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INCREASING IMPORTANCE OF INTERNAL CONTROL IN THE LIGHT OF GLOBAL DEVELOPMENTS, NATIONAL AND INTERNATIONAL STANDARDS AND REGULATIONS

KÜRESEL GELİŞMELER, ULUSAL VE ULUSLARARASI STANDARTLAR VE DÜZENLEMELER IŞIĞINDA İÇ KONTROLÜN ARTAN ÖNEMİ

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ABSTRACT

The global auditing and accounting scandals of the past have been a turning point for the internal control system (ICS) by increasing its importance and necessity as well as global awareness towards it. Various factors played roles in the occurrence of scandals. A dominant one is the lack of ICS and/or the failure to make it efficient. The need for ICS and ensuring its effectiveness has been subject to various national/international standards and legal regulations including the Sarbanes-Oxley (SOX) Law. Institutional/individual responsibilities of the relevant parties (board of directors, audit committee, senior management, independent auditor, public oversight authority, etc.) for the establishment and effectiveness of ICS have been significantly increased in these standards and regulations. An effective ICS is a vital safety component in many

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respects such as protecting assets and common interests of all stakeholders, achieving goals, profitability, ensuring the effectiveness/efficiency of activities, management/accounting control, compliance with policy/procedure/legal regulations/ethical principles, corporate governance, quality assurance, CRM, transparency, accountability, accurate/reliable reporting, sustainability, competitiveness, contribution to audit and so on. This study examined the features of ICS with a conceptual framework and then analyzed systematically the global scandals, which revealed the necessity of internal control, as well as national and international standards and legal regulations.

ÖZ

Geçmişte yaşanan küresel etkili muhasebe ve denetim skandalları, iç kontrol sisteminin (İKS'nin) öneminin ve İKS'ye yönelik küresel farkındalığın artmasında bir dönüm noktası olmuştur. Skandalların oluşumunda çok çeşitli faktörler rol oynamıştır. Bunlardan birisi de İKS'lerinin olmaması veya etkinliğinin sağlanamamasıdır. İç kontrol gerekliliği ve İKS'nin etkinliğinin sağlanması konusu, Sarbanes-Oxley (SOX) Yasası dâhil çok çeşitli ulusal/uluslararası standartlar ile yasal düzenlemelere konu edilmiştir. Söz konusu standartlar ve düzenlemelerde İKS'nin kurulması ve etkinliğinin sağlanmasına yönelik ilgili tarafların *(yönetim kurulu, denetim komitesi, üst yönetim, bağımsız denetçi, kamu gözetim otoritesi vb.)* kurumsal/bireysel sorumlulukları ciddi biçimde artırılmıştır. Etkin bir İKS, çok çeşitli açılardan *(tüm paydaşların ortak çıkarlarının korunması, varlıkların muhafazası, hedeflere ulaşma, kârlılık, faaliyetlerin etkinliğini/verimliliğini sağlama,* yönetim*/muhasebe kontrolü, politika, prosedür ve* düzenlemelere *uyum ve etik ilkelere riayet, kurumsal yönetim, kalite güvencesi, kurumsal risk yönetimi, şeffaflık, hesap verebilirlik, doğru/güvenilir raporlama, sürdürülebilirlik, rekabetçilik, denetime katkı vb.)* hayati bir emniyet bileşenidir. Çalışmada, öncelikle İKS'nin özellikleri kavramsal çerçeveyle birlikte irdelenmekte ve iç kontrol gerekliliğini ortaya koyan küresel skandallar ve ulusal/uluslararası standartlar ile yasal düzenlemelerin sistematik analizi yapılmaktadır.

Key Words: Internal control, Accounting and auditing scandals, ISAs/TASs, Regulations, Auditing.

Anahtar Kelimeler: İç kontrol, Muhasebe ve denetim skandalları, UDS/TDS, Yasal düzenlemeler, Denetim.

INTRODUCTION

Past accounting and auditing scandals have raised global awareness on the importance of internal control (IC) and its necessity. The importance of IC and internal control system (ICS) has increased enormously due to those global scandals. Many different factors affected the occurrence of scandals including the lack of ICSs, their inability to ensure their effectiveness, their inability to operate effectively, and their inability to monitor them.

Due to the increasing awareness and significance of IC, the need for IC and ensuring the effectiveness of ICS have been subject to numerous national and international standards and regulations, including the globally effective Sarbanes-Oxley (SOX) Law (SOX, 2002). The need for IC and the effectiveness of ICSs are guaranteed by the relevant articles of all standards and regulations. Responsibilities of all relevant parties (including internal audit, audit committee, independent audit, board of directors/BoDs, public oversight) for the establishment and efficiency of ICS have increased enormously in all regulations, standards and models.

Ensuring the effectiveness of ICS constitutes the assurance of reliable information and accurate/reliable reporting. In addition, an effective IC function is vital for protecting the common interests of stakeholders, protecting assets, achieving business goals, profitability, ensuring the effectiveness/efficiency of activities, management/accounting control and compliance with policies, procedures and regulations. Moreover, ensuring the efficiency of ICS is critical in various aspect such as achieving goals, quality assurance, corporate risk management, transparency, accurate/reliable reporting, accountability, corporate governance (CG), compliance with ethical principles, sustainability, competitiveness, reducing audit risks and costs.

Responsibility for the establishment, effective operation and supervision of ICS belongs primarily to the BoDs of an entity. However, following the scandals, this responsibility was additionally shared among other parties such as the audit committee, independent audit, internal audit and public oversight as mentioned in the study.

