the accounting department, is needed to audit the activities of the business about the fact that the financial statements prepared by the enterprises and made available to their stakeholders reflect the actual financial status of the enterprise (Pulaşlı, 2016; p. 437).

All these committees consist of nonexecutive members who take part in the board of directors or people who do not take

part in the board of directors. The board of directors informs the committees of its powers and responsibilities, and they continue their activities within the scope of these powers and duties. The term of office of the members of the committees is equal to the period of office of the board of directors members, unless otherwise decided by the board of directors. These committees, formed under the board of directors, can receive expert support and are independent of the business while performing their duties. These committees organize the subjects they examine within the framework of their powers according to their characteristics and present them to the board of directors as a report.

Audit Committee

The audit committee, one of the committees affiliated with the board of directors, is included in the third part of the study. In this section, the definition of the audit committee is made, how the audit committee develops in the world and our country, and the structure and duties of the audit committee are mentioned.

The audit committee in Sarbanes-Oxley Act is defined as follows: "Audit committee is a committee or similar structure formed by the members of the general assembly among its members to monitor the financial reporting and auditing process of an enterprise." If there is no audit committee within the entity, all members are considered members of the audit committee. According to the Capital Markets Board (CMB), the audit committee is defined as follows: "The board responsible for the audit is responsible for the company's accounting system, public disclosure of financial information, independent auditing, the selection made by the independent audit firm, which supervises the progress and activity of the internal control system of the partnership, the initiation of the independent audit phase by preparing independent audit contracts, and in every process of the independent audit institutions and organizations. It is a board consisting of at least two members who work and make recommendations to protect their work." According to Turkish Industry and Business Association, also known as TÜSİAD, the audit committee is defined as, "Consists of at least three members that ensure that all kinds of internal and external audits related to business performance are in a sufficient and transparent structure per corporate governance principles." According to the Banking Regulation and Supervision Authority, the audit committee is "The preference of the authorized audit firm or institutions submitted for the evaluation of the bank's board of directors, the initiation of the independent audit phase by making the independent audit contracts ready, and the board that oversees the work of the independent audit firm in every process" (Yakar, 2014; p. 46).

Development of the Audit Committee

The audit committee, which emerged as a concept in the 1940s, was formed within some companies in the 1950s and became more common after the 1970s. As a result of the studies carried out by the Securities and Exchange Commission (SEC) to prevent fraud in financial reporting, he predicted how much

the committees to be formed from independent members of the board of directors could contribute to the enterprises, and in 1977, it required the establishment of audit committees composed of nonexecutive persons in all listed businesses (Millstein, 1999; p. 1062). However, the accounting scandals that took place in the early 2000s and shook the world caused hesitations about the fact that the financial statements prepared by the enterprises and presented to their stakeholders reflect the truth. Precisely at this point, the criticism has been on measuring the effectiveness of the audit committees operating within the companies and reporting to the board of directors. As a result, some regulations have been made on the audit committee on issues such as the responsibilities of the business management to the shareholders, whether the information in the financial statements reflects the current state of the business, how much the principle of accountability is complied with, and how much importance is given to the concept of independence. Especially after the Enron scandal shook the world, new duties and responsibilities were attributed to the audit committee (Uyar, 2004; p. 7).

When looking at the development of the audit committee in the United States, The first institutions to support the existence of audit committees to be formed under the board of directors were in the USA. In 1974, the New York Stock Exchange published a statement on the audit committee. In the content of this statement, it was emphasized that the audit committees, which operate effectively within the enterprise, are an encouraging factor for developments and innovations in the field of financial reporting and that they increase confidence by controlling the financial reports prepared by the enterprise and made available to the stakeholders. While there was an audit committee attached to the board of directors only for companies traded in the New York Stock Exchange in the 1980s, there was an increase in the structuring of audit committees with the Treadway Report published in October 1987 (Yakar, 2014; p. 64) and the USA, and the SEC mandated that those who will serve on the audit committees be selected from independent and nonexecutive individuals (Moeller, 2011; p. 235). It is known that the audit committees established with independent and nonexecutive members behave more inquisitively, less questioning behavior will be seen in the audit committees formed with members who do not fulfill both independent and nonexecutive duties, and thus the development of corporate governance understanding will be negatively affected (Al Shaer & Zaman, 2018; p. 4).

