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T.C  
UNIVERSITY OF GAZIANTEP  
GRADUATE SCHOOL OF SOCIAL SCIENCE  
DEPARTMENT OF BUSINESS ADMINISTRATION

**INTERNAL AUDIT AT HUMANITARIAN AID SECTOR  
THE CASE OF GAZIANTEP**

**MASTER'S THESIS**

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Supervisor: Assist. Prof Dr. Şükriye Gül Reis

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GAZİANTEP ÜNİVERSİTESİ  
SOSYAL BİLİMLER ENSTİTÜSÜ  
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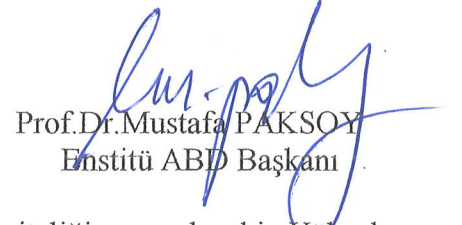
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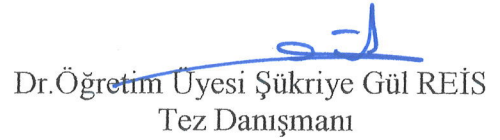
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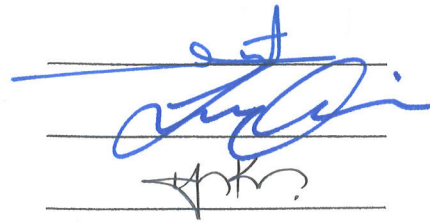
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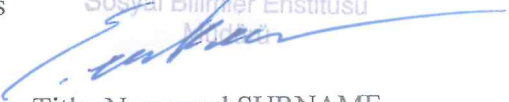
**Internal Audit At Humanitarian Aid Sector  
The Case of Gaziantep**

MURAT ARSLAN

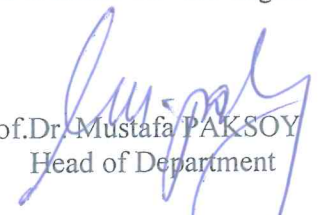
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## ABSTRACT

### INTERNAL AUDIT AT HUMANITARIAN AID SECTOR THE CASE OF GAZIANTEP

ARSLAN, Murat

M.A Thesis, Department of Business Administration

Supervisor: Assist Prof Dr. Şükriye Gül Reis

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With the start of the Syrian crisis in 2011, Turkey was faced with a serious wave of immigration. According to the latest official figures, over 3.5 million Syrians continue to live in Turkey with temporary protection status. With this wave of migration, Turkey- Syria border cities have become the center of humanitarian aid operations. After the public and private sectors, humanitarian activities, which are a non-profit organization, which is called the third sector, have progressed rapidly. With this progress, the number of non-governmental organizations and humanitarian organizations increased significantly. Transparency, accountability, efficiency, effectiveness, economy, strategic planning, performance management and supervision have gained importance due to the sensitive importance of humanitarian activities. Internal audit, internal control, risk management and governance practices have gained great importance in the world, especially in the USA and Europe, and have become an indispensable management function for humanitarian organizations. The internal audit, risk management, internal control and governance practices have been put into practice in humanitarian aid organizations; systematic reporting and improvement activities have started after some big fraud cases in the humanitarian aid sector. This thesis has been written to be a guide of the relatively new internal audit function for organizations operating in the humanitarian field in today's Turkey as how effectively and efficiently in order to answer the question will be fulfilled. In this thesis, the concept of humanitarian aid and internal audit, internal control, risk management, governance concepts are examined theoretically, internal audit legislation in associations is compared with international audit standards in associations and the level of compliance of associations legislation with international internal audit standards is examined. The existence of an internal audit function in accordance with international standards in associations and foreign non-governmental organizations operating in this field in Gaziantep and the legislative basis of the internal audit activity performed within the organization are searched. The latest audit activity carried out by a non-governmental organization operating in Gaziantep and the results of this audit are monitored and the general situation is evaluated.

**Keywords:** Humanitarian Aid Organization, Internal Audit, Risk Management, Internal Control, Governance, International Internal Audit Standards.

## ÖZET

### İNSANİ YARDIM SEKTÖRÜNDE İÇ DENETİM GAZİANTEP ÖRNEĞİ

ARSLAN, Murat

Yüksek Lisans Tezi, İşletme ABD

Tez Danışmanı: Öğretim Üyesi Dr. Şükriye Gül Reis

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2011 yılında Suriye krizinin başlamasıyla beraber Türkiye ciddi bir göç dalgasıyla karşı karşıya kalmıştır. Son güncel resmi rakamlara göre 3,5 milyonu aşkın Suriyeli geçici koruma statüsünde Türkiye’de yaşamaya devam etmektedir. Bu göç dalgasıyla beraber özellikle Türkiye-Suriye sınır kentlerimiz insani yardım faaliyetlerinin de merkezi haline gelmiştir. Kamu sektörü ve özel sektörden sonra 3. sektör olarak adlandırılan, kâr amacının olmadığı, bir sivil toplum oluşumu olan insani yardım faaliyetleri hızla ilerleme göstermiştir. Bu ilerlemeyle beraber sivil toplum kuruluşlarının ve insani yardım organizasyonlarının sayısında da ciddi artış yaşanmıştır. İnsani yardım faaliyetlerinin hassas bir önem taşıması sebebiyle şeffaflık, hesap verebilirlik, etkinlik, verimlilik, ekonomiklik, stratejik planlama, performans yönetimi ve denetimi gibi ilkeler önem kazanmıştır. Dünya’da özellikle ABD ve Avrupa’da iç denetim, iç kontrol, risk yönetimi ve yönetim uygulamaları büyük önem kazanmış ve insani yardım organizasyonları için de vazgeçilmez bir yönetim fonksiyonu haline gelmiştir. İnsani yardım sektöründe yaşanmış çok büyük öneme sahip bazı suistimal olaylarından sonra bugün insani yardım organizasyonlarında iç denetim, risk yönetimi, iç kontrol ve yönetim uygulamaları faaliyete geçirilmiş; sistemli bir şekilde raporlama ve iyileştirme çalışmalarına başlanmıştır. Günümüz itibariyle Türkiye’deki insani yardım alanında faaliyet gösteren organizasyonlar için yeni sayılabilecek iç denetim fonksiyonunun etkin ve verimli bir şekilde nasıl yerine getirileceği sorusuna cevap vermek amacıyla bir rehber niteliğinde olan bu tez çalışması kaleme alınmıştır. Bu tez çalışması ile teorik olarak insani yardım kavramı ve iç denetim, iç kontrol, risk yönetimi, yönetim kavramları incelenmiş, derneklerde “sivil toplum kuruluşlarında” iç denetim mevzuatı uluslararası denetim standartları ile karşılaştırılmış ve dernekler mevzuatının uluslararası iç denetim standartlarına uyum düzeyi incelenmiştir. Gaziantep’te bu alanda faaliyet gösteren derneklerde ve yabancı sivil toplum kuruluşlarında uluslararası standartlara uygun iç denetim fonksiyonunun varlığı ve organizasyon içerisinde gerçekleştirilen iç denetim faaliyetinin mevzuatsal dayanağı araştırılmıştır. Bu tez çalışmasında Gaziantep’te faaliyet gösteren bir yabancı sivil toplum kuruluşunun en son gerçekleştirdiği denetim faaliyeti, bu denetim neticesinde hangi sonuçlara ulaşıldığı araştırılarak örneklem dahilinde genel bir durum incelemesi yapılmıştır.

**Anahtar Kelimeler:** İnsani Yardım Organizasyonu, İç Denetim, Risk Yönetimi, İç Kontrol, Yönetişim, Uluslararası İç Denetim Standartları.



## ÖN SÖZ

Bu tezin hazırlanmasında çalışmanın başından tamamlanmasına kadar geçen süreçte benden desteğini esirgemeyen, her zaman cesaretlendiren, tavsiyeleri ve yönlendirmeleriyle çalışmamda katkısı büyük olan, yoğun iş temposuna rağmen bana o değerli vaktini ayıran tez danışmanım Sayın Öğretim Üyesi Dr. Şükriye Gül Reis'e ve hayatımın her döneminde bana destek olan, bugünlere gelmemde büyük emekleri olan, haklarımı ödeyemeyeceğim aile fertlerime, tez çalışmasını yürüttüğüm, kariyerime yönelik çalışma temposunun yoğun olduğu ve evlilik hazırlıkları yaptığımız bu zorlu süreçte büyük sabır ve fedakarlık gösteren eşime müteşekkir olduğumu belirtmek isterim.

Temmuz, 2019  
Murat ARSLAN

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## ABBREVIATIONS

<b>IFRC</b>	International Federation of Red Cross and Red Crescent Societies
<b>UNHCR</b>	United Nations High Commissioner for Refugees
<b>ICRC</b>	International Committee of the Red Cross
<b>USA</b>	United States of America
<b>UK</b>	United Kingdom
<b>EU</b>	European Union
<b>GHA</b>	The Glasgow Housing Association Limited
<b>GDP</b>	Gross Domestic Products
<b>SOX</b>	Sarbanas Oxley
<b>SOA</b>	Sarbanes-Oxley Act
<b>COSO</b>	Committee of Sponsoring Organizations of the Treadway Commission
<b>ERM</b>	Enterprise Risk Management
<b>IPPF</b>	International Professionals Practices Framework
<b>IRS</b>	Internal Revenue Service
<b>MFF</b>	Multi-annual Financial Framework
<b>IIA</b>	Institution of International Internal Auditors
<b>CIIA</b>	Chartered Institute of Internal Auditors
<b>ASX</b>	Australian Securities Exchange Corporate Governance Council
<b>OSCE</b>	Organization for Security and Cooperation in Europe
<b>CSO</b>	Civil Society Organizations
<b>İDKK</b>	İç Denetim Koordinasyon Kurulu

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1. INTRODUCTION**

The phenomenon of humanitarian aid, which dates back to ancient times, emerged in the modern sense after the first half of the 20th century. The wars, conflicts and natural disasters that increased during the 1990s led to the fulfillment of basic human needs, which led to the rise of official and civil humanitarian actors. This rise led to the formation of principles such as humanity, independence and objectivity. The high amount of in-kind and cash resources in humanitarian organizations has created some risks. As a result of the need to achieve these principles and eliminate or minimize risks; today, in humanitarian organizations; In addition to managerial tools such as internal controlling, internal auditing, governance, risk management, information technologies, strategic plan, performance program, corporate governance principles such as transparency, fairness, responsibility, accountability, predictability, and adherence to the law gained importance. (Rysaback-Smith, H. 2015: 1)

According to Turkish Civil Code no. 4721, Article 5 and 36 of the Law on Associations No. 5253; If deemed necessary, the associations and branches, associations and foundations of top institutions, foreign associations, foundations and nonprofit organizations non-branch offices and representative offices in Turkey, may be inspected by the Minister of the Interior or the governor to determine whether they operate in accordance with the purposes set forth in the bylaws and whether they keep their books and records in accordance with the legislation. This law sets the legal framework for external audit of the organizations subject to the study, while the issue of internal audit is defined in the internal policies, regulations and procedures of the institution. (Turkish Law of Associations No. 5253)

Although there is no any legislative work in Turkish Law about the internal audit within framework of international audit standarts, the article 9 says that:



*“Internal auditing is essential in associations. Internal audit may be performed by the General Assembly, the Board of Directors or the Board of Auditors, as well as by independent audit institutions. The fact that an audit has been conducted by the General Assembly, the Board of Directors or independent audit institutions does not eliminate the obligation of the audit committee...”*

It is important to establish internal control systems, risk management and governance functions in accordance with international internal audit standards and to implement corporate governance principles. In this way, organizations provide assurance that internal controls operate effectively and efficiently and prepare for a possible external audit. The effective internal audit system also protects the organizations to any possible external audit by government or third parties.

This study proposes an internal audit system for the systematic, effective and efficient implementation of internal audit activities in accordance with international standards for the humanitarian aid organizations which are operating in Turkey and providing assistance for Syrian community.

Internal audit is the one of the audit types, provided by an internal unit of an organization. In general description the internal audit is an audit and consulting activity aimed at developing and improving an organization's risk management, control and corporate governance processes to help an organization achieve its objectives.

(Kaya, B. 2015:76)

Within the framework of proposed system, organizations that operate risk management, internal control and governance functions effectively and efficiently provide an objective assurance to the organization management and committees. In this way, humanitarian aid organizations will achieve their corporate goals in a safer manner by minimizing or eliminating risks, and they will fulfill the principles of humanity, impartiality and operational independence as a result of effective and efficient activities.

In this context, in the second part of the study, the definition of humanitarian aid actors, their development, place in the historical process and international law, the status in Turkey, institutions, objectives and some operational systems (finance, purchasing-procurement, human resources, internal audit-compliance, monitoring and evaluation) are studied.

In the third chapter, internal audit, internal control, risk management, governance, ethics concepts and detailed investigations based on international standards are studied and risk-based audit plan, audit processes and planning, other assurance tasks, consulting duties and fraud are explained.

The fourth chapter is the methodology section of this study and contains the analyzes and results of interviews which conducted with managers and employees of foreign humanitarian aid organizations operating in Turkey. This interview consists of questions prepared within the scope of international internal audit standards, COSO Internal Control Framework and COSO ERM and determining the existence or absence of internal audit system.

This chapter also constitutes the finding, discussion, conclusion and proposal. The needs of effective and efficient internal audit system are determined with the results of the interviews. An internal audit system based on international standards is proposed by identifying managers and employees awareness on internal audit, internal control, risk management and governance in the foreign humanitarian organizations.