This study examines the definition, importance, features and types of ICS with the conceptual framework. It also analyzes systematically the scandals necessitating IC, national/international standards and legal regulations. It ends with a conclusion.

1. CONCEPTUAL FRAMEWORK AND THE IMPORTANCE OF IC: A LITERATURE REWIEW

1.1. Conceptual Framework for IC

IC is a concept that encompasses the process and actions taken by the BoDs, managers, employees and other relevant parties to achieve the business objectives, increase the likelihood of achieving goals, and manage risks (IIA, 2020).

According to COSO, which is taken as reference in the world and in Turkey, IC refers to a wide process that is carried out by the BoDs, senior management and all employees and provides reasonable assurance for realizing goals (i.e. achieving goals, protecting assets, avoiding loss/damage, accurate/reliable financial reporting, compliance with legal and internal/external regulations, increasing the efficiency and productivity of activities, etc.). This concept contains all kinds of policies, plans, procedures, measures, methods and systems applied in this direction (COSO, 2013).

IC is also crucial in terms of CG, risk management and sustainability (Türedi, 2011:101). It is used as a lever to achieve the abovementioned objectives. It is not an isolated event or individual system within the organization. The management function consists of interconnected complementary systems covering the entire business and its activities and processes. Therefore, it is an extensive structure that generally includes all business activities including accounting and management control (Saltık, 2007:60).

According to the American Securities and Exchange Commission (SEC), IC consists of a harmonious organization, plan, method and procedures adopted for the purposes of achieving business goals, increasing the efficiency of activities, protecting assets, controlling the accuracy and reliability of accounting records and financial statements, and supporting compliance with the policies determined by senior management (Root, 1998:67-68).

Similarly, Article 55 of the (Turkish) Public Financial Management and Control Law No.5018 defines IC as "the sum of the organization, policies, methods, processes and procedures established by the administration including internal audit to achieve the following objectives" (Erdoğan, 2009:15-16):

- Carrying out activities in accordance with the targets/planned actions/ regulations/ appropriate financial conditions
- Maintaining all assets and liabilities structures
- Recording accurate/complete accounting data
- Producing economic/managerial information on time

ICS is the whole system that requires establishing the chart of accounts and reporting system needed to achieve the abovementioned objectives, determining organizational plan, duties, responsibilities, measures, methods and separating duties (Cook and Winkle, 1980:198).

IC is a dynamic and substitute process that constantly adapts to changes. Staff and management at all levels should be involved in this process and provide reasonable assurance that risks meet the organization's mission and overall objectives. IC is not an individual situation or event, but a chain of actions feeding an organization's activities. These measures are based on the continuity of an organization's activities (Harringston, 2004:65-66).

1.2. Importance and Features of IC System

Businesses become more complex as they grow with the effect of developing economic relations and technology. In parallel, the number, volume and complexity of business activities increase. The ability of shareholders and business management to control the efficiency and productivity of the works and activities alone is also lost or reduced. For this reason, it is important to prevent, control and manage any possible adversities in various aspects (achieving business goals, ensuring reliable reporting, compliance with legal regulations, competitiveness, sustainability, corporate risk management, etc.).

Possible adverse developments and potential risks (loss of assets, wrong decisions, non-compliance with legal regulations, fraud/abuse, loss of profitability/efficiency, etc.) can only be eliminated by establishing the necessary ICs and ensuring their effectiveness. There is clearly a similar relationship between the growth of enterprises/entities and the complexity of activities and the need for establishing ICS. In other words, as businesses grow and operations become more complex, the need for the existence and effectiveness of ICSs also increases. Therefore, having a comprehensive and effective ICS is essential.

An efficient ICS is extremely important for all stakeholders, senior management and partners, as well as internal/ independent auditors, because the effectiveness of ICS ranks first among the factors taken into consideration in planning the audit process and affects the quality of independent audit process. Furthermore, an effective IC allows auditor to rely on it (Widyaningsih, 2015:91) and, it also causes shorter audit periods, reduces audit procedures and, of course, lowers fees for the client business. Similarly, in terms of internal audit, it helps to reduce the audit risk and procedures, and shortens the audit period.

Some instances of the applied research results related to IC, ICS and its effectiveness/impact in the international literature can exemplify this subject. The studies by Collins (2014), Mbilla et al. (2020), Mawand (2008), Chebungwe and Kwasira (2014), and Widyaningsih (2014) show that ICS and IC activities have positive influence on firm performance. Similarly, the study by Mohammed and Aksoy (2020) revealed that there is a linear correlation between the effectiveness of ICS and financial and non-financial performance in COSO-based Ghana banks. Karagiorgos et al. (2010) found that a well-organised IC plays great role in the survival and success of business and internal audit effectiveness. In his study Al-Hanini (2015) found the existence of the reliability of the IC methods on the computerized information systems in Jordanian banks. The study by Saglam and Aksoy (2020) found that ICS within the Istanbul Metropolitan Municipality Fire Service Department was effective. It also concluded that the effectiveness of ICS increases crisis management skills in pre-crisis, during the crisis and post-crisis stages, and there is a similar relationship between crisis management skills and the effectiveness of ICS. Hayali et al. (2012) revealed that IC activities are observed to the international standards among Turkish banks.