The Treadway Commission Report was published in 1987 by the Treadway Commission, officially known as the "National Commission on Fraudulent Financial Reporting." This commission was established to examine the risks of fraud and misleading information presentation in financial reports. The report includes recommendations to identify weaknesses in financial reporting processes and how to reduce the possibility of fraud. The Treadway Report emphasized the importance of strengthening internal control systems and improving audit processes, especially in enterprises. The report recommended that businesses design and implement their financial reporting

and internal control systems more effectively and strengthen the role of audit committees. The recommendations in the report have been developed to make the financial reporting of businesses more accurate, reliable, and transparent. These recommendations have guided corporate governance, internal control systems, ethical standards, and fraud prevention and have significantly impacted the business world. The purpose of the Treadway Report is to contribute to the prevention of financial scandals and fraudulent incidents and to provide greater transparency and accountability in the financial reporting processes of businesses. The report is considered an essential resource for audit committees, boards of directors, internal audit departments, and management staff (Efe, 2023; p. 187).

In 1993, Canada's Toronto Stock Exchange advocated that businesses form an audit committee. It has been stated that establishing audit committees by enterprises will contribute to the development of the Canadian economy and capital market (Uyar, 2003; p. 5). The importance of the audit committee concept in Canada was understood with the collapse of Atlantic Acceptance Corporation Ltd. towards the end of the 1960s. The Royal Commission made investigations, and as a result of the examinations, it was obligatory to establish an audit committee for publicly traded businesses in Ontario in 1971 and in British Columbia in 1973. The Canadian Business Companies Act was updated in 1975. With the update, it was accepted that the audit committee must approve the annual financial reports of all publicly traded businesses before they are disclosed to the board of directors. After this date, the prevalence of audit committees in Canada has accelerated (Uzun, 2006; p. 21).

In Turkey, in 2002, according to the CMB Communiqué Series X, No. 19—"Communiqué Amending the Communiqué on Independent Auditing in the Capital Markets," publicly traded enterprises must establish an audit committee consisting of at least two people elected from among their members, affiliated to the board of directors. If there are two members of the audit committee of them, and if there are more than two, the majority must be nonexecutive members (Uzun, 2011; p. 43).

Structure of the Audit Committee

The audit committee is a subordinate body to the board of directors, which supports the board of directors in oversight and auditing while carrying out its activities. The audit committee controls and audits activities on behalf of the board of directors. A written procedure that clearly states the audit committee's membership status, the members' duties and powers, and the members' responsibilities should be prepared. This procedure should include matters clearly stating the audit committee's purpose, obligations, meeting times, the organizational structure of the audit committee, duties, responsibilities, and relationship with management. There is a membership structure that will effectively implement the oversight activity in the structural features of the audit committee, which will be formed so that the person responsible for the internal audit unit reports directly to the audit committee. The effective performance of the oversight activity is closely related to the independence of the audit committee members.

The audit committee is a committee consisting of at least two members, which supports the freedom of independent audit activity, ensures that the audit activities on the performance of the enterprise in terms of corporate governance principles are carried out at a sufficient and transparent level, creates a bridge between the internal auditor, external auditor and the board of directors (Karabulut, 2019; p. 65).

The audit committee reports to the entity's board of directors. Still, the independence of the audit committee is an important consideration, and the freedom of the audit committee is related to the frequency of meetings held. An audit committee that does not hold meetings or ends the sessions quickly is unlikely to conduct an effective oversight and audit activity. As long as there is a decrease in the number of meetings held, the efficiency of the audit committee members will decrease, and the probability of error and fraud in the financial statements will increase. The Committee of Sponsoring Organizations has researched this subject, and as a result, financial statement fraud is high in companies where audit committee meetings are held annually (Uyar, 2004; p. 31).

There are different opinions regarding the term of office of the members of the audit committee; Generally, audit committee members have a tenure of 1-3 years, and the assignment of the chairman of the audit committee is 1 year. While determining the terms of office, continuity and innovation principles should be taken into account, a period should be determined to allow the members of the audit committee to understand the structure of the company, but the effectiveness of the audit committee should be increased by taking advantage of the different perspectives of the new members with the rotation of the members of the audit committee. The audit committee members' terms of office should be specified in the regulation. Written regulation, which clearly states the duties and responsibilities of the audit committee members, contributes to the audit committee's effectiveness and serves as a guide for the activities to be performed.