## **CHAPTER TWO**

### **THEORITICAL CONCEPT AND LITERATURE REVIEW**

#### **2. THEORITICAL CONCEPT AND LITERATURE REVIEW**

##### **2.1 HUMANITARIAN AID**

The lexical meaning of aid is that using own strength and wealth for the someone else's sake. If it is made clearer, the meaning of aid is to provide help, support, or relief, such as money or supplies. Humanitarian aid is cash or in-kind logistic assistance to ensure the continuity of life to the extent of human values, to relieve pain and to provide a decent life in times of war, crisis and natural disaster.

The aid action has been existed in different periods of history, and in different cultures from pole to pole. Relief, which has an important place in the teachings of Christianity, Judaism and Islam of the three great religions, has come to life in societies in which these religions dominate. Aid is encouraged in Western societies, in the framework of the concept of charity / charity of Christianity, and in Islamic societies, around the notions of alms and Zekât. In the 19th century, humanitarian issues on the treatment of soldiers and civilian casualties during wartime are the basis of today's humanitarian organization (Kavak, H. 2014:1).

The Swiss activist Henry Dunant proposed a permanent charity to humanitarian assistance during the war in A Memory of Solferino, a concept of the treatment of wounded soldiers and civilians in accordance with human values (Dupont, 1986).

In Europe, in the plague of 1576, the Archbishop of Milan, Saint Charles Borromeo, gave great efforts to help patients by taking the risk of transmission. During the Medieval Land Death Pandemic, public health committees were established to represent the beginning of what could be called isolation, quarantine and divestment, and disaster medicine (Davey E, at all, 2013: 5-16).

The first organized humanitarian aid was carried out during the famine in 1870, which millions of people died as a result of drought in China. In 1863, due to the wars in Europe and human suffering, Louis Appia, Theodore Maunoir, General Guillaume-Henri Dufour, Henry Dunant and Gustave Moynier formed the International Committee of the Red Cross (Charles William Wason, 1918: 3-13).

The destruction of the First World War led to the birth of the first international humanitarian aid organization, the Child Protection Fund (SCF) founded in 1919 by Eglantyne Jebb in the UK, the SCF worked to lead a good life for all children, and their children. In 1942, the Oxford Committee against famine was established to provide assistance to victims of the Greek Civil War. (David Lewis, 2009)

With the establishment of the State of Israel in 1948 and the occupation of the Palestinian territories, the vast immigration known as Nakba became a refugee in more than 700,000 Palestinian neighboring regions. The current High Commissioner for Refugees in Russia was transformed into the United Nations High Commissioner for Refugees (UNCHR) in 1951.

In 1945 with the establishment of the United Nations (UN) and humanitarian approaches, humanitarian aid has evolved into a wider perspective, such as starvation, famine, war crimes, crime prevention and protection. Throughout history, in-kind and cash aid provided to people in need as a result of famine, drought and natural disaster has been in the form of food and material goods (Rysaback-Smith, H. 2015: 1-4).

In the same article, Rysaback-Smith indicated that the issue of humanitarian aid has only existed in the modern sense since the mid-20th century. In its modern sense, humanitarian aid is the provision of independent and impartial assistance to those at risk. The modern meaning of humanitarian aid emerged after the 1950s. Different kinds of political issues, armed conflicts, natural disasters and similar world events brought the need for humanitarian aid with the interest of multinational and international organizations.

Although the foundation of international relations was laid by the Treaty of Versailles after the First World War, the issue of humanitarian aid has contributed to the development of international relations and treaties (Davey E, at all. 2013 :7-10).

The number of CSOs, which were around 5,000 between 1950 and 1990, exceeded 30,000 levels between 1990 and 2000, and today they are expressed in millions. There are more than 2 million registered NGOs in the USA and 1 million in

India. The number of NGOs established in the Russian Federation was over 65,000 a decade ago. Indonesia has more than 2,000 NGOs involved in environmental issues, almost all of which have been established in the last decade (Bilman, L. 2001).

As can be seen, the number of humanitarian organizations today is expressed in millions. In fact, these numbers point to a billion of aid pools and millions of people who need it.

According to the 2018 Global Humanitarian Aid Report, around two hundred million people in 134 countries around the world are expecting support from others. Although \$ 27.3 billion was allocated to humanitarian aid in 2017, there are 753 million people living in extreme poverty. According to data obtained in 2017, an estimated 201 million people in 134 countries around the world need help (GHA Report, 2018).

These records reflect the need of humanitarian aid and developments on this point after 1950s.

### **2.1.1 Structural Analysis of Humanitarian Aid in The Context of Actors**

Looking at the historical background of these numerical results, the humanitarian aid concept has improved during its own historical process and the international quality brought by modern time into the model of humanitarian aid has made humanitarian actors of the various elements of the international community, such as states, international organizations, individual donors, charities, civil society organizations and corporations.

In the context of this diversity, Humanitarian assistance may be multilateral or bilateral. Multilateral assistance is the collection of donations of governments in the pool of an international institution, such as the World Bank or UN agencies, by transferring the donations to the needy parties through these international institutions. Bilateral assistance is the direct assistance of one government to another, or a mediated aid of a particular interlocutor. As actors of humanitarian assistance, governments, companies, international organizations, non-governmental organizations, non-profit organizations, intergovernmental organizations, and individual donors can be mentioned. Governments, the official actors of humanitarian assistance, transfer funds they have allocated for aid to bilateral or multilateral assistance to developing countries. The intergovernmental organizations such as the World Bank, UN, AEIT,

operating in the international community, operate on funding the donations of governments and transferring them to the needy (Young, D. 2003).

A non-governmental organization is an organized convention for the benefit of the public and social welfare. Non-governmental organizations are independent and not affiliated with any government. Civil Society Organization (CSO) is the acronym for a wide range of services and a non-governmental organization, which is a citizen's association, which operates completely autonomously from the state to carry out humanitarian activities. Such organizations are non-profit organizations and can operate in a local, national or international concept. It is a social formation based on trust. These organizations receive their funds from the state, foundations, private individuals, and businesses. As the name implies, non-profit organizations have been included in the corporate law in many countries, even if they are not for profit. Since the organization is a non-profit organization, it applies its excess funds to the promotion of the objectives of the organization instead of distributing it among the members of the organization (Surbhi S, 2016).

### **2.1.2 Humanitarian Aid Actors and International Law**

Humanitarian aid which was provided by social consensus in the historical process before the World War I became a part of international law especially in the question of World War II. Even though the 1899-1907 Hague and 1864-1906 Geneva conventions have signs of humanitarian law, humanitarian law has reached a binding structure for all countries with the emergence of united nations. In this period, which was formed after two big world wars, the establishment of the United Nations was the period of the search for peace in the world with the European Economic Community as a result of the OSCE formation after the Helsinki Summit in 1970 and the search for peace within Europe (Inter Agency-Standing Committee, 2010).

The Hague Law, European Convention on Human Rights Geneva Conventions, United Nations Conventions, Universal Declaration of Human Rights, International Humanitarian Law (The developed forms of Geneva and The Hague Law) are the main binding agreements for the states which acceded to these treaties. At present, there is no area in the world covered by the United Nations Convention and the Universal Declaration of Human Rights (European Commission, 2019).

International humanitarian law arises from international public law and prohibits, sets and limits non-human methods in times of armed conflict. These are international agreements or traditional rules designed specifically to avoid humanitarian concerns arising from local or international conflicts. These rules eliminate the disagreements between the parties about the methods and methods of their choice and protect the persons and properties affected by the conflict or those that may be affected for humanitarian reasons (ICRC International Humanitarian Law, 2002).

Many international treaties have contributed to the formation of international humanitarian law. These treaties begin with the 1864 Geneva Convention, continue with the 1954 The Hague Convention and develop all the time.

All these treaties, rules, conventions, principles, regulations are about people. These include the right to human life, the prohibition against torture against human beings, the prohibition on the use and forced labor of slaves, the right to liberty, the right to security, the right to unlawful punishment and the right to a fair trial. In addition, freedom of religion and conscience, the right to thought, the right to travel, respect for private and family life, freedom of expression, the right to marry, the right to assembly and association, and the prohibition of discrimination are included in these regulations. These rights can be diversified. The universal declaration of human rights states that all human beings are free and equal in honorary rights. It mentions that all people of reason and conscience should act against each other in the spirit of trust and brotherhood (UN General Assembly, 1948).

According to the decisions taken and signed agreements at UN General Assembly; All people are entitled to all rights and freedoms specified in the universal declaration of human rights, without any discrimination, such as religion, language, race, color, gender, political or other opinions, ethnicity. In addition, all people have the right to freedom of life and personal security. This right cannot be limited by considering whether an individual's state or territory is independent or not, according to his / her status in international relations, instead of sovereignty and the way of administration.

These are the first three article of universal declaration of human rights refer to humaniatarian aid's enlargement of the scope. All the organization that mentioned

in Structural Analysis of Humanitarian Aid in The Context of Actors, can work any of these concepts.

In this context, humanitarian aid actions come into play immediately in times of war, conflict, political and economic crisis, natural disasters. Somalia Civil War, African Civil War Iraq War, Kosovo War, Bosnia-Herzegovina War, Afghanistan War, Chernobly Disaster, Fukushima Disaster, Bhopal Environmental Disaster, Kuwait Petroleum Fires, Exxon Valdez Oil-Slick, Minemata Disease, Indonesia, Chile, Japan Earthquakes and Tsunamies are the some of huge events which are required humanitarian aids and meanwhile these events have become the laboratory of humanitarian aid and developments. The last huge event Syrian civil war and its effects to World and Turkey, which started on March 11, 2011, constitute the main study area of this study. In all these catastrophic times, hundreds, even thousands of humanitarian actors have acted based on international agreements and social consensus.

These humanitarian actors can be established on the basis of international law such as UN, IFRC and are established in accordance with the state law of the countries and act according to international law and host country national law such as Danish Refugee Council (Denmark), Cooperative for Assistance and Relief For Everywhere Inc. (USA), Concern Worldwide (Ireland), The Foundation for The Refugee Education Trust (Switzerland), Islamic Relief Worldwide (England). These organizations are established in accordance with their national law, meanwhile are operating in other countries according to International law and host country law.

Turkey and Gaziantep are the significant laboratory of this study, according to the interior ministry data (December, 2018); there are 5.484 humanitarian aid associations, 131 foreign-based organizations are operating legally in Turkey and in Gaziantep, there are 10 (in 131) is directly foreign based and 277 humanitarian aid organizations which were established according to the Turkish Civil Code. (Turkish Ministry of Internal Affairs, 2019)

## **2.2 HUMANITARIAN AID IN TURKEY**

Turkey has attracted the attention of the whole world with the success it has demonstrated on humanitarian aid in recent years, with a strong tradition on Humanitarian aid and development which comes from Ottoman period.



The humanitarian assistance of the Ottomans to the Muslim or non-Muslim people and the multi-faceted help and goodness efforts within the scope of the foundations have gained admiration for foreigners. Indeed, Austria's ambassador Busbecq period, for Turkey the following year 1550's has noted: "Everything was humanization in Turkey, each floor has softened. Even the animals" (Yediyıldız, 1985).

Engin Akcay, is periodically explains the concept of humanitarian assistance in Turkey in his book which is called "*Bir Dış Politika Enstrümanı Olarak Türk Dış Yardımları*"; In 1492, the deportation of Jews from Spain to the Ottoman lands was an altruistic practice that could be considered in the external aid category in terms of today's DAC criteria. More than three hundred Polish citizens who migrated from Poland in 1748 to the Ottoman Empire sought to move to Ottoman nationality and settle in a suitable location. By making the necessary arrangements, the migrants in question were settled in Salonica and its vicinity. In the year 1869, for the construction of the church which could not be completed in the town of Bergos of the Islimye Sanjak of Bulgaria, it was documented that the people were sent 5 thousand penny aid from the Treasury upon the request of Sultan Abdülaziz. However, the destruction of the caliphate and abolition of the Ottoman Empire has led to the weakening of the humanitarian aid concept though, the Republic of Turkey has shown accuracy of importance to humanitarian issues and come to a respectable position in this field in the world in accordance with its historical and cultural traditions. The Ottoman Empire is not only for the subjects living within its borders; the cross-border geographies have extended their hand without considering religion.

In the Republican period, it can be said that foreign aid is in the hands of individual diplomats and / or bureaucrats, rather than a well-planned policy. During the Atatürk period, there were active exemplary initiatives in terms of foreign aid. However, from the time of his death to the 1950s, the period of his death was very stable.

The first official regulations on external humanitarian aid were in the post-1980 period. In 1985, with the official writings, sub-Saharan Africa was carried out with a high amount of food aid planned for 31 famines due to drought disaster. In 1987, with the Decree No. 12154 of the Council of Ministers, such humanitarian aid was given as an official duty by the State Planning Organization (SPO). Within the

framework of the Official Development Assistance (ODA) criteria, the first aid to be made as a foreign policy instrument started only in 1998 (Akçay, E. 2012:47-64).

The point reached today shows the development of Turkey on humanitarian aid. According to the 2018 GHA Report, Turkey has received 8.07 billion US dollars in first place by the amount of humanitarian aid. In the ranking made on the basis of a ratio to GDP of humanitarian aid and Turkey took first place with 0.85 percent of the world's "most generous country" has retained the title (2018 GHA Report :32).

Turkey's human-centered state tradition in Turkey's humanitarian months was instrumental in the field is a huge task to undertake. 9-13 May 2011 in Turkey, the Least Developed Countries in Istanbul had hosted the Fourth United Nations Conference and the Istanbul Program of Action for the years 2011-2020 (IPOA) has contributed to the adoption. In 2016, the follow-up meeting was held in Antalya. In addition, the first World Humanitarian Summit was held in May 2016 in Istanbul. In order to resolve the civil war in Syria, Turkey has made great efforts and the resulting human tragedy has become a center of humanitarian operations. Turkey is to host his own country in which to escape from the destruction of more than 3.6 million Syrians. According to the UN High Commission for Refugees, Turkey is hosting the most refugees in the world. Turkey has spent almost 34 billion dollars to provide humanitarian services and assistance to the Syrians. According to the 2017 datas with \$ 7.2 billion in humanitarian aid to Turkey, the world's largest humanitarian aid and humanitarian spending on a per capita basis is the most generous country (Turkish MFA, 2019).