Olatunji (2009) revealed that ICS is very important in the prevention and detection of frauds in the banking sector. A Study by Saleh and Mohammed (2010) was on the role ICS play in reducing the risks related to auditing. The study revealed that the higher the risk resulting from ICS, the higher the risk concerning audit. Spira and Page (2003) based their studies on the role IC plays in changing internal audit and risk management. Several studies on IC have been related to other variables, such as framework for ethics initiatives (Schneider and Becker, 2011), study process (Verdina and Kasetiene, 2014), financial accountability (Godfrey, 2013; Aramide and Bashir, 2015) and the efficiency of the management of funds (Otieno, 2013).

ICS is closely linked to an organization's activities; it is very effective if it is integrated into the organization's infrastructure and is an integral part of the organization. Therefore, it should be integrated into the organization, complement all processes and be a tool of basic management processes (INTOSAI, 2020:11).

IC is a tool used to carry out a series of activities. Three characteristics of IC are given below:

Table 1: Features of IC

Continuity: IC is not an individual function; it is a series of activities that are developed on a continuous basis in all activities of an enterprise. It is an aid to management activities rather than a different system. It is an auxiliary sub-management audit.
Human Factor: It is the human factor that stimulates ICS. Staff plays an important role in achieving goals by defining and implementing management goals, monitoring and evaluating the results.
Reasonable Assurance: No matter how successful it is, IC does not provide complete assurance for achieving an organization's goals. Factors other than audit activity or management, wrong and incomplete decisions, human error and collusion can affect the achievement of goals. In this way, IC provides reasonable assurance rather than absolute assurance.

Source: Sayıştay (2002)

1.3. Objectives and Responsibilities Covered by ICS

The degree of achievement of corporate goals can be named as the success of the business to continue its activities. The whole chain of business policies and procedures that will make it possible to achieve these goals is called controls; the structure created by them is called ICS. Various objectives are pursued in evaluating and examining the ICS of the company. They are summarized below:

Table 2: Specific Objectives of ICS

Authorization	Ensure that the operations in the enterprise are carried out within the specified authorities and through authorized persons
Reality	Record real transactions
Recorded accuracy	Correct recording of transactions in terms of amount
Classification	Register transactions in real accounts and show them in correct groups in financial statements and tables
Timeliness	Record of transactions in the period they are realized

Source: Bozkurt (1995: 122)

ICS has a wide variety of general purposes and benefits. These can be summarized as protection of assets, transparency, accountability, sustainability, CG, reliable/complete/accurate financial reporting, ensuring effectiveness/efficiency in activities, ensuring compliance of activities with business policies/legal regulations, increasing the reliability/quality of auditing, management/accounting control and management's success in achieving goals (Kepekçi, 2004: 23-26; Cangemi and Singleton, 2003: 75).

The objectives of IC activities in the COSO ICS are categorized under three headings operational, reporting and compliance (COSO, 2013:7);

Operational Objectives: Refers to the operating system of an enterprise to show efficiency and effectiveness in protecting assets and in realizing operational and financial objectives.

Reporting Objectives: Includes transparency, reliability, time limits and other issues stipulated in internal/external financial/non-financial reporting by regulatory agencies and reporting to the top management.

Compliance Objectives: Includes laws and other regulations that the business is responsible for complying with.

Responsibility occurs in two different ways in ICS: responsibilities regarding the establishment of ICS and the responsibilities arising from the operation, monitoring and examination of ICS. Top management is responsible for establishing ICS in all IC models, standards and regulations. The responsibility for the effective functioning of ICS is first assigned to external auditors, and then to internal auditors, in addition to management and audit committee.

2. GLOBAL DEVELOPMENTS AND THE GROWING NEED FOR IC

In 2000, global scandals started with Enron in the USA. The scandals highlighted the need for IC, which was a turning point in the growing importance of ICS and created a global awareness of this issue. After the scandals, IC and the need for IC have been subject to many national/international standards and regulations. Attempts have been made to ensure the necessity of IC and the effectiveness of ICS, and provide guarantees in all these standards, laws and regulations.

National/international standards and regulations revealing the importance of ICS and necessity of IC are systematically analyzed below, taking into account the provisions on IC.

2.1. Global Accounting and Auditing Scandals and IC

In the past, accounting and auditing scandals with a global impact affected a wide variety of companies. The series of scandals that started with Enron in the USA in 2000 continued in other companies (such as Worldcom, Q-West, Global Crossing, Tyco International, Adelphia Communications, Arthur Andersen, AOL, Royal Ahold, Parmalat, etc.). A variety of factors played a role in their occurrence. The most important factors are summarized below (Aksoy, 2005a: 53-55):

- Unreliable information and financial reporting about businesses
- Inadequate corporate responsibility for fraudulent financial reporting
- Lack of CG
- Deterioration of auditor independence
- Lack of IC
- Ineffective ICSs
- Lack and ineffectiveness of management, external audit and public authority regarding the surveillance/follow-up/ monitoring of IC

As stated above, in addition to other factors, issues such as the lack of ICSs in companies, insufficient control and supervision of the IC effectiveness played an important role in those scandals. Various globally effective and devastating developments took place as a result of scandals, such as;

- Company bankruptcies
- Submerges
- Risk of economic crisis
- Serious loss of confidence (to; markets, public companies, financial reporting, public disclosures and corporate communications, top management, independent audit, supervisory authorities), etc.

2.2. Raising Awareness and Importance of IC

The series of accounting and auditing scandals that overshadowed the success of the economic order and accounting and auditing activities led to

the emergence of billion-dollar bankruptcies due to the misconduct of corporate executives, independent auditors and other parties. IC weakness had a significant impact on global scandals. For example, cross control systems and ICSs were left non-functional by placing a lot of emphasis on increasing profits and prioritizing personal interests in Enron. Necessary inspections were not made to reduce mistakes. In addition, IC methods were eliminated and no work was done on the availability and competence of the system.