At a minimum, the following elements should be included in the audit committee charter:

- The purpose and scope of the audit committee should be explained under the "General Provisions" heading.
- Under the heading "Formation, Structure, and Working Principles of the Audit Committee," information on these issues should be given.
- Under the title of "Audit Committee Duties and Responsibilities," detailed explanations should be made about subtopics such as the supervision of documents and reports, the care of the independent audit, the examination of the effectiveness of the internal control system, the evaluation of the activities of the internal audit unit, the assessment of the compliance of the transactions with the law and the work on risk management.
- Under the title of "Other Provisions," all duties to be fulfilled regarding the audit committee should be explained (Karabulut, 2019; p. 67).

Duties of the Audit Committee

Thanks to technological developments with globalization, the duties and responsibilities of audit committees have also expanded. The duties of the audit committee in the early periods when the audit committees gained importance; Today, the responsibilities of the audit committee have grown while supporting the work of the board of directors, examining the audited financial statements prepared by the enterprises, and making available to the stakeholders, observing the relations between the internal auditor and the external auditor, and reviewing the reports submitted by the internal audit unit to the board of directors (Karabulut, 2019; p. 68).

With the increase in the importance given to transparency in the corporate governance approach, it has gained significance that the committees that support the supervision and audit activities of the board of directors take an active role. The audit and surveillance activity, known as the sacred duty of the board of directors, ensures that the accounting policies applied are of high quality, that the auditors are independent, that the risks that the business may face can be determined beforehand, and that the financial information reflects the truth. Now, the duties of the audit committees have evolved into the audit and oversight activities of the boards of directors.

The audit committee also provides consultancy to the board of directors. Within the scope of this consultancy, the audit committee fulfills some responsibilities on behalf of the board of directors (Karabulut, 2019; p. 70);

- Examines the effectiveness of the internal control system and internal audit unit.
- It controls the healthy functioning of the accounting systems and, therefore, the accuracy of the information in the financial reports.
- Provides a guide for internal auditors and audits the compliance of the internal control system with the standards.
- Discloses financial information to the public.
- Makes a preliminary assessment in the selection of an independent audit firm.
- Regularly monitors the audit activity of the independent audit firm.

The audit committee is accountable to internal and external individuals and institutions. The primary responsibility of the audit committee is to support the board of directors in its audit and oversight activities, to observe the financial reporting process, to ensure that the financial reports reflect the actual situation of the business, to prevent errors and frauds, to protect the rights of the shareholders, and to increase the quality of the audit by supporting the independent auditors. The audit committee is also responsible for supervising the internal control system by advising the board of directors on the adequate performance of the internal audit unit. In addition, the audit committee has responsibility for the financial reporting process; it protects the rights of all stakeholders who make decisions using financial information by examining the fact that the financial information published by the company

reflects the truth. Finally, the audit committee is also responsible for the legal regulations in terms of examining the compliance of the activities carried out by the enterprise with the law (Karabulut, 2019; p. 83).

The Role of the Audit Committee in the Audit Activity

The audit committee has many responsibilities to the board of directors, referred to as internal responsibilities, and to users of financial information of the entity, referred to as external responsibilities. While supporting the board of directors in its surveillance and audit activities, it examines the financial reporting process, the effectiveness of the internal control system, whether the internal audit unit works efficiently, the risk management process, and the compliance of the business's activities with the laws. The audit committee performs all these transactions on behalf of the board of directors and effectively communicates with the internal auditor, independent auditor, and board members.

The internal audit unit operating within the enterprise and the audit committee established under the board of directors play a significant role in preventing errors, fraud, and irregularities within the enterprise. If there is an internal audit unit operating effectively within the entity, it assists the audit committee in some issues;

- Ensuring the flow of information to the audit committee,
- Making special purpose reports deemed necessary by the audit committee,
- Carrying out the investigations requested by the audit committee,
- Ensuring the reliability and objectivity of financial reporting,
- Assisting the audit committee in valuing the quality of the financial reporting activity to be performed by the audit committee,
- Supporting the audit committee in examining the adequacy of the internal control system,
- Contributing to identifying risks (Bishop et al., 2000; p. 51).

The internal control system established within the enterprise is an essential issue for the management of the risks that have a significant level that the enterprise may encounter to continue its activities. An effectively functioning internal control system supports the business in detecting fraud, preventing fraud, and protecting the rights of stakeholders and the company's assets (Porter et al. 2003; p. 243). The effectiveness of the internal control system depends on the controls made by the accounting unit and the management and on being questioned by the internal audit unit in terms of periods because the internal control structure, which prepares the groundwork for the establishment of the corporate infrastructure within the enterprises, has the same purpose as the internal audit unit, accounting unit, and risk management unit and has the same purpose. Serves the administration (Chorafas, 2009; p. 6).