Outside of Turkey's own humanitarian assistance activities, it also hosts the activities of the aid actors of other countries. In the next section, the main topic of this study that will be discussed foreign aid actors carrying out relief activities in Turkey.

### **2.2.1 Humanitarian Aid in Turkey “The Syria Case”**

With the disintegration of the Ottoman Empire after the First World War, Syria is one of the countries created by Westerners. As a matter of fact, in the end of the war, the country gained its independence in 1946 after staying in the French administration for 26 years. Syria is the country that has the longest land border of Turkey, with an area of 185 thousand-kilometer square and a population of about 23 million. The ethnic structure is made up of arabian, kurdish, turkmen, and armenian.

According to 2010 data, Syria's Gross National Product (GNP) is around \$ 60 billion. The Arab Socialist Baath Party leads the country (İnce, E. 2017: 261-277).

Hafiz Assad took over the leadership and chairmanship of the party for 30 years. After the 30 years of administration between 1970 and 2000, Bashar Assad took over the administration after the death of father Assad.

Bashar al-Assad came to power and there were some developments in democratization, human rights and freedom in Syria. This process, known as the spring of Damascus, ended in February 2011. Since then, Syria has moved away from developments on human rights, suggesting the problems it faces in foreign policy. In 2005, oppositions who are demanding democratization, freedom and political reforms signed the Damascus Declaration. However, some of these oppositions were imprisoned or some of them were forced to leave the country (Pirinççi, Ferhat, 2018.).

In same article, Ferhat Pirinççi indicated that this process, known as the Arab Spring, began in Egypt and Tunisia in 2011, and the movements there deeply affected Syria. The demonstrations started in Deraa on March 16, 2011 and spread throughout Syria. In this process, the violence used by the security forces for the suppression of demonstrations led Syria into insurmountable problems.

In this process, the Syrian regime did not accept international solution proposals for the peace brought to solve conflicts and problems. The Syrian regime has described the society, which is the desires of a freer and more democratic Syria, as terrorists aiming to disrupt the peace and stability of the country and has continued to suppress these demands. As a result of the destruction and destruction caused by the violence of the regime, more than 500 thousand Syrians have lost their lives, 6.5 million people have been displaced and about 5.5 million Syrian neighbors and other countries have taken refuge. More than 3.6 million Syrians are currently hosted in our country (Turkish Ministry of Foreign Affairs, 2011).

The Syrian events have been the longest-running conflict of the Arab Spring. After that, as a result of authority gap, a real war with Isis and many terrorist organizations has began. In Syria, which is now the eighth year of the war, millions of people are forced to migrate in or out of Syria. According to UNHCR, UNOCHA, and World Bank data; those who need humanitarian assistance within the country is 13.1 million, displaced persons are 6.1 million, refugees in the region are 5.6 million, number of persons under siege 400k+, number of people killed 400k+. When the seven

years of the crisis is left behind, except for the Syrians taking refuge in neighboring countries, 13.1 million Syrian within the country still needs humanitarian assistance.

As such, humanitarian aid has become the most important issue of the agenda. In this regard, the most important task has taken by the bordering Turkey. According to UNHCR, and Syria Regional Refugee Response data; Syrians seeking refuge in the region: Turkey 5.78 million is %63 of all refugees, Lebanon 991k, Jordan 662k, Iraq 248k, and other regions 163k (United Nations High Commissioner of Refugees, 2018).

Turkey has become a center of operations carried out by humanitarian aid organizations from all over the world. According to Global Humanitarian Assistance report, Turkey is the biggest donor in 2017 with US\$8,070m. By 2017, in an average of 134 countries, 201 million people needed help, and half of these were only three countries. (Syria, Yemen and Turkey). Several major crises around the world consume a large part of humanitarian aid on their own. Around the world, 60% of humanitarian aid is transferred to only 10 countries, 14% to the largest recipient Syria, and 8% to Yemen. The conflict environment is the largest consumer of humanitarian aid in the world. At this point, the Syrian crisis has been the largest humanitarian consuming area for the fifth consecutive year (GHA Report, 2018:10).

The 10 largest recipients among the largest increase in humanitarian aid worldwide, Turkey (604 million US dollars, % 197), Iraq (525 million US dollars, 59%) and Greece (505 million US dollars) has been recorded. Turkey, the largest share of the international humanitarian assistance is the sixth country in 2016. In addition, the total amount of in-kind and cash aid spent from its own budget has reached \$ 34 billion (GHA Report, 2018:21).

Many of humanitarian organization in the world opened the branch office in Turkey, in terms of Syria borders and to be faster and more effective execution of the operational activities. According to the data of Turkish Ministry of Interior Department of Association dated 28.05.2019, The number of foreign humanitarian organizations will be allowed to operate in Turkey is 132. Those aid organizations opened with permission, in addition, there are dozens of organizations working in the status of a Turkish organization or association and serving the same purpose. The types of these humanitarian organizations will be examined in general in the next section (Pirinççi, Ferhat, 2018.)

### **2.2.2 Humanitarian Aid Actor Types in Turkey**

As discussed, the development of the concept of humanitarian aid in previous chapters. With this development, a very large sector has been formed in this field and the concept of humanitarian aid has been differentiated as types such as non-governmental organizations, non-profit organizations, foundations, charities, social enterprises, development companies, profit organizations.

These organizations, which are defined differently in the literature and known as non-profit or charitable organizations, are known as non-commercial, non-governmental organizations which are served to society as a third sector. Nonprofit organizations engage in various projects and commercial activities to contribute to social benefit or community benefit.

Such organizations can function as profit-making organizations to provide more benefits and services to society. Such organizations are called non-commercial nonprofit.

In general, the above-mentioned organizations may seek to serve the society better by establishing partnerships within themselves. Turkey has a structure in hybrid that contains all of these organizations. The organizations that we exemplify by using the data of the Ministry of Interior are the foundations, associations, unions and non-profit organizations. Some of them have permission for periodical activities, while some of them continue to operate as representatives or branches. Apart from these, there are also foreign organizations which are operating in the status of companies and continue their activities with the help of donors or opened as associations in accordance with Turkish laws (Çarkoğlu A, & Aytaç E, 2016).

The conceptual and identical differences of these organization types is not detailed explained in this study. In the next section will provide information about the establishment and legal basis of these organizations.

### **2.2.3 Legal Status of Foreign Humanitarian Organizations in Turkey**

The Ministry of Interior Affairs of Turkey calls these organizations as civil society organizations. According to Turkish association code article 4; foreign association is called “Associations established abroad and non-profit organizations other than associations and foundations.” Foreign foundation is called “Foundations whose centers are located abroad” and non-profit organization is called “Associations

and foundations other than non-profit organizations whose headquarters are located abroad.” The main subject of this thesis constitutes foreign humanitarian organizations operating in Turkey.

Therefore, according to Turkish law, one of the legal bases is the regulation of associations. As is apparent from the applicable legislation, if an organization established in Turkey, it is Turkish organization, if an organization established abroad of Turkey, it is foreign organization. The founder nationality is not necessary to determine the origin of any organization.

The operating of foreign humanitarian organization in Turkey is regulated in Articles 92 and 117 of the Turkish Civil Code no. 4721, Article 5 and 36 of the Law on Associations No. 5253.

In addition to this, Provisions on foreign humanitarian organizations are regulated in Articles 21 to 30 of the Fifth Section of the Associations Regulation entitled “International Activities.” According to this article, if any foreign organization is founded in Turkey, it is needed the opinion of the Ministry of Foreign Affairs and other relevant institutions and after that permission of The Ministry of Interior Affairs.

According to articles 93 of the Turkish Civil Code no. 4721; establishing associations in Turkey or being member of the associations depends to have the right to settle in Turkey for the foreign real person. These foreign organizations can have permissions to open a representative office or branch, direct activity right, cooperation with an organization or NGO in Turkey, being the founder of the association or parent organization, being membership to established associations or higher organizations. If any foreign organization wants to cooperate with any public institution in Turkey, this depends on permission of The Ministry of Interior Affairs Since detailed information on the activity permit of the organization can be found on the relevant law articles and on the official website of the Ministry of Interior, it will be mentioned about the necessity of inspection/auditng without going into much detail on this issue.

### **2.2.3.1 Mandatory Units for Branch of any Foreign Organizations**

The types of activities allowed only permitted to open branches in Turkey are obliged to create a mandatory unit and registering members for their foreign organizations. Foreign organizations that have obtained permission to open a branch are obliged to hold a general assembly and form their units within the first 6 months

by registering members following the permission granted. These units; Management Board and Audit Committee. In addition to this, all foreign organizations are allowed to operate in Turkey has to submit their annually activity report and only branch of any organizations has to submit their decleration. These NGOs related to all kinds of written and visual activities in Turkey shall send two copies to the Ministry of Interior. (Turkish Civil Code no. 4721)

Although not applicable to any humanitarian organization types, these rules set out the necessity of the audit unit and internal audit activity. These rules are not enough to explain the importance of internal auditing for foreign organizations.

#### **2.2.4 Activity Assignments of Foreign Humanitarian Aid Actors in Turkey**

Foreign organizations operating in Turkey Gaziantep carry out their activities around on the financial, operational, compliance, IT and security duties. These are activity assignments and crucial to reach out the organization aims of main activity such as education, health, food, social issues, capacity building and etc. There are certainly a lot of different types of tasks; however, these types of tasks will be outlined in this study.

##### **2.2.4.1 Financial Activities**

Financial Activities includes the analysis of an organization's activities measured and reported by accounting. If a cash aid is mentioned, an accounting system must be in place. Because humanitarian aid is a concept that requires transparency and trust. In cash aid, the organization has a source of money. This resource can be provided through donors, as well as external aids, or the organization's own capital. This depends entirely on the type of organization. At this point, the source of the money should be determined, where and to whom it was spent, the purpose for which it was spent, and the ways in which it reaches the beneficiary. However, these processes should be kept in a fair, accurate and reliable manner. Financial information should be properly registered and ready for presentation. This is important for the organizational transparency and reliability on the society and the external supervisory authority perspective (HPG Commissioned Report 2019:1-34).

#### **2.2.4.2 Operational Activities (Procurement, Inventory, HR)**

There may be in-kind and cash donations to the organization, as well as in-kind and cash donations from the organization's own capital. Employees can work on a voluntary basis, as well as salaried workers. This depends on the type of organization. However, in order for the organization to continue its activities, it requires some materials and records them. These operational tasks are important for the efficiency of the activities and the effectiveness of achieving the objectives. These are related to the organizational objectives, vision and mission of the organization.

While providing human resources for the organization, the reliability, skills, suitability of the activities and previous experiences of the personnel are taken into consideration. The process of human resources should be systematic, methods and techniques should be determined and there should be a regulation for this. Human resources are one of the tasks where the risk of fraud can be highest. For example, the co-operation of a personnel employed without a security investigation with banned organizations will undermine the reliability of the organization and its activities (Werther & Davis. 1996).

Humanitarian aid organizations need a number of tools and equipment to maintain their activities and keep regular records and follow-up their inventory. Procurement is another important task area for the humanitarian aid organization. It is a fact that there may be risks of misconduct such as embezzlement, mischief in tenders and nepotism in humanitarian organizations, which make purchases of millions of dollars. For instance; Many senior United Nations officials have been involved in a corruption in a UN Program. The UN's Food Against Oil Program in Iraq between 1993 and 2003 is the biggest fraud scandal in recent years. According to United Nations Independent Inquiry Committee into the United Nations Oil-for-Food Programme reports; it was found that the Iraqi government sold 64.2 billion dollars of oil to 248 companies, whereas 3.614 companies sold 34.5 billion dollars of humanitarian aid to Iraq and corruption was made on it (United Nations Independent Inquiry Committee, 2005).

There is always the risk of fraud in human resources, in inventory and in procurement processes, regardless of the amount of humanitarian aid budgets. This may be in the form of embezzling the organization phone in a very small budget program or receiving extra allowances with fake invoices, as well as in the case of



billions of dollars in budgetary programs such as oil for food, embezzlement and corruption. Therefore, it is necessary to carry out a regular internal audit system by operating an effective and efficient internal control system in these areas.

#### **2.2.4.3 Programming, Monitoring and Evaluation**

Humanitarian organizations carry out monitoring and evaluation activities in order to see the effectiveness of the program and the efficiency received. This activity is in fact one of the management elements of internal audit. Although it points to two very independent areas, humanitarian organizations establish a control mechanism on the effectiveness and efficiency of the program when monitoring and evaluating. Monitoring progress, which is one of the management elements of internal audit, means monitoring the audit proposals, the report and the action plan. However, monitoring and evaluation of the program by the organization management, indicates the effectiveness of the program and the subsequent monitoring of the development level of the beneficiaries.

According to the Elrha Humanitarian Innovation Fund; The monitoring activity is carried out towards the planned targets and the projects realized and all the processes of these projects. Monitoring is crucial to the success of a project. If the data obtained as a result of the monitoring activity is periodically analyzed and used effectively, a major step is taken to manage the project well. As a result of good monitoring, the problems that may be encountered in the project can be solved before the realization and the efficiency and efficiency of the project can be maximized. Monitoring is a kind of risk management activity. A more comprehensive assessment can be made with the data obtained at the end of the project and more accurate decisions can be made regarding the future of the project (Elrha Humanitarian Innovation Fund,2014:1).

The evaluation activity serves to obtain a systematic and objective view of the implementation of a project and the design of a program. Evaluation activity is very important for accountability and transparency. Accountability is an assessment of which goals are achieved, performance, and accuracy of the values achieved. Learning is an assessment that describes why and how different aspects of a project work, and what others can learn from it. The evaluation process also evaluates efficiency, efficiency and sustainability in general; assesses the impact; propose improvements

and facilitate better decision making; and promoting advocacy to stakeholders, beneficiaries and donors (Elrha Humanitarian Innovation Fund,2014:1-3).