These scandals and global crisis led to some improvements, such as;

- Acceleration in the trend towards global (one in each field) standard set from national standards
- The need to discipline management, supervision and surveillance authorities and their practices
- Increasing awareness of the importance of the IC function
- Ensuring and reviewing the effectiveness of IC and ICS is subject to standards and regulations

Therefore, globally effective scandals have been an important turning point in raising awareness about the importance of ICS, ensuring its effectiveness and examining the effectiveness of the system subject to standards and legal regulations.

3. GLOBAL AND NATIONAL INITIATIVES FOR IMPROVING STANDARDS AND REGULATIONS TO ENHANCE IC AND ICS

3.1. Globally Effective Initiatives to Meet the Increasing Need for IC

3.1.1. Sarbanes-Oxley Act and IC

As noted above, global scandals shook investors' confidence in US capital markets, businesses, financial information, and independent audit businesses overseeing these companies. In 2002, the SOX Act was enacted in the US in to restore public trust (SOX, 2002). The strength of US financial markets is based on investor confidence. With the promulgation of SOX Act, fundamental changes occurred in the CG process and accounting and auditing activities.

SOX Act aims to ensure the reliability of independent audit procedures and companies. In this respect, it aims to evaluate the existence and/or competence of IC and IC mechanisms in independent audit activities. Therefore, a stricter

control over the existence and effectiveness of IC and ICSs has come to the fore. While SOX imposes great responsibilities on business management, it also requires internal/external auditors to cooperate closely with management while performing audit services.

The provisions of law have mainly influenced independent auditors, internal auditors, senior managers, BoDs, individual investors, institutional investors, standard setting authorities, lawyers and analysts. High responsibilities are assigned to the top management of the company, BoDs and independent external auditors.

Article 301 of SOX stipulates the establishment of an audit committee responsible for IC and internal audit of the companies subject to the stock exchange. One of the most important obligations of audit committees is to oversee the IC mechanism. To ensure the effectiveness of CG and ICS, and their effective supervision of audit committees is essential (Kahyaoglu and Aksoy, 2009:155-164). Audit committees consist of two non-executive members of the BoDs. The IC report prepared by the committee every year will be published in addition to the annual report with the approval of the general manager and senior management. In addition, the audit committee is responsible for handling complaints about ICS and its issues and structure.

SOX Act gives very significant responsibilities to independent external auditors for IC and business management. IC responsibility is shared among the top management of the company, independent auditors and internal auditors.

SOX Act has tightened the requirements of the business management's liability for IC. In this context, the management of the company should complete, approve and evaluate the IC evaluation reports and independent audit reports. SOX Act stipulated that the following should be clearly stated in the annual report prepared by the business management and submitted to the SEC with the signature of the chairman who should take responsibility personally (Sarıoğlu, 2002: 49-53):

- A sufficient/appropriate IC structure and ICs are designed and established by the BoDs,
- The effective functioning of ICS is ensured,
- The effectiveness of ICS and ICs are evaluated by them,
- The evaluations on significant errors,
- The compliance of management evaluations with generally accepted standards, IC mechanisms and procedures,

- Open points and important weaknesses,
- The conclusions reached by management on this issue and all kinds of incidents that may adversely affect the IC process.

SOX Act increases the responsibility of the auditors with regard to IC with the management of the business. It gives the external auditor the task of attesting the IC report prepared by management for the effectiveness of the system, as well as controlling ICS. As a result, the institutional and individual responsibilities of the BoDs, audit committee, senior management, independent auditor and public oversight authority have increased significantly in the establishment, efficiency and evaluation of ICS.

3.1.2. US Based Standards and ICS

After global shocks, in order to strengthen the managerial and control systems including IC, main national standard setters of USA improved their standards, which are globally effective. American Generally Accepted Audit Principles (USGAAP) include various regulations on IC. The independent auditor is required to evaluate the functioning and efficiency of the ICS of the enterprise. Examination of ICS will help identify errors, frauds, deficiencies and risks in the financial statements, plan the audit, and determine the appropriate method and scope (Sullivan, 2020:1).

American Stock Exchange Commission (SEC) has considered IC more narrowly than other models, in relation to accounting only. However, it has various regulations regarding IC. According to the SEC, the purpose of ICS is reliable and accurate financial reporting in accordance with generally accepted accounting principles in listed companies (Aksoy, 2010:167).

The SEC requires management to prepare an Annual Review Report of the Company's Financial Reporting. This report should include management's assessment of the accuracy of financial reporting and the effectiveness of ICS, and attestation of the management evaluations of the registered public accounting firm that audits the financial statements (SEC, 2020). In line with the SOX Act, the SEC has assigned the independent external auditors with the duty and responsibility to examine and verify the accuracy of the report on ICS, prepared annually by the business management (and published with the annual report to include the independent auditor's report) and shared with independent auditors (Ludelius, 2003:15).

Internationally Accepted Auditing Standards developed by Auditing Standards of the American Certified Public Accountants Institute (AICPA) consider IC importance and adopt a COSO-compliant IC approach. According to the AICPA, IC is defined as a system created by the management or the BoDs and controlled and evaluated by the auditors. Auditors have to examine and evaluate the ICs and the effectiveness of the ICS of the auditee. In addition, reliable financial reporting, effective and efficient activities, compliance with the legislation, protection of assets and providing reasonable assurance are considered as the objectives of IC (AICPA, 2020).