The relationship between the audit committee and the independent auditors is based on increasing the independence of the independent auditors. The strong communication between

the audit committee and the independent auditors and the fact that the independent auditors report directly to the audit committee are the factors that increase the independent auditors' independence. The communication network between the audit committee and the independent audit is essential, as the audit committee provides external stakeholders with an objective assessment of the enterprise's operations. When the role of the audit committee in the independent audit process is examined, The audit committee is responsible for assigning the firm to carry out the independent audit activity, determining the scope of the audit activity to be carried out with the independent auditors, interviewing the independent auditor about a problem encountered during the audit activity, and reviewing the audit report and financial statements with the independent auditor after the audit activity is over (Eliuz, 2007; p. 15).

Discussion

Confidence in the financial statements of businesses has decreased due to the accounting scandals experienced in the early 2000s and creating striking results worldwide. Businesses have embarked on a quest to eliminate the adverse effects of scandals and regain their stakeholders' trust. They have grasped the importance of corporate governance. In the corporate governance approach, it is crucial to establish an audit committee consisting of at least two nonexecutive members of the board of directors, who will support the board of directors in audit and oversight issues and consult the board of directors on financial issues when appropriate. In line with this importance, the fact that the audit committees act as a binding bridge between the internal audit unit, the independent audit firm, and the board of directors makes the existence of the audit committee in businesses even more essential.

Audit committees must have three key attributes to fulfill their role as an increasingly important component of effective accountability and governance: independence, communication, and accountability. Audit committees should consist of independent nonexecutive members and financial experts. The audit committee supports the board of directors, especially in financial reporting, and provides serious protection for the independence of internal and independent auditors while they continue their audit activities. Together with the audit committee, the validity of the enterprise's financial performance increases, and it is realized by giving importance to transparency in financial reporting.

The audit committee is in constant communication with the internal audit unit within the company and with the independent audit firm outside the company; while increasing the quality of the independent audit activity performed, it also increases the independence of the auditors and assures that the financial information in the financial statements prepared by the enterprise and made available to the stakeholders reflects the truth. With this assurance, investors accepted as external stakeholders make decisions based on accurate and realistic financial information.

Although the audit committee continues its activities under the board of directors, it is a committee that supports the board of directors in the financial reporting process. In addition, it enables external stakeholders to make decisions safely by communicating effectively with the independent audit firm and internal audit unit in auditing whether the financial information in the enterprises' financial reports reflects the current economic situation. Therefore, audit committees are one of the most critical units of businesses financially. When the structure of the audit committee is examined, it is seen that it is in contact with the management, internal audit unit, and independent audit firm and has a vital role in fraud prevention.

International Accounting Standards include globally accepted standards in financial reporting and accountability. Within the framework of these standards, the structure of the audit committee reporting to the board of directors can be summarized as follows:

- **Number and Profile of Members:** Audit Committee members generally consist of independent board members. It is preferred that members have expertise in financial, accounting, or auditing.
- **Independence:** According to International Financial Reporting Standards (IFRS), audit committee members should not have a meaningful relationship with the board of directors or other activities of the company. This is necessary to ensure an independent audit and oversight process.
- **Duties and Responsibilities:** The Audit Committee has duties such as overseeing financial reporting processes and internal control systems, supervising the audit process, and evaluating risk management.
- **Regular Meetings:** The Audit Committee holds regular meetings and makes necessary assessments on financial reporting, internal control, risk management, and auditing.
- **Audit Firm Relationship:** The Audit Committee selects and communicates with the external independent audit firm. This is important to ensure the audit process's objectivity and independence.
- **Risk Assessment:** The Audit Committee evaluates the financial and operational risks the company is exposed to and collaborates with management on how to respond to them.
- **Fraud and Ethics Control:** The Audit Committee evaluates policies on fraud and ethics and conducts effective monitoring in these areas.
- **Reporting:** The Audit Committee regularly reports to the board of directors. These reports aim to increase the accuracy and transparency of financial reporting processes.
- **Training and Development:** Audit Committee members should take advantage of regular training and development opportunities to understand current issues and changes in financial reporting standards.

The composition of the board's audit committee may vary depending on local legal requirements, industry norms, and company characteristics. However, it is important to include

basic principles to ensure transparency, independence, and adequate supervision by IFRS standards.