The concept of monitoring and evaluation related to internal audit will be discussed in detail later.

#### **2.2.4.4 Compliance in Foreign Humanitarian Organizations**

In general expression, compliance refers to conduct to the public in relation to policies, procedures, plans, laws, regulations, contracts and other requirements. Compliance consists of policies and procedures.

Basically, it includes a clear and clear code of conduct to guide employees. Compliance programs are written in a simple, understandable, simple and direct language, includes sanctions commensurate with the crime committed. The compliance function can be connected to the donor or management unit as an independent function, within the legal function, within operational units or lines of business. The compliance officer must be strengthened within the organization, should receive support and resources from the management (Greg Mcray, EA 2016).

What are the aims of compliance for humanitarian aid organization? It prevents unintentional breaches of staff, deters deliberate violations, identifies illegal or unethical violations, provides reasonable prevention for criminal behavior, strengthens organizational identity and culture, combines legal differences between host country, origin country and international humanitarian law for foreign organizations.

The compliance programs of foreign humanitarian organizations should be inclusive of all countries, and they should also comply with country legislation in the local office. At this point, the internal audit ensures assurance that the compliance program for humanitarian aid organization is effective and efficient.

Why compliance program is crucial for foreign humanitarian aid organization? Since humanitarian assistance is a sensitive and responsive concept, any unlawful or unethical incidents that may occur while operating in the guest country may adversely affect the future of the program. This can also tarnish the international reputation of the organization concerned, causing the cancellation of the permit or closing the organization in the host country (D'Alessandro, Paul 2019).

#### **2.2.4.5 Internal Audit and Governmental Control**

According to Associations Law No. 5253, Turkish Civil Code No. 4721, Law No. 3335 on the Establishment of International Bodies; Established associations and branches, associations and foundations of top institutions, foreign associations, foundations and nonprofit organizations branches and representative offices in Turkey, more convincingly demonstrate its activities in line with the objectives of the formation of an international nature, books and the Interior Ministry that they wish to keep in accordance with the legislation records or highest civilian supervised by the supervisor/governor.

Although there is not a detailed method which is ruled and determined method of auditing in Turkish law for foreign associations, it is stated that the audit will be performed when deemed necessary. Although this is a different subject of criticism, this study provides a system for foreign organizations to establish their own internal audit system and readiness for host country audit. Because the foreign humanitarian organizations in Turkey are subject to governmental audit, they have to develop control mechanisms for the whole process and ensure the effectiveness of these control mechanisms by the internal audit system. This provides being ready for a possible government control. The necessity of an effective and efficient internal control and internal audit system is important when the results of the survey are taken into consideration. The lack of government supervision and internal audit organization has been mentioned for foreign humanitarian aid organization in Turkey, so how does it apply to the outside world in general?

### **2.3 AN OVERVIEW TO U.S & EU EXAMPLES**

United States of America is one of the most developed countries in the world in terms of humanitarian aid and organization. According to the National Center for Charitable Statistics;

Between 2005 and 2015, the number of registered non-profit organizations reached approximately 1.5 million. The humanitarian sector, which accounts for 5.4 percent of the US economy, contributed approximately \$ 985.4 billion (Brice McKeever, 2018:1).

In same article, Mckeever indicated that while the total assets of the non-profit organizations registered with the Public Revenue Service in the sector amounted to \$ 3.67 trillion, public aid agencies accounted for less than half of the sector's total revenue of \$ 1.84 trillion total donations collected in 2016 amounted to \$ 390.05 billion. Approximately twenty-five percent of adults in the United States volunteered and provided a total of 8.7 billion hours of volunteering. The value of this service is approximately 187.4 billion dollars. These data are important indicators of the trend towards voluntary humanitarian aid in the United States and the prevalence and effectiveness of nonprofit organizations.

In the light of these data, it can be seen the extent of humanitarian aid in the United States and understand that this size constitutes a requirement for auditing. The United States, which is the birthplace of the concept of auditing, has also placed the auditing of humanitarian organizations in its internal law. Almost every state has incorporated the concept of auditing in humanitarian aid into its internal law. According to (SOX), The Sarbanes-Oxley Act and Implications for Nonprofit Organizations Generally, non-profit organizations have established their own financial audit committees. There is a separate audit committee or subcommittee in medium- and large-scale non-profit organizations that conduct annual audits. (Lander. 2004)

According to the Lander; SOX is a treaty on the Enron and Tyco scandals of 2001 and 2002, covering accepted management standards for auditing financial and accounting records in the American corporate sector, and compliance with them. Some state laws have adopted SOX laws for Nonprofit Organizations. The first two provisions of SOX apply to all organizations, including all non-profit organizations.

In the United States, the non-profit organizations' audit rule varies from state to state. In California, for example, organisms with an annual gross revenue of \$ 2 million or more are required to be an audit committee.

Similar rules apply to many states. Although it is very difficult to request an audit for all non-profit organizations throughout the United States, it is important for the effectiveness and efficiency of the control systems to at least require the establishment of a separate audit unit within them.

If an annual audit is required for all non-profit organizations throughout the US, an average of five hundred thousand dollars per year is required for each organization, which is a very high cost. The boards of non-profit organizations subject

to audit should periodically evaluate the audit rules. Other organizations carrying out external audits other than medium and large-scale non-profit organizations should consider establishing an audit committee and establishing a separate unit for financial evaluation. (SOX Act and Implications for Nonprofit Organizations, 2006)

As can be seen from the American example, an audit system with detailed methodology for humanitarian assistance is available both within the organization itself and by the government as an external audit.

From the example of European Union; According to European Commission 2018 data; The amount of humanitarian aid programmed by the EU for the years 2014-2020 in the Multi-annual Financial Framework (MFF) is approximately EUR 1 billion (European Commission, 2019).

The European Union is fully committed to international humanitarian law. In this agreement, all principles of humanitarian aid are defined. In addition to this, to fulfil its accountability towards all stakeholders, the European Commission's department for European Civil Protection and Humanitarian Aid Operations is audited by both an external (the European Court of Auditors) and an internal auditor (the Internal Audit Service of the Commission). The department also contracts with external audit companies for formal audits of all its civil protection and humanitarian aid operations. EU-funded civil protection and humanitarian actions are audited by the European Court of Auditors, which provides an annual 'Statement of Assurance' on the legality and regularity of EU expenditure. Internal work processes are audited by the Internal Audit Service of the Commission, following a risk assessment which is translated into an annual audit work programme (Toroslu, 2014:10-12).

Meanwhile, Toroslu indicated that the working methodology of the audits includes, among others, the analysis of available documentation, interviews with relevant staff, and sample testing. All partner organisations that implement humanitarian aid actions are audited primarily via external companies.

Based on internationally accepted standards, the audits give the European Commission the level of assurance required by the EU Financial Regulation. The objective of the audits – done both at partners' headquarters and in the field – is primarily to check whether the criteria set up in the partnership agreement are being followed and spending is properly accounted for. Additionally, the audits verify that

the internal systems of the partner organisation are fully in order. This auditing process also covers the verification of projects implemented by agencies of the UN. In addition, non-profit organisations specialised in the procurement of supplies and services necessary for the implementation of humanitarian actions are subject to regular audits. The results of these auditing processes feed recommendations for continuous improvement of planning and operations (European Commission, 2018).

As can be seen from the European Union example, an audit system with detailed methodology for humanitarian assistance is available both within the organization itself and by the government as an external audit and this is defined with law.



## **CHAPTER THREE**

### **AUDIT THEORY AND INTERNAL AUDIT FUNCTION**

### **3. AUDIT THEORY AND INTERNAL AUDIT FUNCTION**

#### **3.1 AUDIT THEORY**

Throughout history, management and governance have always existed wherever there is human and organization. This brought with it the audit system. Even though it had existed under primitive conditions, the control system has improved itself with the development of governance and management along with the industrial revolution. The revived economic and socio-cultural life has made the notion of control compulsory. The concept of audit and control has existed in the private sector, public sector and humanitarian organizations which we call the third sector, and this continues to evolve (Günel, 1995:18).

There is always a risk to prevent the objectives, strategies and operational activities of the organizations in all areas where people are present. Every organization where there is a perception that audit will be absent or not carries serious risks. Any organization should eliminate, mitigate, transfer, or avoid these risks, or provide a deterrent effect against any risks. A systematic, effective and efficient audit mechanism will contribute to the achievement of the objectives of the organization with healthy and confident steps (Köse, 2007:78-83).

The main subject of this study is that most of the foreign humanitarian organizations have their own internal control mechanisms; but it is hardly possible to realize this in the guest country offices. Because a decentralized internal audit mechanism will be a serious burden in terms of time and cost if it is not carried out on-site. For this reason, an effective and efficient internal audit and a healthy internal control system will provide added value to the organization. It is essential for the humanitarian sector to comply with the law of the host country and to minimize or

prevent internal organization risks in field offices. The audit assesses the extent to which the organization's goals and objectives have been achieved, how assets and resources are being used, what disruptions are, and what improvements and controls are needed.

The audit is an activity carried out within the framework of the relevant national or international standards in order to achieve the strategic goals and targets realized by the authorized unit of the organization or the external service provider, to comply with the provisions of the legislation in force, to detect and correct the contradictory transactions and to complete and correct them.(Günel, 1995:25-27).

In this study an internal audit system proposed for the humanitarian aid organizations which have field offices established by the different nationalities in Turkey. This system will also prepare the organization to an external audit to be conducted by the state of Turkey.

## **3.2 AUDIT TYPES**

As a general understanding, audit is divided into two as internal and external audit. The concept of external audit is divided into classes as independent audit and public audit (Köse, 2007:15). In this section, the concept of external audit will be briefly mentioned, and the internal audit system will be focused.

### **3.2.1 External Audit**

It is an audit performed by independent experts from outside the organization, which is not related to the organizational hierarchy of the institution. The main difference between internal audit and external audit is due to the status of the auditor. While the internal auditor is a member of the organization, auditor refers to an auditor acting independently of the organization. The external audit is performed by an external and independent unit. The external audit is generally divided into two; independent audit and public oversight/government audit in Turkey (Köse, 2007:16).

#### **3.2.1.1 Independent Audit**

Independent audit is the auditing the financial statements of the enterprises as well as compliance and performance audits within the framework of an audit contract by the auditor or auditors who provide professional audit services to their customers,



who work on their behalf as a self-employed person or operate under an audit institution (Bozkurt, 2000:23).

Although the main purpose of the independent audit is financial audit, assurance audit which is another type of audit is provided by outside of organization. Assurance audit is a service that makes determinations in the field of risk process and technology as well as financial statements and makes recommendations to the organization. This can also be ensured by independent auditing. Independent audit is a recommendation and binding are related to the management understanding of the organization (Köse, 2007:36).

### **3.2.1.2 Public Oversight/Government Audit**

Ömer Köse generally explains this in his “*Dünyada ve Türkiyede Yüksek Denetim*” book; Public auditing is a public function that expresses compliance and performance audits on behalf of the public by taking the duties and powers from the laws and performing the audits in order to meet the needs of the public. Public audit organizations are organized in various governmental institutions and they investigate and audit the level of compliance of the activities of the institutions with the legal legislation, the economic policy of the state and the public interest.

Public audit institutions report to the public units to which they are affiliated about the organizations and events they audit. Public audit organizations may be organized in the form of internal and external audit. The fact that a public institution has its own audit department refers to an internal audit mechanism for its own activities. However, the audit of a public institution by another public institution refers to external audit. However, the public sector also has control over the private sector, which is based on legal obligations.

To give an example to this, the inspectors of the Ministry of Finance inspect private companies, the General Directorate of Foundations inspect their agency activities and sub-units through their own inspectors, or the Court of Accounts audits a state institution. It is the type of audit carried out by the auditors assigned by the public and by the auditors (Inspector, Controller, Auditor) affiliated to the ministry and other public organizations (Köse, 2007:27-37).

### **3.2.2 Internal Audit**

According to the Köse's definition; Internal audit is the one of the audit types, provided by an internal unit of an organization. In general description the internal audit is an audit and consulting activity aimed at developing and improving an organization's risk management, control and corporate governance processes to help an organization achieve its objectives. Governance, risk management and internal control are three inseparable components of the internal audit function.

In the next section, the theoretical definition and the concept of internal audit with detailed lines will be mentioned and presented as a system in the conclusion section for foreign humanitarian aid organizations.

### **3.3 THEORETICAL REVIEW OF INTERNAL AUDIT**

According to the definition of the Institute of internal auditors which is recognized in the field of internal audit and presents internationally valid internal auditor certificate; Internal audit is an independent, objective assurance and consulting activity designed to ensure the effectiveness and efficiency of an organization's operations, to add value to and enhance them. Internal audit is a systematic structure that evaluates and improves the effectiveness of internal control, risk management and governance processes, takes a disciplined approach while doing so and ensures that the organization achieves its objectives with confidence (The IIA,2017).

Chartered Institute of Internal Auditors defines; Internal auditing encompasses a set of values in which the organizations can progress towards their goals by minimizing risks and developing control systems in a complex world system (Chartered Institute of Internal Auditors, 2012).

In the contemporary understanding of internal audit, the general view is risk-based internal audit and differs from the classical understanding. In the classical sense, it looks at the conformity of the retrospective works, transactions, records and documents to the financial statements with the legislation, regulations and standards. But contemporary understanding focuses on risk and in fact provides a view of both the past and the future. While classical understanding focuses on finding errors, the modern understanding identifies the source of the error and recommends improvements for the whole process. At this point, risk management, which will be

mentioned in detail in the following sections, comes into play (Ratliff & Reding, 2002:9).