These standards define IC as a totality of methods, measures, and procedures developed to protect and preserve the assets owned by businesses, ensure the correct and reliable control of business data and accounting records, ensure the efficiency of activities and comply with the policies established by the management.

Standards of fieldwork constitute the second group of generally accepted international auditing standards. The second fieldwork standard is about IC. This standard stipulates that an enterprise's ICS is audited by auditors, and its effectiveness is evaluated and understood adequately (ScienceDirect, 2020). According to the standard, a sufficient understanding of IC should be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.

3.2. International Framework and Standards for IC

Due to its increasing importance, strengthening the rules and principles related to the existence and effectiveness of ICS has been subject to a wide variety of international standards and regulations. International standard setters mainly COSO, IIA, INTOSAI and IFAC focused more on the requirements of a sound IC.

3.2.1. COSO IC Framework and IC

In 1992, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed a model for evaluating ICs. This model has been adopted as the generally accepted framework for IC and is widely recognized as the definitive standard against which organizations measure the effectiveness of their ICSs (Protiviti, 2020).

The COSO model defines IC as a process effected by an entity's BoDs, management and other personnel designed to provide reasonable assurance of the achievement of objectives in the following categories:

- Operational Effectiveness and Efficiency
- Financial Reporting Reliability
- Applicable Laws and Regulations Compliance

COSO provides a road map to building a fundamental foundation of IC to ensure that the risks an organization takes are monitored and mitigated through sound business decisions. It is a flexible, reliable, and cost-effective approach to the design and evaluation of ICSs for organizations looking to achieve operational, compliance, and reporting objectives. COSO was updated in 2013. The 2013 Framework can be applied regardless of organization size or type: public companies, privately held companies, not-for-profit entities, and governmental entities. COSO focuses on five integrated components of IC: Control environment, risk assessment, control activities, information and communication, and monitoring activities. In an effective ICS, the following five components work to support the achievement of an entity's mission, strategies and related business objectives (COSO, 2013):

Table 3: 5 Components and 17 Principles of IC

5 Components	**17 Principles**
Control environment	1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability.
Risk assessment	6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control activities	10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys control activities through policies and procedures
Information and communication	13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring activities	16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

Source: COSO (2013)

COSO has been developed and updated to follow the current developments such as globalization, technological breakthroughs, digitization and the diversification of fraud risks (Türedi et al., 2015: 96).

3.2.2. Institute of International Internal Auditors (IIA) and IC

IIA is an international, independent and professional organization of internal audit which makes regulations for internal audit and IC requirements. It defines IC in accordance with COSO in the internal audit standards published for internal auditors.

The IIA has made the following provisions in the internal audit standards for auditors to assess the existence, efficiency and adequacy of ICS (IIA, 2020:1-25):

Standard No.1220.A1 states that "Internal auditors have to show the utmost professional care and attention by taking into account the efficiency and adequacy of the governance, risk management and IC processes of the enterprises".

Standard No.2060 "Reporting to Senior Management and BoDs" draws attention to the need for the internal audit manager to report the control problems and risks of the enterprise to the Senior Management and BoDs.

Standard No.2100 "The Nature of Work" states that internal audit activity has to evaluate IC processes with a systematic, disciplined and risk-based approach and contribute to their improvement.

Standard No.2110 "Governance/CG" states that "the internal audit activity has to evaluate the control processes and make recommendations for the supervision and improvement of ICs".

Standard No.2130 "Control" states that the internal audit activity must help the organization to have effective controls by evaluating the effectiveness and efficiency of ICs and encouraging their continuous improvement.

Standard no.2130.A1 stipulates that "The objectives of the internal audit activity are to evaluate the adequacy and effectiveness of IC in the following subjects, in accordance with COSO":

- Achieving the strategic goals of the business,
- Accuracy and reliability of financial and operational information,

- Effectiveness and efficiency of activities and programs,
- Protecting assets,
- Compliance with laws, regulations, policies, procedures and contracts.

Standard no. 2130.C1: states that internal auditors have to use the IC data they obtain from consulting duties to examine the IC process of the organization. According to the IIA, Control Environment is the approach and attitude of the management, BoDs and audit board regarding the importance of IC. It provides the framework and discipline required to achieve the core objectives of ICS. It includes (IIA, 2020:22):

- Integrity and ethical values,
- Management's philosophy and operating style,
- Organizational structure,
- Assignment of authority and responsibility,
- Human resource policies and practices,
- Competence of personnel.

In the IIA internal audit standards, control processes are defined as the policies, procedures (both manual and automated), and activities in a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept. That means, all internal auditors, who are members of IIA around the world, are subject to international internal audit standards that include COSO-based IC provisions, and that they examine the ICS and effectiveness of the businesses in internal audit practices in the light of the COSO-based internal audit framework and components.

3.2.3. INTOSAI Standards and IC

One of the leading standard setter institutions that put forward the necessity of IC and ICS is International Organization of Supreme Audit Institutions (INTOSAI). INTOSAI adopted and implemented the "IC Standards for the Public Sector" in 2004 in line with the COSO integrated IC framework in 2001 (INTOSAI, 2020).

In the standards adopted by INTOSAI in 2004, IC is defined as a process that provides reasonable assurance by senior management and staff to prevent risks and achieve targets (economic, effective and efficient activities, compliance

with ethical principles, accountability, compliance with regulations, protection of assets and resources against risks, etc.).

ISSAI 10 emphasizes that the auditor should know and understand the structure of the ICS and IC procedures of the auditee at an adequate level.