The existence of an audit committee in the business affects responsibilities to shareholders, and an influential audit committee can provide businesses with the following benefits:

- **More Reliable Financial Reporting:** The audit committee ensures that more accurate and reliable financial information is presented by auditing financial reporting processes and internal control systems. This helps shareholders have access to more reliable and unbiased information about the business's financial position.
- **Shareholder Protection:** The audit committee takes appropriate action to monitor and prevent fraud and ethical violations. This assures shareholders that the business operates according to ethical and legal norms.
- **Improvement of Risk Management and Internal Controls:** The audit committee evaluates the business risks and ensures appropriate measures are taken against these risks. This helps shareholders understand the risks of the business and gain assurance that they are being managed.
- **Monitoring the Audit Process:** The audit committee monitors the performance of external independent auditors and evaluates the effectiveness of the audit process. This increases shareholder confidence in the financial reporting and auditing processes.
- **Board of Directors Monitoring:** The audit committee oversees the activities and decisions of the board members. This allows shareholders to learn more about the effectiveness and accountability of the board of directors.
- **Reputation and Market Confidence in Public Companies:** An audit committee in publicly traded companies can increase the confidence of investors and regulators in the business. This can positively impact share value and the business's reputation by increasing shareholder confidence.
- **Accountability and Transparency:** The presence of an audit committee increases the accountability of the entity's board of directors and management. This, in turn, can help shareholders gain greater visibility into the business decision-making processes.

As a result, the audit committee's presence increases the business's financial credibility while providing shareholders with greater confidence and knowledge. This can increase the share value, reputation, and long-term sustainable success of the business.

The importance of the audit committee for corporate governance is excellent and comes from many aspects. Audit committees enable the company to operate more transparently, responsibly, and ethically on matters such as ethics, financial reporting, internal control systems, risk management, and compliance. Audit committees increase the accuracy and reliability of financial data by overseeing the company's financial reporting processes. This can increase the confidence of investors, shareholders, and other stakeholders in the company. Audit committees evaluate the company's risks and oversee

the effectiveness of risk management processes. This can increase the sustainability of the business and its resilience to crises. Audit committees oversee the company's internal control systems and evaluate the effectiveness of these systems. Robust internal control systems can help detect errors and fraud. Audit committees oversee the company's compliance with ethical standards and compliance with legal regulations. This is important for protecting the business's reputation and reducing legal risks. Audit committee members generally consist of independent board members. This can prevent potential conflicts of interest and increase the objectivity of audit processes. Audit committee members generally consist of independent board members. This can prevent potential conflicts of interest and increase the objectivity of audit processes. Audit committees increase investor confidence in the company and demonstrate its reliable financial reporting and audit processes. Many countries and regions have corporate governance standards and regulations. Audit committees oversee the company's compliance with legal and ethical expectations by complying with these standards and regulations.

To increase the effectiveness of audit committees, the following should be considered:

- **Independence and Expertise:** Audit committee members should be independent and experts in financial, accounting, or auditing matters. Members' ability to understand audit processes and apply financial reporting standards is essential.
- **Training and Development:** It should be ensured that members benefit from continuous training and development opportunities. They must be up-to-date on changing accounting standards, regulations, and business trends.
- **Risk Management and Internal Controls:** The audit committee should oversee the entity's risk management processes and evaluate the effectiveness of internal control systems. This can enable the business to be better prepared for risks.
- **Regular Meetings and Reporting:** The audit committee should hold regular meetings and report to the board. These meetings can increase effectiveness by addressing financial reporting, internal control, risk management, and auditing.
- **External Auditor Relationship:** The audit committee should establish effective communication with the external auditor and supervise the audit process. The external auditor's independence and the audit processes' effectiveness should be observed.
- **Collaboration and Communication:** The audit committee should communicate effectively with the board, internal audit department, external auditor, and other relevant stakeholders.
- **Preparedness for Crisis Situations:** The audit committee should develop plans for how to act in crises and be prepared for crises.
- **Evaluation and Continual Improvement:** The audit committee should regularly evaluate its performance and take steps to improve continually.
- **Compliance with Corporate Governance Standards:** The audit committee should comply with national and international

corporate governance standards and follow best practices to increase transparency and accountability.

These recommendations can guide to improve the effectiveness of audit committees. It is essential to develop approaches tailored to the needs and characteristics of the business. Since the rapid development of technology enables businesses to analyze financial data more effectively, integrating technologies such as data analytics and artificial intelligence into audit processes and ensuring data security may be an important direction for future studies. In addition, the impact of sustainability and environmental, social, and governance (ESG) factors on financial performance requires audit committees to assume a more significant role. Future studies may explore appropriate approaches for evaluating and reporting ESG performance.

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