Internal audit basically evaluates the risk management of an organization. All organizations always face different types of risks such as reputation risk, security and IT risks, external risks, internal corruption risks, third party risks, internal financial risks. The success of an organization can be measured by how much it can tackle these risks and to what extent it minimizes or eliminates them. To assess how risks are managed, the quality of the organization's risk management processes, internal control systems and corporate governance processes should be assessed and reported directly and independently to the highest level of management (Chartered Institute of Internal Auditors, 2012).

If it is thought about risk, why internal audit is important? When the internal audit is carried out with its own principles and standards, it provides the organization with the opportunity to find and evaluate the risks within its structure. In this way, the top management of the organization assures its stakeholders about the effectiveness and efficiency of its internal processes. If it is considered this for humanitarian aid organizations, the organization will provide assurance to society, the state and indeed to its donors. These stakeholders will want to ensure that the activities carried out are achieved by achieving the intended objective in accordance with reliable rules; otherwise, risks in this sector could have a profound impact on society. One of the leading institutions specializing in the field of internal audit is the IIA in United States of America, CIAA in United Kingdom and the IIA-Turkey in Turkey.

### **3.3.1 Internal Audit Function**

Internal audit is the investigation of the suitability and effectiveness of the activities and activities of the organization and the activities of the practitioners, the reliability of any information produced, and the reporting of these to the senior management by the so-called internal auditors. In this sense, internal audit is an independent evaluation function established within the organization to examine and evaluate all activities of the organization in order to serve the organization (Güvenç, 2013).

The internal audit function is determined in accordance with international standards and domestic law according to the sectoral situation, risk and organizational

structure of each institution. While the internal audit function is established, the expectations of the board and senior management are determined during the model design. All policies and procedures are prepared for an internal audit activity that is risk-oriented, in line with international standards and includes sectoral expertise (Sawyer, 2002).

The Audit Committee and Internal Audit Regulation are determined by taking into consideration the sector and organizational culture and structure. Internal audit unit manager and internal auditors are appointed. Internal audit activity is integrated with all management systems of the organization (İç Denetim Koordinasyon Kurulu-İDKK, 2013.)

A quality assurance program is designed and implemented to ensure that the internal audit activity complies with international standards. Internal audit plans are formed in harmony with the strategic plan, mission and vision of the organization and risk-oriented. All working papers used in internal audit are prepared. Internal audit file plan, archive structure, correspondence system, reporting and presentation procedures are determined, and internal audit system is put into practice.

While mentioning in detail in the subsequent chapters of this process, an internal audit system for the field offices of foreign humanitarian organizations operating in Turkey will be proposed.

### **3.3.2 Objectives and Scope of Internal Audit**

According to the institute of internal auditor IPPF Engagement Planning; The main purpose of internal audit in general is to help the other parts of the organization to realize its responsibilities effectively. All activities, systems, processes, projects, decisions, human resources and transactions of all units of the organization, operational and financial, are within the scope of internal audit; internal audit, in order to provide added value to the activities of the organization and to ensure continuous development, is an autonomous, reasonable objective assurance and guidance activity to analyze and advise whether existing resources are used economically, effectively and efficiently. More specifically, the objective and scope of internal audit is shaped by the management's understanding of the organization.

These objectives can be evaluating and improving internal control and risk management activities, promoting good governance within the organization; to

promote an accountable, transparent, responsible and fair management approach and to make recommendations to increase the effectiveness of governance processes. In addition to this; It may be another objective for the organization to review plans, policies, laws, procedures, regulations that may have a significant impact on activities and reports, and systems established to ensure compliance with the organization.

### **3.3.3 Internal Audit and Management-Governance Mechanism**

In general terms, management is the combination of planning, organization, leadership, guidance, coordination, execution, monitoring and control processes. In other words, providing resources is the task of bringing people together to achieve the goals by using them effectively and efficiently. (Öztekin, 2002)

Objectives of management; to determine and achieve corporate objectives, to identify risks, control, to determine management strategies, to provide reliable information appropriate to the purpose, effective and efficient use of corporate resources, to protect the assets of the organization, to comply with laws, regulations, ethics, contracts. The duties of the management; to approve, authorize, delegate, delegate duties and responsibilities, monitor performance and results, ask for accounts, and monitor the continuity of the organization (Melville, 2003).

According to the IIA definition: It is a set of structures and processes that are implemented by the board for informing and directing, managing and monitoring the activities of an organization in order to achieve its objectives (The IIA, 2010).

Governance is the combination of people, policies, procedures and processes that enable an organization to effectively and efficiently direct its activities to achieve the goals set by its stakeholders. Governance is the way the institutions are directed, managed and controlled.

### **3.3.4 The Role of Internal Audit on Risk Management**

In this section, the relationship between internal audit and risk management and controls will be discussed. The concepts of risk management and control, which will be examined in detail later, will form the framework of the internal audit system for foreign aid organizations, which is the essence of the study (Cynthia, Harrington. 2004).

### **3.3.5 Internal Audit and Internal Control**

Internal control is generally a process guided by an organization's board of directors, managers and other staff and designed to provide reasonable assurance of achieving a number of objectives. These objectives are; To protect the assets of enterprises, to ensure the accuracy and reliability of accounting information, to ensure the efficiency of activities and policies, to ensure the economic and efficient use of resources, to achieve the goals and objectives set by management. Internal control system is a system established to achieve these objectives.

Internal Control provides reasonable assurance as a means of achieving business objectives, influenced by individuals, embedded in processes and workflows. In this respect, internal control is the responsibility of corporate management. Internal audit activity is needed to assess its effectiveness and appropriateness. Therefore, internal control and internal audit should be considered as two different but complementary concepts (Toroslu, 2014:189-190).

While the existence of an internal control system constitutes one of the foundations of the institutionalization of organizations, the integrity and quality of internal controls are valued by the internal audit activity. Internal audit takes a role from process and error-oriented approach to process-oriented approach by suggesting that the right job is done with the right job, and develops a strategic mentor for the organization, and plays a role in defining the precautions to be taken by adding value.

In addition to this, Toroslu emphasized that the internal control, like risk management, is now associated with internal audit but has an independent status. Internal control is not a sub-area of internal audit, but on the contrary, internal audit is an important part of the monitoring component of internal control.

### **3.3.6 The Relation Between Governance, Risk Management, and Control**

Since governance is applied throughout the organization, it also determines the general direction of internal control and risk management processes. Governance processes provide the basis for risk management and internal controls, which are inseparable and intertwined. Governance consists of strategies, goals and objectives, risk management consists of opportunities and threats to them, and the internal control system consists of control activities of all of them (Tipgos & Thomas. 2004:46-51).

Internal audit is a systematic and disciplined approach to evaluating control risk management and governance processes, which provides reasonable assurance on the adequacy and effectiveness of these processes and contributes to their development. Internal audit provides efficiency and efficiency-oriented recommendations, provides assistance, support and advice, but does not replace these processes.

### **3.4 GOVERNANCE**

Globally, there are a variety of governance models that have been published by other organizations and legal and regulatory bodies. For example, OECD defines governance as: The management of an organization is a set of relationships between the board, its shareholders, and other stakeholders. Governance is the necessary structure for determining, achieving and monitoring corporate objectives (Paape & Scheffe & Snoep. 2003:1-16).

According to the ASX; governance is generally defined as a system in which the organization is managed in accordance with the objectives and guided to achieve these objectives. Governance describes how organizational performance is maximized, how risk is managed and monitored, how corporate objectives are set, how these goals are achieved. Governance is generally a system whole and structural, not static.

Governance refers to all means in which jobs are directed and controlled. These tools are laws, regulations, rules, policies, procedures and so on. If we consider governance as a structure, there is the top committee, processes and organizational structures under it, these constitute corporate activities, all tools that are informed, directed and monitored for these purposes constitute governance.

The basis of governance is the unity of objectives between the stakeholders, encouragement to managers is necessary but there should be strict supervision. Governance is the culture, values, mission, policies, structures, processes and measures required for the direction and control of institutions. In this context, governance includes, but is not limited to, the activities of the board. It is critical to success identified, monitored and communicated at the top (The IIA, 2010).

It was mentioned before, who are the stakeholders for an organization? Shareholders, employees, customers, suppliers, donors, other business entities,

beneficiaries, downstream partners, society, regulatory authorities, etc... are generally stakeholders (Paape & Scheffe & Snoep. 2003:1-16).

Tipgos & Thomas approaches the concept of governance with a method of asking questions in their article the year of 2004. What is the source of Governance? There are two types, one of it is internal sources such as corporate regulations, board of directors, committees, internal auditors, organization charter, organization agreements. The other source is external such as laws, regulations, legislation, regulatory public institutions.

What is the process of Governance? There are two types of Governance, strategic direction and oversight. Strategic Direction determines the business model of the organization, overall final objectives, risk management and limits of corporate behaviors. Oversight is the most important component of governance in which risk management and internal control activities are implemented. Oversight is ultimately the responsibility of the board. The ultimate source of authority and direction of management is the board.

What are the requirements of Governance? An independent board with sufficient expertise, experience, resources and authority for interrogation, organizational strategies to measure corporate and individual performance, organizational structure to achieve strategic goals, policies for important corporate activities required for Governance. However, clear responsibility, accountability, fairness and transparency by management, effective communication between the board, management and assurers, appropriate monitoring and control by management should be ensured. Finally, the ethical culture of the organization should be strengthened, effective internal and external audit should be ensured, corporate risk management processes and policies should be determined and implemented, governance processes should be compared with national and international norms.

What are the objectives of Governance? Controlling processes and reporting risk information. To set targets for the organization and to make operational decisions. Identify the general direction for risk management and internal control processes. Identify ethical values appropriate to organizational culture. Evaluating the effectiveness of corporate performance and ensuring accountability. Establishing, approving and executing the strategic plan of the organization. Coordinate the relationship between board members, managers and internal auditors and ensure the



flow of information. To establish the necessary committees of the Board, to select the top executives of the institution, to ensure the approval of budget and important transactions, to ensure the management of all corporate resources (Tippgos & Thomas. 2004:46-51) .

As it is understood from the definition and characteristics of the above-mentioned governance; the Governance is policy-based, not rule-based and can have national or international basis such as laws, regulations, standards.

### **3.4.1 Elements of Effective Governance**

Another important issue is the effectiveness of governance, which requires 4 elements; Board, management, internal audit, external audit. But it is important to understand the difference between the roles of the board and management. The decision-making authority is always on the board, its main function is to monitor the activities of the organization. Governance is under the organization Board responsibility (Paape & Scheffe & Snoep. 2003).

Board enables the creation, approval and implementation of the strategic plan of the organization. Board determines the general policies and institutional objectives to realize the plan, request periodic information about the performance of the organization according to the strategic plan.

Board selects the top executives of the organization, determines its authority and responsibilities, determines and measures performance targets, approves budget and important transactions, identifies important risks for the organization in achieving the internal targets, ensures the proper management of risks, ensures that all corporate resources are managed, the code of conduct and ethical standards exist and to be announced to employees.

In short, the responsibility of the board is to ensure the creation of the necessary processes, and its ultimate aim is to observe processes that create, maintain and develop value for the organization. However, the management level is responsible for the results of these processes and the daily management of the activities.

The management conducts the daily operations related to governance, fulfills the directives of the board, determines the risks to be managed and their responsible persons, designs and operates the risk management process, delegates authority and

responsibility for risk management, and brings responsibility for reporting to risk officers (Köse, 2007:157).

### 3.5 RISK MANAGEMENT

Risk is expressed as the combination of the consequences of an event and the likelihood of it, risk is the effect of uncertainties on organizational objectives, where the effect is deviation from the expected, which may be positive or negative. According to the standards; "The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood (The IIA, 2017).

There are four components of risk; event, effect, probability, outcome. Event is internal or external formation that may prevent the achievement of goals. Effect is outcome of the event. Probability is possibility of occurrence of event. Outcome is probability times effect (Toroslu, 2014:170-179).

According to Assistant Professor Roberto Pinto's definition; The formulation risk = probability (of a disruption event) x loss (connected to the event occurrence)" is a measure of the expected loss connected with something (i.e., a process, a production activity, an investment...) subject to the occurrence of the considered disruption event. It is a way to quantify risks. You may also rephrase as "risk = failure probability x damage related to the failure". For example, assume you have to choose between 2 different investments A and B: A is subject to a disrupting event with probability 0.01 with a related loss of 1000, while B is subject to a disrupting event with probability 0.02 with a loss of 800. Calculating the risk with the formula, you have:

- Risk(A) = 0.01 x 1000 = 10
- Risk(B) = 0.02 x 800 = 16
- So, if you are risk averse, you may prefer A over B.

This formula is also used (with a further term related to the possibility to detect the disruption, or failure as it is called) in the Failure modes and effects analysis. (R. Pinto, 2013)

After the theoretical discussion of risk, it is needed to be define the risk management; is the process of identifying, evaluating, managing and controlling potential events and situations in order to provide reasonable assurance to achieve the objectives of the organization (Özbek, 2012: 33-37).

“The IIA's International Standards define a risk as 'the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is that an event or activity adversely affects an organization such as activities and financial loss that may affect the organization in its entirety, unethical behavior, failure to ensure reliability, and non-compliance with legal requirements and work policies and procedures. In other words, risk is the events and behaviors that prevent the organization from achieving its objectives or successfully implementing the strategies it determines. For the organization to achieve its objectives and to make the right decisions, it is risk management that it primarily identifies the risks that it encounters and is likely to encounter, then evaluates and analyzes these risks and finally manages these risks.

### **3.5.1 Audit Risk Elements**

Audit risk in its simplest definition is the risk the auditor faces in issuing an audit opinion when the audited financial statements contain a material misstatement (W. Anderson, 2012).

In this study, there will be mentioned three different risk elements; inherent risk, residual risk control risk.

Inherent risk is the risk posed by the environment spontaneously without controls. Inherent risk refers to the risks that the probability and effect of which cannot be changed cannot be changed if no measures are taken by management. It is the type of risk that the environment creates spontaneously without controls. The risk inherent in the business is also known as absolute risk, potential risk, and risk exposure (Seidel, 2018).