ISSAI 200 states that the auditor should consider the following issues to understand ICS while auditing the financial reporting process (INTOSAI, 2020):

- Accounting records (including correction and information transfer procedures) used to initiate, record, process and report transactions, supporting information, and special accounts in financial statements,
- The reporting process used to prepare the auditee's financial statements, including significant accounting estimates and disclosures,
- Manual and IT procedures from the time these transactions are executed until they are transferred to reports,
- Controls on management responsibility,
- Checking unusual/nonstandard journal entries (including corrections),
- Controls of sensitive personal data such as national security, tax and health,
- Checking how the information system captures significant non-financial statement transactions,
- Relevant controls regarding compliance with authorities,
- Controls regarding the monitoring of budget performance,
- Controls over the transfer of funds in the operating budget to other entities,
- Significant account groups in the audited financial statements,
- Audits and controls by external parties, such as compliance with laws and regulations, implementation of the budget,
- Other areas defined by legislation or audit instruction

INTOSAI's control framework is very similar to the COSO model. According to its main features, ICs are an integrated process, they are put into practice by management and employees, they are risk-focused, they provide reasonable and acceptable assurance, and they are created to achieve the targets. That

means, all public SAIs within INTOSAI adopt an advanced COSO-based IC approach, adhere to this approach in their works and evaluate the IC structure and the effectiveness of the system within the framework of COSO.

3.2.4. International Standards on Auditing (ISAs) and IC

International Standards on Auditing (ISAs) are professional standards for auditing issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). According to these standards, the auditor should examine and evaluate ICS with the obligation to understand the enterprise and its environment (including IC) and apply IC procedures. The auditor should understand the control system and related controls in the enterprise, examine this framework, and determine whether these controls were performed using additional programs (IFAC, 2020: 276-280).

IFAC's audit standard No.315 (ISA 315) on IC includes an IC definition like that of AICPA and COSO. According to the standard, ICS is organized and maintained to respond to the identified risks in working life that prevent the enterprise from achieving the following objectives:

- Reliability of the firm's financial reports,
- Effectiveness and efficiency of its activity,
- Compliance of the firm with the legislation.

While examining the ICS of the business, the auditor should collect evidences and make recommendations regarding the important risks, the structure and functioning of ICSs, the measures to be taken against the risks and the monitoring and improvement of ICS.

According to ISA 315, ICS includes policies, methods and procedures that can increase company productivity, such as complying with management policies, protecting company assets, preventing and detecting corruption and errors, ensuring the accuracy and reliability of accounting records, and preparing accurate, timely and reliable financial reports. ICS includes issues directly related to the functions of the accounting system.

A strong control environment can greatly enable certain control programs; however, it alone cannot ensure the effectiveness of ICS. Issues affecting the control environment are the management control system that includes the

functions of the BoDs and sub-committees, the understanding and functioning of management, the organizational structure of the company and the methods used in assigning responsibilities and authorities, separation of duties, policies and procedures of the company for employees, management control system and internal audit functions.

According to ISA regarding IC, control programs refer to the policies determined by the management in addition to the control environment to achieve certain goals of the enterprise. Adequate level of control programs should be obtained for developing auditor's audit plan. While explaining the structure, the auditor takes into account the existence or absence of control procedures based on the control environment and accounting system and approves the necessity of additional control programs.

The standard stipulates ICS to be fully compatible with COSO and include COSO components (IFAC, 2020: 266-269).

Dividing ICS in businesses into the following five components also provides benefits in terms of auditing in addition to the abovementioned benefits of IC for businesses:

- Control environment,
- The company's risk assessment process,
- Information system and communication, including relevant business processes regarding financial reporting,
- Control activities,
- Monitoring of controls

3.3. European Union Directive 8 and IC

The 8th Directive is included in the acquis and the audit acquis (Aksoy, 2005b) that should be observed by the countries in the process of harmonization and negotiation with the EU member states. It came into force in 2006. It mostly regulates the issues related to corporate law and audit issues within the community. Its purpose is to set the rules for the annual legal audits of companies and their consolidated accounts within the group. Specific articles of the Directive on IC and ICS are as follows (EU, 2020):

Article 23 stipulates that an effective ICS helps to minimize financial, operational and compliance risks and enhances the quality of financial reporting. It states that public enterprises should establish IC mechanisms.

Article 28 states that audit firms have to establish their quality assurance systems and companies have to evaluate the existence and effectiveness of ICS in audits.

According to Article 32 on quality follow-up, the oversight body is in charge of controlling and evaluating the ICSs of audit companies.

Article 40 "Transparency report" states that the BoDs of the enterprise must notify that the audit firm has examined ICS and the system operates effectively.

Article 41 "Audit committee" stipulates that listed companies and public benefit enterprises have an audit committee consisting of non-executive board members of the auditee or independent members competent in accounting. This article also addresses the necessity of the audit committee to monitor the effectiveness of ICS and the obligation of the statutory auditor to report the fragility of ICS to the audit committee, especially regarding the financial reporting process.

3.4. OECD Corporate Governance Principles and IC

Corporate Governance (CG) Principles, originally published by OECD in 2004, were recently revised after the meetings of the G20 Ministers and Central Bank Governors in Istanbul in February 2015, and discussed at the G20/OECD CG Forum in Istanbul in April 2015. They received intense support from the participants. They were later submitted to the May and August 2015 meetings of the G20 Investment and Infrastructure Working Group (IIWG).

CG principles have been developed to institutionalize the enterprises, standardize the CG understanding on a more corporate basis, achieve business objectives, and ensure the transparency, accountability, sustainability and protection of the interests of all stakeholders. These principles are (OECD, 2015):

- Providing the basis for an effective CG framework
- Fundamental partnership with the protection of rights holders and their fair treatment
- Functions
- Institutional investors, stock markets and other intermediaries
- Role of stakeholders
- Public disclosure and honesty
- Responsibilities of the Executive Board

Under the heading of "Responsibilities of the BoDs" of the OECD CG principles, there are provisions setting out the necessity for IC. In accordance with the CG framework, the BoDs have obligations to the company and shareholders. The BoDs are obliged to ensure the reliability of independent audits, accounting and financial reporting systems, and especially the operability of risk management and ICSs.

4. TURKISH REGULATIONS AND STANDARDS FOR STRENGTHENING IC

4.1. Public Financial Management and Control Law and IC

One of the regulations strengthening IC in Turkey is Public Financial Management and Control Law No. 5018 (PFMC, 2003). This law creates the backbone and fundamental of the financial management and IC in all public institutions in Turkey. According to the article 2, this Law regulates the financial management and IC of public administrations within the scope of general government, consisting of public administrations within the scope of central government, social security institutions and local administrations. It has brought very important changes and innovations in audit and inspection system of public institutions in Turkey.

In addition, the Law played an important role in the substantial renewal of the financial management and ICS in the public sector and bringing it in line with the European Union (EU) norms. With this law, an ICS in accordance with international standards has been established in public institutions and organizations within the scope of Chapter 32 (Financial Control) in the EU negotiation process. With this law, public financial management and ICSs were rearranged, modern IC activities and processes were designed and put into practice within the framework of the establishment of ICSs and the management responsibility of the administrations.

The aforementioned law and its secondary legislation, which reorganizes the public financial management and ICS, stipulates the establishment of an ICS based on the COSO model.

The purpose of the law is to ensure accountability, transparency and the effective, economic and efficient acquisition and use of public resources in line with the policies and objectives included in the development plans and

programs, as well as to regulate the structure and functioning of public financial management, the preparation and implementation of public budgets, the accounting and reporting of transactions and financial control.

In the 3/m article of the Law, financial control is defined as the ICS and institutional structure, methods and processes established to ensure that public resources are used effectively, economically and efficiently in line with the determined objectives, in accordance with the rules determined by the relevant legislation.

The fifth part of the law is about the ICS. According to Article 55, IC requires effective, economic and efficient execution of activities in accordance with the objectives of the administration, specified policies and legislation, protection of assets and resources, accurate and complete accounting records, timely and reliable production of financial and management information. The organization, method and process are established by the administration to provide financial and other ICs including internal audit.

Within the framework of its duties and powers, the standards and methods regarding financial management and IC processes are determined, developed and harmonized by the Ministry of Treasury and Finance, and the standards and methods for internal audit by the Internal Audit Coordination Board (İDKK). They also coordinate systems and provide guidance to public administrations.

According to article 56, the objectives of IC are;

a) To manage the public revenues, expenditures, assets and liabilities in an effective, economic and efficient way,

b) To ensure that public administrations operate in accordance with laws and other regulations,

c) To prevent irregularities and frauds in all kinds of financial decisions and transactions,

d) To obtain regular, timely and reliable reporting and acquisition of information for taking decisions and monitoring,

e) To prevent misuse and waste of assets and to protect them against losses.

Article 57 regulates the structure and functioning of IC. According to this article, financial management and control systems of public administrations consist of spending units, accounting and financial services, ex ante financial control and internal audit.

In order to establish an adequate and effective control system; necessary measures shall be taken by the heads and other administrators of the relevant administrations by considering duties, authorizations and responsibilities, for building high professional values and an honest administration concept; for granting financial authorities and responsibilities to well-informed and qualified administrators and staff; for ensuring that established standards are followed; for avoiding activities against legislation; and for ensuring a comprehensive management approach and a suitable work environment as well as transparency.

According to the 58th article of the law, ex ante financial control includes the ICs performed during the execution of transactions in spending units and the ICs performed by the financial services unit. At public administrations, ex-ante financial control duty is carried out within the framework of managerial responsibility. The principles and procedures for minimum controls to be performed during the realization of the procedures at the spending units, financial decisions and transactions to be subject to ex ante financial control by the financial services unit and the standards and methods regarding ex ante financial control shall be determined by the Ministry of Finance.

In accordance with the 60/m article of the Law, the financial services unit is obliged to work on the establishment of the ICS, implementation and development of its standards.

Article 63 and 64 regulates internal audit as a part of ICS. According to the law, internal audit activities are performed with a systematic, regular and disciplined approach and in accordance with generally accepted standards, aiming to evaluate and improve the efficiency of risk management and of management and control processes on the management and control structures and financial transactions of administrations. Internal auditors are also responsible to evaluate the management and IC structures of public administrations based on objective risk analysis and audit the system of financial management and IC processes and make suggestions on these issues.

The internal auditor performs these duties in accordance with the internationally accepted IC and audit standards determined by the İDKK. According to 68th article, the external audit is carried out by the Turkish Supreme Court of Accounts (Sayıştay) on behalf of Grand National Assembly of Turkey (TBMM) taking into account the generally accepted international audit standards.

4.2. Turkish Auditing Standards and IC

In Turkey, Public Oversight, Accounting and Auditing Standards Authority (KGK) is the body responsible for establishing and publishing accounting and auditing standards in accordance with international standards based on the authority given by the Turkish Commercial Code. The authority has translated IFAC/IAASB/ISAs into Turkish and published Turkish Auditing Standards (TDS).