Control risk is risk of loss of existing control activities. Risk of inability to prevent or reveal significant errors in the policies and procedures established by the entity regarding its internal control structure. The possibility that the audited entity's internal control system may cause an error. For example, disruptions from the installed system in procurement procedures and practices that contradict the principle of separation of duties can be cited as examples. It is a risk that misleading statements will not be blocked in time by the customer's internal control system (Seidel, 2018).

Residual Risk is the risk that continues after all safety measures have been taken and controls are carried out. You can now consider risk as an internal risk covered by a net. Although covered, there are places where this risk may leak.

Tennessee State Government Simulates the difference between internal and residual risk to water flowing through the filter. Internal risk is above the filter that constitutes the management controls. A smaller residual risk pool remains. Internal risk is identified only after the organization's key objectives have been identified and steps are taken to determine what might go wrong to prevent the organization from achieving these objectives. In addition to impact and likelihood, management evaluates the reasons for the risk based on the nature of the risk (Tennessee State Government, 2016) .

The three elements of audit risk were mentioned, and the next step is to follow the steps of the risk management process.

### **3.5.2 Risk Management Steps**

Risks are determined primarily. It is the phase of understanding all possible situations, conditions, events, threats and opportunities. All risks that may prevent the achievement of the objectives are considered. Integrity is ensured by involving the whole organization. Once risks are identified, these risks are assessed. This stage is to analyze and understand the identified risks. The size, probability and consequences of risk are evaluated and measured. Here an approach like probability multiplied by probability equals risk can be used. There is a need to prioritize the risks by ordering them from the highest to the lowest in a certain way. After the risks are evaluated, risk actions are taken, and control activities start at this stage (Toroslu, 2014:170-179).

According to the Toroslu's classification; at this stage, the correct action is determined for the provision and allocation of resources. There are 5 basic actions in risk management; avoidance, reduction, sharing, acceptance, exploitation.

- Avoidance: Termination of activity due to unacceptable risk
- Reduction: Reducing the probability, impact or both of the risk
- Sharing: Reducing risk impact or probability by sharing, transferring
- Acceptance: No action is taken, and the current risk remains intact
- Exploitation: Risking more than the current situation for higher returns

How the risk actions are determined? For this, the organization needs to determine risk appetite, risk tolerance and risk capacity.

- Risk Appetite; is the level of willingness that the organization can accept without taking any action and creating value. Risk appetite reflects the organization's risk management philosophy and influences the business culture and shape.
- Risk tolerance; the level or numerical limit of acceptable change in risks.
- Risk capacity; the highest level of risk an organization can carry without closing.

### **3.5.3 COSO Enterprise Risk Management**

Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management is internationally recognized internal control framework for risk management. It was first published in 1992 with the aim of leading ideas by preparing comprehensive guidelines in the areas of fraudulent financial reporting prevention, internal control, risk management, corporate governance and fraud prevention. It aims to integrate and coordinate all risk management activities of the organization (Özbek, 2012).

The Board, management, is a process owned by all personnel, starts at the stage of setting strategies and targets, identifies potential incidents that hinder the achievement of targets. ERM generally has the opportunity to manage risks within risk appetite and strategies, take advantage of opportunities to take integrated and multiple risk actions, and react quickly, improve forecasting of operational losses and surprises, provide reasonable assurance for achieving objectives, and speak of an effective capital allocation (Moeller, 2007).

#### **3.5.3.1 Five Components of ERM**

This section explains the management's point of view against controls. Internal environment, goal setting, event setting, risk assessment, taking action against risk, control activities, information and communication and finally monitoring are the main components.

According to “The Committee of Sponsoring Organizations of the Treadway Commission;” *Governance and Culture*: It is the component that determines the tone, risks and oversight responsibilities of the organization, and is related to risk understanding, culture, ethical values, desired behavior.

*Strategy and Objective-Setting*: It is the component in which risk appetite is determined and aligned with the objectives and strategy of the organization. Enterprise risk management works in conjunction with the planning of objectives and strategies. In the strategy planning process, they act together with corporate risk management, strategy and goal setting. A risk appetite is determined in line with the strategy. Business objectives; it is the basis for identifying, evaluating and responding to risks. Business objectives enable the strategy to be implemented and shape the organization's daily operations and priorities.

*Performance*: Risks that may affect the achievement of strategy and business objectives should be identified and assessed. Risks should be prioritized according to risk appetite. The organization then selects the response to the risk and determines the amount of risks to be undertaken from a portfolio (at all levels of the organization) perspective.

*Review and Revision*: In the light of significant changes, the organization reviews how performance is achieved according to the objectives, whether the corporate governance practices work well, whether it adds value to the organization, continues to add value, and whether there are issues that need to be corrected.

*Information, Communication, and Reporting*: Communication is the acquisition of information, the sharing of information throughout the organization, and it is a continuous repetitive process. Management to support enterprise risk management; uses information that is appropriate both internally and externally. The organization uses information systems to retain, process and manage information and data. It uses organizational information, reporting on organizational culture, risk and performance (COSO, 2017).

### **3.5.3.2 Principles of ERM**

COSO Enterprise Risk Management is the most authoritative and efficient resource available, according to ERM;

Exercises Board Risk Oversight; The Board of Directors fulfills the responsibilities of oversight and governance of the strategy in order to support the management to achieve its strategy and business objectives.

Establishes Operating Structures; Creates the operational structure in order to realize the organization, strategy and business objectives.

Defines Desired Culture; The organization defines desirable behaviors that characterize the culture of the institution.

Demonstrates Commitment to Core Values; The organization demonstrates its commitment to the core values of the organization.

Attracts, Develops, and Retains Capable Individuals; It attaches great importance to building human capital in accordance with organization, strategy and business objectives.

Analyze the Business Environment: The organization analyzes the potential impact of the business environment on its risk profile.

Risk Appetite Definitions: The organization defines risk appetite in the context of value creation, protection and realization.

Evaluate Alternative Strategies: The organization evaluates the impact of alternative strategies on the risk profile.

Establishes Business Objectives: When setting up business objectives, the organization considers risks at various levels in line with and supporting the strategy.

Identifies risks: Identifies risks that affect the fulfillment of organization, strategy and business objectives.

Assesses the Severity of Risks: The organization assesses the severity of risks.

Prioritizes Risks: The organization prioritizes risks to form the basis for its response to risks.

Applies Risk Responses: The organization determines and selects the responses to risks.

Develops Portfolio Perspective: The organization develops and evaluates portfolio perspective on risks.

Evaluate Important Changes: The organization identifies and evaluates changes that significantly affect strategy and business objectives.

Review Risks and Performance: The organization reviews the organization's performance results and handles risks.

**Follows Improvements in Enterprise Risk Management:** The organization follows improvements in corporate risk management.

**Benefit from Information and Technology Advantages:** The organization takes advantage of the organization's information system to support enterprise risk management.

**Communicates Risk Information:** The organization uses communication channels to support enterprise risk management.

**Reporting on Risk, Culture and Performance:** The organization reports on risk, culture and performance at various levels within the organization (COSO, 2017).

ERM for internal audit is only a conceptual framework, not an implementation guide; however, the coordination of all risk management and activities of the organization is presented as a system. In this section, after briefly explained as a source that can be consulted, the next section will discuss the issue of control (Moeller, 2007).

### **3.6 CONTROL THEORY AND COSO INTERNAL CONTROL**

Control is the measures taken by the board and other related units to manage risks and increase the likelihood of reaching the set goals and objectives. What should be distinguished here is that internal control is not internal audit. Controls are tools, not goals, and are the last link of management. Relationship with management; Creates a corporate culture and environment that develops management controls (Özbek, 2012:399).

The control should be the responsibility of each employee, first the management and then the responsibility of the employees. If management and employees believe in the importance of controls, if they announce it to all employees and all employees support it, the controls become functional.

According to the Özbek; The controls help to achieve organizational performance goals, prevent waste of resources, ensure compliance with legislation, and ensure reliable reporting. Controls are a process, efficient, efficient and sufficient. Internal conditions restricting controls; improper provision of results, management disregard controls, excessive controls, excessive confidence in control, and lack of control.



### 3.6.1 Control Classification

According to the Robert Moeller's "Brink's Modern Internal Auditing" book, it is divided into two as primary and secondary controls.

Primary controls are also classified as preventive, detective, corrective and guiding controls. Preventive Controls; These measures are cost-effective before taking any action to prevent errors. Separation of tasks, grantee selection and grant allocation procedures etc... Detector Controls; After the operation, it finds unwanted events and warns related people. For example, making purchases within prohibited countries without being submitted to compliance control. The type of human-based detection control is the least effective, and the system-based preventive control is the most effective control type. Corrective controls; finds and corrects unwanted situations after the event occurs. Routing controls; provides a desired event, encourages. Policies, procedures, job descriptions are examples of this type of control.

Secondary controls are divided into two as compensatory, complementary controls. Complementary controls; used in conjunction with primary controls and minimizes risk, separation of tasks is the best example. Compensatory controls; if primary controls are ineffective or cannot be implemented for reasons such as costs and human resources, such controls are used. It is called as mitigant control but does not reduce risk to a reasonable level.

### 3.6.2 Control Types

A strict control is a clearly defined control. Soft control is an easily unidentifiable control based on behavior and attitude and forms the basis of the governance structure. According to the Özbek's *İç Denetim, Kurumsal Yönetim, Risk Yönetimi, İç Kontrol* book, this subject generally explains as below sections;

#### 3.6.2.1 Timing controls

This control is divided into 3 classes: feedback, advanced notification, and simultaneous controls. Feedback controls; It occurs after the activities occur, determines undesirable situation, ensures that the same mistakes in the future will not be repeated. Advanced notification controls; It aims at predicting unwanted events, predicting problems or not, achieving desired results, directive and preventive controls

are in this class. Simultaneous controls; identify and / or correct unwanted events during the activity.

### **3.6.2.2 Functional Controls**

These controls are divided into two classes as financial and operational. Financial controls; There are clear standards, accounting and financial reports. It is for recording transactions, storing assets and complying with standards. Elements; completeness, reality, validation, accuracy and integrity. Operational controls; it does not have very clear open standards, it is about support services. Elements; planning, routing and arrangement. Designed according to control stages.

### **3.6.2.3 Executive Controls**

These controls are divided into two classes as Manual active and system passive controls. Manual active controls; human-based controls that identify or correct deviations from the desired situation. System passive controls; These are systemic controls that operate without human intervention.

### **3.6.3 Control Approaches and Techniques**

Organization; It is a control technique with a clear and simple diagram, in which individual responsibilities are clearly defined, managers are given the necessary powers for their duties. Politics; It must be written, organized, systematic, announced to all employees, periodically reviewed and updated. Procedures; It should be economic, simple, facilitating, taking into account the principle of separation of duties. Employees; They should be competent in their field and their performance should be evaluated. Accounting; Provides financial and organizational control, helps decision making. Budgeting; Establishes standards for resources, shows the distribution of resources. Reporting; it should be simple, suitable for the purpose, complete, meaningful, economical, timely (Kayım, A. 2009:41-58).

### **3.6.4 Control Frameworks**

Although there are many control frameworks that are subject to internal audit, COSO control frameworks will be used in this study as in risk management. Examples of other control frameworks include COSO-United States, COCO-Canada Chamber

of Financial Advisors, Turnbull-UK Financial Reporting Commission, Codbury-UK, COBIT-Information Systems Control and Governance Model, ESAC-Electronic System Assurance and Control.

### **3.6.5 COSO Internal Control Framework**

In the previous chapters COSO ERM was mentioned, in this section the control framework will be mentioned. The COSO Internal Control Model, which was first applied in the private sector and applied in public spaces, is the most accepted internal control model in the world (Keskin, 2006:39).

Due to the increase in the number of financial reports containing fraud elements in the USA in the 1980s, five voluntary organizations have identified the reasons for the false reports issued by companies and organizations; American Accounting Association (AAA), American Institute of Certified Public Accountants (AICPA), International Financial Executives Association (FEI), Institute of Management Accountants (IMA) and the International Institute of Internal Auditors (IIA), a joint working group, also known as the Treadway Commission, was set up in 1985 to review the internal control literature. As a result of the studies carried out by these five major organizations, the Internal Control Integrated Framework Report has been published in terms of definition of internal control, determination and development of internal control structures. This report has been accepted as the COSO Internal Control Model in practice.

According to COSO; internal control is a dynamic and adaptable process, covering the chairman, members, general manager, senior management and all employees, and providing reasonable assurance for achieving corporate objectives. (Kayım, 2009:41-58).

#### **3.6.5.1 The objectives of Internal Control Models**

The purpose of internal controls; to ensure the reliability of all types of reporting, efficiency and effectiveness of activities, compliance with laws and regulations, protection of assets and resources.

Efficiency and effectiveness of Activities; It is also referred to as operational objective, it is aimed at corporate performance, it means the achievement of the operational and financial goals of the organization while doing so in an economic way.

Reliability of Reporting; The controls are intended to ensure that all reports, in particular financial reporting, are reliable, and all reports must be timely, transparent and comply with other reporting criteria.

Compliance with Laws and Regulations; Also referred to as compliance, organizations must comply with all laws, regulations, regulations, standards, policies and procedures to which they are subject.

Protection of Assets; It is also called the protection objective, all corporate assets (tangible-intangible) and resources need to be protected, controls should be designed for this purpose (Hamad & Babak, 2009:12).

### **3.6.5.2 COSO Internal Control Components**

COSO Internal Control Framework focuses on five integrated components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring activities.

#### **3.6.5.2.1 Control Environment**

It is based on honesty and ethical values at every level, the competence of employees is important, it expresses the organizational structure of the organization and the way of doing business-philosophy of management.

The control environment is the main element of the system and the ground on which the system is built, whether successful or unsuccessful internal control depends on the effectiveness of the control environment. The first condition for establishing an internal control system is the existence of a suitable control environment and the control environment can be seen as the basis for all other elements of internal control (COSO, 2019:6).

The control environment is the first step needed to take the system forward and ensure that managers and employees of the administration have a positive outlook on internal control, ethical values, an honest management approach, the adequacy and performance of staff, the manner and the organizational structure of the administration. Control Environment Component: Ethical Values and Integrity, Mission, Organizational Structure and Duties, Qualification and Performance of Personnel, Delegation of Authority consists of 26 general conditions.

### **3.6.5.2.2 Risk Assessment**

Risk assessment is related to how the organization will identify and analyze the possible risks that it may face in reaching the determined strategic goals and objectives, how it will manage these risks and give appropriate answers to them. Each organization faces various risks from inside or outside that may prevent it from reaching its goals and objectives. Institutions should be prepared for these risks and make risk assessments (Hamad & Babak, 2009:8).

The prerequisite for risk assessment is that the objectives and objectives of the organization are clearly, clearly and consistently determined. Risk assessment is one of the components of the internal control system and the internal control activity should be carried out on a risk-based basis. Therefore, identification of risky areas and intensification of control activities in these areas are seen as important for the success of the internal control system. Risk Assessment Component: It consists of 9 general conditions under 2 headings: Planning and Programming, Determination and Assessment of Risks (COSO, 2019:6).

### **3.6.5.2.3 Control Activities**

According to the A clear look at Internal Controls article Hamad says that; Policies and procedures established to meet the risks that the organization will face in achieving its goals and objectives and to achieve its objectives are called control activities. Control activities may be preventive or determinative and help management achieve its objectives by mitigating the impact of potential risks in the risk assessment process. Control activities should be considered as part of the routine activities carried out by both management and all relevant corporate staff and should include methods and policies implemented at all levels and at all levels of the organization. Control activities should be extended to all levels and activities of the organization and be an integral part of the daily activities of the organization.

The Control Activities Component consists of 17 general conditions under 6 headings: Control Strategies and Methods, Determination and Certification of Procedures, Separation of Tasks, Hierarchical Controls, Continuity of Activities, Information Systems Controls (COSO, 2019:6).

Authorization mechanisms, confirmation-verification, analysis and review of performance criteria, IT controls, physical security controls and most importantly separation of tasks are the main control activities.

#### **3.6.5.2.4 Information and Communication**

Information and communication refer to all activities carried out in order to produce information related to the corporate activity areas throughout the system and to transmit the produced information to the related parties through various communication tools (horizontal and vertical communication channels, reporting, etc...).

The information and communication component also provide the interaction and interaction between other elements of internal control and therefore has a special function for the internal control system. Producing and delivering accurate, reliable, complete, timely and appropriate information to the fields of activity is extremely important in terms of achieving corporate goals and objectives.

The quality of the information produced and its delivery to decision-making processes in a timely manner will directly affect the ability of the corporate management to make correct and on-the-spot decisions. Information and Communication Component: Information and Communication, Reporting, Recording and Filing System, Reporting of Errors, Irregularities and Corruptions consist of 20 general conditions under 4 headings (COSO, 2019:5).

#### **3.6.5.2.5 Monitoring Activities**

The internal control system should be monitored at regular intervals (at least once a year) and continuously to assess its operability and performance. The management of the organization may seek assistance from the internal audit system in fulfilling the responsibility for monitoring and evaluating whether the internal control system is functioning as originally designed. Activities for monitoring and evaluating the internal control system; employees, managers, internal auditors (Hamad & Babak, 2009:10-11).

Monitoring procedures and methods may be carried out simultaneously while conducting routine activities related to institutional processes or may be carried out by internal audit using special assessment methods. Monitoring Component: Evaluation

of Internal Control, Internal Audit consists of 7 general conditions under 2 headings (COSO, 2019:5).

It is the responsibility of the management and reported to the senior management and the board. All of these elements form the COSO pyramid. In the COSO Pyramid, which shows the relationship of internal control elements with each other, risk assessments are carried out in an effective information and communication atmosphere on the basis of control environment, control activities are carried out and supervision is provided.

### **3.6.5.3 Self-assessment of COSO Internal Control**

As a result, the COSO-based Internal Control System is a real indicator of the risk management and operational quality of organizations and the level of internal control system. Easily applicable by all organizations (Keskin, 2006:39-42).

It represents a reasonable level of assurance for the top management and stakeholders of the organization when it is designed and implemented taking into account the realities of the organization and the sector, adhering to the basic elements and principles (Melville,1999:5-8).

## **3.7 INTERNATIONAL PROFESSIONAL PRACTICE FRAMEWORK (IPPF)**

The International Framework for Professional Practice (IPPF) is a framework that covers all information related to the mandatory guidance issued by the IIA. A reliable, global and guiding organization, the IIA provides mandatory guidance and recommended guidance to all internal auditors through the IPPF. (TIDE,2004)

It is very important for a professional study to read, understand and conduct the audit in accordance with the principles. The compulsory guidance was developed as a result of a comprehensive institutional evaluation shared with the public. Mandatory sections of the IPPF; It consists of Main Principles, Definition of Internal Audit, Code of Ethics, and Standards.

### **3.7.1 Main Principles**

In order for an effective internal evaluation to be carried out, the main principles should be considered as a whole, and all principles should be effectively run. The extent to which the core principles are applied as a whole varies from

organization to organization. Failure to apply even one of the main principles is an indication that the internal audit system is not operating effectively. Main Principles demonstrates integrity. Demonstrates competence and due professional care. Is objective and free from undue influence (independent). Aligns with the strategies, objectives, and risks of the organization. Is appropriately positioned and adequately resourced. Demonstrates quality and continuous improvement. Communicates effectively. Provides risk-based assurance. Is insightful, proactive, and future-focused. Promotes organizational improvement (The IIA, Core Principles).

### **3.7.2 Definition of Internal Auditing**

The Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing. Internal audit is a consulting activity aimed at improving and improving an organization's risk management, control and corporate governance processes to help an organization achieve its objectives.

The internal audit has a 3-line defense line model. The first line of defense consists of the employees and management of the lines of business, executes the control activities, manages the risks effectively. The second line of defense is composed of support, risk and control units, does not directly manage risk, coordinates and reports. Internal Audit constitutes the third line of defense, evaluates the second line of defense, and reviews the first line of defense, if sufficient (Daniela, P.2017).

### **3.7.3 Code of Ethics**

The Code of Ethics is another mandatory guide. It specifies the principles and expectations governing the behavior of internal auditors and internal audit activity. The purpose of ethical values is to develop the ethical culture of the internal audit profession.

The code of ethics consists of principles related to the internal audit profession and practices, and codes of conduct that define the manner of conduct expected from the internal auditor. Ethical rules bind individuals and institutions that provide internal audit services.



### 3.7.3.1 Code of Ethics Principles

The Code of Ethics binds institutions and individuals that provide internal audit services. For members of IIA and those holding IIA's certificates (and candidates), violations of these rules are assessed and handled in accordance with IIA's regulations and administrative guidelines. A specific behavior in the Code of Conduct does not preclude an unacceptable or incorrect assessment of that behavior and is therefore responsible for disciplinary action. Internal auditors are expected to apply and support a number of principles:

Honesty; The integrity of internal auditors builds trust and thus provides a basis for relying on their provisions.

Objectivity; Internal auditors exhibit the highest level of professional objectivity when collecting, evaluating and reporting information about the process or activity they are examining. Internal auditors assess all relevant requirements in a balanced manner and are not affected by the interests of themselves or others when making a judgment.

Privacy; Internal auditors respect the ownership and value of the information they obtain; does not disclose the information without the necessary authorization unless there is a legal and professional obligation.

Competence; Internal auditors demonstrate the knowledge, skills and experience required to perform internal audit services.

The Code of Conduct is a system of general values that must be followed and applied by the organization and all its employees. It expresses the rights of employees against the organization and the responsibilities of employees towards the organization. However, the board and senior management also have responsibilities.

Correct preparation of codes of conduct and ethical principles, publicizing them, organizing necessary trainings, and understanding of employee rights and obligations (Friedberg A. 1998:895-904).

Honesty-Internal auditors; They conduct their work with a sense of accuracy, attention and responsibility, observe the law and make special case disclosures required by law and profession, knowingly and voluntarily become an unlawful party or internal audit profession and they do not engage in disgraceful acts in respect of the institution; they respect and contribute to the legitimate and ethical aims of the institution.

Objectivity-Internal auditors; Do not participate in any relationship or activity that may or may be considered to undermine the impartiality of their assessment; this engagement includes relationships and activities that conflict with the interests of the organization, they do not accept anything that might undermine or presume to undermine their professional judgment, and disclose all important findings that they disclose and, if not disclosed, disrupt reports on their activities.

Privacy-Internal auditors are cautious about the protection and use of the information they obtain during their duties, and do not use the information they have for their personal benefit or unlawful or in a manner that may harm the legitimate and ethical purposes of the organization.

Competence-Internal auditors; They should only undertake the tasks in which they have the knowledge, skills and experience required by the task, perform internal audit services in accordance with the International Internal Audit Standards, and continuously improve the efficiency and quality of their qualifications and services.

#### **3.7.4 International Internal Audit Standards**

Internal Audit Standards are principle-oriented and must be complied with. Defines the basic principles related to the performance of the profession, supports the institutional processes and operations, forms the basis for the performance evaluation of the internal audit activity.

In order to understand and apply the standards correctly, you also need to understand the glossary of terms, the glossary is an integral part of the standards. Standards generally consist of two categories as Attribute and Performance Standards and they are required for internal audit service. The Implementation Standards, which emerge from these two categories, are necessary for assurance and consultancy. The objectives, powers and responsibilities of the Internal Audit (İç Denetim Koordinasyon Kurulu-İDKK, 2011).

These are the standards of quality defined by regulation, independence and objectivity, professional competence, professional care and attention, continuous professional development, quality assurance and development program. The performance standards are the management of the Internal Audit activity, the nature of the work, the task planning, the performance of the task, reporting the results,

monitoring the developments and undertaking the residual risk by the management (The IIA, 2017:1).

Internal audit activities are carried out in a wide range of legal and cultural settings; its purpose, size, complexity and structure are realized in many different institutions by people inside and outside the institution. Although these differences probably affect internal audit practice in all settings, International Internal Audit Professional Practice Standards ('Standards' or 'International Internal Auditing Standards') are of vital importance in fulfilling the responsibilities of internal auditors and internal audit activity (unit). If internal auditors and internal audit activity are partially prevented from complying with the Standards, compliance with other parts of the Standards should continue and disclosure of material events relating to non-compliance (The IIA, 2017:1).

If the IIA Standards are used with the standards of other standard-setting institutions, other standards may be referred to in the internal audit reporting as necessary. In this case, in the event of a conflict and discrepancy between the IIA Standards and those of other institutions, internal auditors and internal audit activity must comply with the IIA Standards. In addition, if other standards are more restrictive, they may comply with other standards (The IIA, 2017:2).

The objectives of the standards are: To define the basic principles that represent the internal audit practice as it should. To provide a framework for promoting and implementing value added internal audit activities. To provide a basis for the evaluation of internal audit performance. Revive advanced corporate processes and activities. Standards are principle-oriented and mandatory requirements, including: Basic statements with international applicability at the institution and individual level for the purpose of implementing the internal audit profession and assessing the effectiveness of the practice, "Comments" that clarify the terms and concepts in these core statements. In the standards, terms with specific meanings given in the Glossary are used. Especially, In the standards, the word "must" be used to specify the requirements that must be met unconditionally; The word "should" is used to indicate requirements that are expected to be complied with, unless 'professional judgment is considered to be deviations from the requirements (The IIA, 2017:2).

In order to understand and apply the standards correctly, it is necessary to take into account the statements of the Standards, their Comments and the specific meanings mentioned in the Glossary (The IIA, 2017:2).

Standards structure is divided into two as Quality Standards and Performance Standards. Qualification Standards are based on the characteristics of the institutions and individuals carrying out internal audit activities.

Performance Standards explain the nature of internal auditing and provide quality criteria used to evaluate the performance of these services. The Quality and Performance Standards are prepared to be applied to all internal audit services. The Implementing Standards have also been prepared to improve the Quality and Performance Standards, specifying the requirements applicable to assurance (A) or consulting (C) activities (The IIA, 2017:1).

Assurance services include the internal auditor's objective evaluation of the evidence available to provide an independent opinion or opinion on an entity, activity, function, process, system or other element. Quality and scope of assurance tasks determined by (The IIA, 2017:2).

Consultancy services are, by their nature, advice and are usually carried out at the special request of the customer requesting the assignment. Qualification of consultancy services scope is subject to the agreement between the customer requesting the assessment and the internal auditor (The IIA, 2017:2).

Internal auditor when providing consultancy services, it should maintain its objectivity and not take administrative responsibility. The review and development of standards is a continuous process. The IIA Internal Auditing Standards Board, prior to its publication, discussion (The IIA, 2017:2).

This study includes the activity of requesting a worldwide interpretation in the process of drafting the text. All draft drafts are sent to all member organizations of the IIA and published on the IIA website (The IIA, 2017:2).

The Internal Audit Standards shall be included in the annexes in their most complete and up-to-date form, in this section the standarts numbers and what they cover will be mentioned.

#### **3.7.4.1 Attribute Standards**

Attribute Standards define the characteristics of individuals and organizations engaged in internal audit activities. Attribute Standards are between Code Number 1000-1322.

- 1000 – Purpose, Authority, and Responsibility
- 1100 – Independence and Objectivity
- 1200 – Proficiency and Due Professional Care
- 1300 – Quality Assurance and Improvement Program

#### **3.7.4.2 Performance Standards**

Defines the attribution of the internal audit service and determines the criteria according to which performance measurement will be performed. Performance standards are compulsory professional standards that guide internal auditors on how internal audit activities should be performed. Performance Standards are between Code Number 2000-2600.