As IFAC's audit standard ISA 315, Turkish Audit Standard TDS 315 defines and regulate the IC and related issues on the basis of COSO model (KGK, 2020:11-24). According to the standard, ICS is organized and maintained to respond to the identified risks that prevent the enterprise from reaching the following objectives:

- Reliability of the firm's financial reports,
- Effectiveness and efficiency of its activity,
- Compliance of the company with the legislation.

TDS No.315 stipulates that ICS in businesses should include five IC components (KGK, 2020, A59):

- Control environment
- Company's risk assessment process
- Information system and communication, including relevant business processes regarding financial reporting
- Control activities
- Monitoring of ICs.

Since there is no difference between ISAs and TDS, they will not be reviewed in detail in order to avoid repetition.

4.3. Turkish Banking Law and IC

According to the Banking Law No. 1411, it is the responsibility of the BoDs to establish ICS within the banks, operate it effectively, ensure its effectiveness, and make notifications and reports regarding this.

In accordance with Article 23 of the Law; the BoDs is obliged to establish an ICS in accordance with the relevant laws to ensure the reliability of financial reporting and ensure its operability, applicability and adequacy.

Banks are obliged to establish an adequate and effective ICS to monitor, control and prevent the risks they encounter in their activities, establish and implement relevant policies/procedures/IC activities and operate the system effectively.

In addition, banks are obliged to establish audit committees and early detection of risks to prevent the risks that they face within the BoDs and which may endanger the existence of the bank.

In the law, the BoDs is also responsible for separation of duties, determination and distribution of duties/authorities/responsibilities, separation of functions, protection of assets, debt control, recognition and evaluation of any risks faced and establishment of an adequate communication network. IC activities are expected to be carried out by the authorities within the IC department and the BoDs.

By law, banks are required to establish an audit committee with at least two members elected from non-administrative board members for oversight activities, inter alia, for the control and monitoring of the effectiveness of ICS. Audit committee is obliged on behalf of the BoDs to observe the efficiency and adequacy of the bank's ICSs and accounting and reporting systems, and the completeness of the information produced.

4.4. Turkish Commercial Code and Capital Markets Law and IC

The Turkish Commercial Code (TTK, 2011) No. 6102, which entered into force in 2011, is the main law that forms the backbone of commercial life in Turkey. While the law does not directly include the concept of IC, it refers to the Turkish Auditing Standards (TDSs), published by KGK. TDSs are the exact translations of international auditing standards.

These standards include a COSO-based ICS. In addition, the Law provides for the establishment of an early risk detection committee. The legal justification of this committee includes direct/indirect provisions and explanations regarding ICS and ensuring its efficiency. According to Article 397 of the Law titled Auditing, companies will be audited by independent auditors in the light of TDSs.

In the text and justifications of the law, reference is made to TDS, audit committee, early detection of risks and IC mechanism, which is fully compatible with the IASs and COSO IC framework. The law, by introducing the relevant provisions, required the necessity of IC, the establishment of an ICS, keeping its efficiency under surveillance, and the control and audit of the system by independent auditors.

In addition, in Article 378 of the section titled early detection and management of risk, in listed companies, the BoDs is obliged to establish an expert committee for early detection of risks, taking measures and managing them. According to the rationale, the early detection of risks committee, together with the accounting control, financial audit and audit committee, is another company ICS tool for early detection, monitoring, evaluation and taking measures.

Capital Markets (SPK) Law is another important regulation in Turkey that puts and rules the need for IC. In accordance with Article 45 of the law, investment firms operating in the capital market are obliged to establish the necessary IC units and systems.

Similarly, according to Article 73, stock exchanges operating in the capital market are required to establish the necessary IC units and systems for the safe management of their systems (SPK, 2012). Besides, pursuant to Article 78, central clearing institutions are obliged to similarly establish and maintain effective ICSs.

CONCLUSION

With its increasing frequency, extent and devastating impacts in parallel to globalization; the financial and economic crisis not only yields devastating consequences for the economy and politics worldwide, but also brings about promising opportunities to render the entities more effective and to reconsider and build up strong management and control systems (Köse, 2012). In particular, global accounting and auditing scandals have greatly increased the importance of the existence and effectiveness of ICSs in companies, government entities and non-profit agencies on the basis of corporate governance. Lack of ICS and/or failure to ensure its effectiveness has been one of the most significant factors in the occurrence of the scandals.

Due to its increasing importance, the existence of ICS in enterprises/entities, ensuring and evaluating its effectiveness, has been subject to a wide variety of national/international standards and regulations, especially the globally effective SOX Act in the scope of the study.

In the study, it was observed that the examined national/international regulations and standards contain similar serious provisions regarding the requirement for IC. Furthermore, institutional/individual responsibilities of the business-related parties (BoDs, audit committee, senior management, auditor, public oversight authority, etc.) have been significantly increased for the establishment and effectiveness of ICS in the examined standards and regulations.

Having an effective ICS in all these regulations will be a safety valve from various aspects (protection of the common interests of all stakeholders, preservation of assets, achieving goals, profitability, ensuring the effectiveness/efficiency of activities, management/accounting control, compliance with policies/procedures/regulations/ethical principles, CG, quality assurance, CRM, transparency, accountability, accurate/reliable reporting, sustainability, performance, competitiveness, contribution to audit, etc.).

Therefore, it is vital for corporate enterprises to establish ICSs within the framework of all national/international standards and regulations examined to provide the said benefits, operate them effectively, and take necessary improvement measures by monitoring the effectiveness of ICS.

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