- 2000 – Managing the Internal Audit Activity
- 2100 – Nature of Work
- 2200 – Engagement Planning
- 2300 – Performing the Engagement
- 2400 – Communicating Results
- 2500 – Monitoring Progress
- 2600 – Communicating the Acceptance of Risks

#### **3.7.4.3 The Implementation Standards**

The standards refer to the definition of internal auditing and ethical rules, general principles and principles, but do not contain much detail on implementation. Therefore, in order to clarify the implementation of the mandatory guideline, the IAA has published its implementation recommendations, not mandatory. Standards apply the question "what", implementation standards ask the question "how", and determine methods, approaches and elements to consider. Detailed guidance for the performance of internal audit tasks (IDKK, 2006).

### **3.8 INTERNAL AUDIT ROLES AND RISK BASED PLANNING**

In this section, the management of the internal audit activity by using the standards will be explained. This and the following sections will serve as a roadmap for the audit system we present.

Internal audit has two roles, strategic and operational. Its strategic role includes value-added, development, governance and risk control. The operational role includes planning, fieldwork and reporting (Picket, 2006:35).

Management of internal audit involves risk-based planning, annual report preparation, management of resources, policy and procedures, coordination of assurance providers (Toroslu, 2014:170).

2000-Managing Internal Audit Activity; The internal audit manager should effectively manage the internal audit activity to ensure that the organization adds value. It is meant to add value to the institution; ensuring that the internal audit activity serves in an objective and appropriate manner means contributing to the effectiveness and efficiency of governance, risk management and control processes.

Effective management of internal audit activities means achieving the objectives and responsibilities of the internal audit regulation, complying with the definition of internal auditing and standards, and ensuring that members of the internal audit activity comply with ethical rules and standards (Benli & Celayir 2014).

2010-Planning; The internal audit manager should prepare a risk-based plan that is consistent with the objectives of the organization and sets the priorities of the internal audit activity, while the internal audit regulation should also require a risk-based audit plan. It is the responsibility of the internal audit manager to prepare a risk-based audit plan. In the risk-based audit plan, the internal audit manager should consider the risk appetite levels and risk management framework of the different activities of the organization. The organization's activities, risks, operations, systems, programs, should be updated according to changes in controls. Task types in risk-based plan; Control and assurance against risks- Inquiry activity and follow-up tasks- Consultancy activities- Quality assurance development program.

### 3.8.1 Planning Process

Spencer Picket generally explains the planning process in his “*The Internal Auditing Handbook*” book; How to prepare an internal audit plan, what are the processes? First of all, the audit universe is created, the audit universe is the main body containing all the auditable elements. This is a list of all controls that can be performed with unlimited resources. It is based on the strategic plan and operational objectives of the organization. Reflects corporate risk appetite. Takes into account the expectations of the board and the management. Beneficiaries, suppliers, regulations, sector, environment, political atmosphere, technology etc. are considered. In the audit universe, units, departments, field offices, systems, software, accounts, projects, procedures, beneficiaries can be briefly included and updated at least once a year.

Secondly, corporate risk assessment is performed. It is the process of evaluating all internal and external risks that may or may hinder the objectives and strategies of the organization. It covers the measurement and prioritization of risks. Risk scores are calculated by determining probability estimates, risk factors, and weightings. Financial and compliance risks are traditional and most important areas, in addition to strategic political risks and operational risks. The internal audit manager does not consider the knowledge, skills and other competencies of the internal audit activity during the risk assessment stage and does not prioritize the resources available.

Thirdly, the Engagement work schedule is created. This is the risk priorities of the internal audit activity. Here, which tasks, when, how long, by whom is determined. Engagement work schedule reflects the risk priorities of internal audit activities and allocates resources for these priorities and the demands of the board of directors are added to the schedule. Control, risk and governance responsibilities take into account operational benefit opportunities. After completing these three processes, the internal audit manager submits the risk-based audit plan to the senior management and the board and receives approval. After approval, the internal audit manager assigns and allocates resources (Picket, 2010:699-836).

The next process forms the elements of the engagement plan. After the assignment and resource allocation is made, the Internal Auditor determines the initial objectives, then conducts the opening meeting with the audited management, conducts a preliminary examination of the areas to be audited, conducts risk assessment on the

working papers, determines the final objectives, determines the purposes for which the resource will be used and implements the task procedures.

In the planning of the tasks, first, scientific objectives are determined, preliminary risk assessment is made, interviews are conducted, the sources of the audit, duration, task work program is determined. This is followed by fieldwork, which includes the process of identifying, collecting, analyzing, evaluating, recording, task procedures and tests, and closing the information. In short, the objectives of the task are risk assessment, scope of the task, allocation of task resources and task work program processes.

Internal auditors should prepare and record a separate plan for each according to the objective-scope-timing-resource allocation issues. Planning must be written and recorded.

According to the Picket's "*Audit Planning: Risk Based Approach*" book; In order to give an opinion on whether the organization can achieve its objectives, it is necessary to know the objectives of the organization to be audited, then to determine the risks that prevent them from reaching these objectives, and finally, the control activities of the organization must be known. The opening meeting includes interviews with the supervised organization management for information exchange and makes the minutes recorded. Preliminary investigation-field work is the most important stage of the plan, the process of gathering basic information. Previous audit reports include review of committee minutes, review of procedures, and recognition of units. The internal auditor assesses the nature, complexity, time limits, available resources and determines the appropriate and sufficient resources to achieve the objectives of the task.

As a result of the planning, the internal auditor firstly communicates important findings related to risk management and controls to the audited management. If no action is taken, it communicates in writing to the senior management with an interim report.

Internal audit plan, internal audit activity plan, annual plan, risk-based plan generally means the same thing and should not be confused with engagement work schedule. Plans refer to work to be done in more than one year, while engagement work schedule refers to work to be done in one year. At the same time, this should not be confused with the internal auditor's task plan (Picket, 2006:1-53).



### **3.8.2 Engagement Supervision (Standart Code 2340)**

Tasks should be observed for the development of staff, achieving their goals, ensuring quality assurance. The extent of oversight varies according to the professional competence, experience and complexity of the internal auditor. The final responsibility under the supervision of the task rests with the internal audit manager. The audit manager may delegate oversight to an employee of appropriate internal audit activity with appropriate experience, this does not relieve the supervision responsibility of the internal audit manager. Supervision covers all processes of planning, identification, collection, analysis, evaluation, recording, reporting and monitoring of the audit process. The most important element facilitating the supervision activity is the internal auditor's task records and working papers. The supervision activity also establishes the bridge between the internal auditor and the internal audit activity manager (The IIA, 2017:17).

### **3.8.3 Reporting of the Engagement Results**

Before discussing the detailed information on reporting, the issue of communication with the audited management will be discussed.

According to the Institute of Internal Auditors general explanations; There are three purposes of communication with audited organization; give information, convince, get results. Inform; to convey the observed results and recommendations. Convince; to convince the audited organization about the validity and worthiness of the task results. Get results; encourage to change for the benefit of the organization. To achieve these basic objectives, auditors should have the knowledge and skills in oral and written communication, human relations and relationship management. There are three phases of communication with supervised organisms. First communication; basic information exchange during the planning stage, questionnaires, preliminary examination, interview. Interim communication; verbal or written communication of an emergency failure while the audit is in progress. Final communication; official reporting at the end of the task.

Internal auditors should communicate the engagement results to the audited party. It is the responsibility of the internal audit manager to communicate the final engagement result. The internal auditor responsible for a specific task prepares the

draft report and submits it to the internal audit manager for comment. Reports should include the conclusions, recommendations, action plans, engagement objectives and engagement scope. The final report, including the results of the engagement, should also include the opinions of the internal auditor or the conclusions reached, as appropriate. Opinions should take into account the expectations of senior management, the board and other stakeholders. Opinions should be supported by adequate, reliable, relevant and useful information. Opinions are about whether controls or risk management tools are working as intended, creating the professional accounting of the internal auditor. Reports should be accurate, clear, concise, constructive, full, and timely (The IIA, 2017:17).

After the reporting, a closing meeting is held with the audited party, so the results are discussed with the audited party, misunderstandings and interpretations are prevented, material errors and errors are corrected, and the quality control of the report is ensured, agreement is reached on the report, if not agreed, the audited party's opinion is taken and added to the report (The reason of the disagreement shall be indicated separately). At the closing meeting, the opinion of the auditor should not be discussed.

### **3.8.4 Development Monitoring**

This section describes the process of monitoring the audit recommendations, the report and the action plan. It should not be confused with management monitoring the control process. Monitoring is an end-to-end activity. Responsibility for monitoring is specified in the regulation (Hamad & Babak, 2009:10-11).

The internal audit manager should establish and maintain a system for monitoring the reported results to the management. The internal audit manager should ensure that management measures are effectively implemented, that they assume the risk of not taking the necessary measures and establish a monitoring system to monitor developments. The internal audit manager determines the nature, timing and scope of the follow-up work. Monitoring activity is mandatory and continuous and covers everything. Follow-up is mandatory and task-based. The internal audit manager takes into account the risk appetite of the organization and decides at the point of acceptance of the risk, and if it determines that the problems are not solved, it should forward the situation to the board. It should be noted that the problem here; assuming an unacceptable level of risk for organization.

### **3.9 OTHER ASSURANCE TASKS**

Other assurance tasks include operational audit, performance tasks, risk control self-assessment task, external relations and third-party audit, contract audit, quality tasks, due-diligence tasks, security audit, confidentiality audit, compliance tasks, environmental health and safety audit (Anderson, 2003:98).

#### **3.9.1 Operational Audit**

Operational Audit is a kind of soft control that consists of quality of management, use and protection of resources, policies, procedures and systems. This type of audit includes process audit and program-outcome audit. Process control examines the functions that affect the whole organization end-to-end. Program control is an operational task to evaluate the benefits and effects of programs (Anderson, 2003:106-110).

#### **3.9.2 Performance Task**

In performance tasks, internal auditors assess the organism's ability to measure its own performance, detect deviations, and take corrective actions. To measure success and performance, predefined standards are needed. The main purpose of the performance tasks is to ensure that the strategic objectives of the organization are supported by all elements (Morse, 1971:41-46).

#### **3.9.3 Risk Control Self-Assessment Task**

The risk control self-assessment task is that employees and management can assess risks and controls among themselves, with the primary objective of determining the likelihood of achieving business objectives. Risk control self-assessment task consists of a workshop, surveys and management analysis (Anderson, 2003:106-110).

#### **3.9.4 External Relations and Third-Party Audit**

External relations and third-party audit; It includes the supervision of third parties, such as suppliers, vendors, beneficiaries, partners, etc., who provide or receive services or resources to the organization. Relations with any third party outside the

organization are called external relations. This type of audit covers the relationship and supervision of the donors with the third parties (Anderson, 2003:115).

### **3.9.5 Audit of Contracts**

Audit of contracts; review the adequacy and effectiveness of budget and compliance controls within the framework of the contract, evaluates whether the aid provided by the organization is accountable, reliable and reasonable for the purpose of payments. Sample contract types; Standard grant, Simplified grant, Fixed Amount Awards (previously known as Fixed Obligation Grants), Leader with Associate.

### **3.9.6 Quality Tasks**

Quality tasks are carried out in particular in the purchasing department, whether the purchased supplies or office equipment are purposeful, within the scope of need, and cost and quality oriented (Anderson, 2003:106-110).

### **3.9.7 Due-Diligence Tasks**

Due-Diligence tasks include reviews of policies, procedures, obligations and compliance between partners, donors and the organization (Anderson, 2003:106-110).

### **3.9.8 The Security Audit**

The security audit involves providing both physical and information security for the protection of all material and spiritual assets and resources and employees of the organization. Three elements of information security; privacy, integrity (İDKK, 2014).

### **3.9.9 Confidentiality Control**

Confidentiality control includes organizational, personal, communication, and information privacy. The Board ensures that the management establishes a confidentiality framework to manage the risk of privacy infringement. Confidentiality is a matter of risk management and infringement poses a serious risk of reputation. The internal audit activity evaluates the confidentiality framework and risks and makes recommendations (Anderson, 2003:106-110).

### **3.9.10 Compliance Duties**

Compliance Duties assess how the organization adheres to the procedure, plan, law, regulation, contract and other requirements. Compliance tasks are included in the operational units, the legal function and are directly linked to the organization manager as an independent unit. Ethics-tip line/business conduct line is one of the most effective methods to monitor the organization's compliance programs. Internal auditors review the adequacy and effectiveness of controls to ensure compliance and provide corrective measures and recommendations (Anderson, 2003:125).

### **3.9.11 The Environmental, Health and Safety**

The Environmental, Health and Safety audit is included in the organizational integrated risk management framework. The business continuity and disaster recovery plans audit assess the organization's mobility during and after any hazardous situation and the capacity to eliminate risks later (IDKK, 2014).

### **3.10 CONSULTANCY TASK**

Consultancy tasks are inherently suggestive, have two sides and are carried out at the request of organization management. The quality of consulting services should be specified in the internal audit regulation. Whether the internal audit activity can provide consultancy services and what type of consultancy service it can provide should be specified in the regulation. This ensures that the internal audit activity is authorized; however, this authority should not obstruct the assurance responsibility, which is the internal audit activity. If the consultancy authority is not included in the regulation, this service cannot be provided and in addition, consultancy services cannot be provided in matters not covered by the regulation (Anderson, 2003:112).

Objectivity deteriorates if assurance is provided within a year on a subject that has been consulted. Internal auditors may not have the knowledge, skills, and competencies necessary to carry out part or all of the task, in which case the internal audit manager may reject the requested consultancy task. Internal auditors observe the effectiveness of risk management, internal control and governance processes in their advisory roles.

Providing internal control trainings to the organization, examining business processes, system development and review, design of performance measurement systems are examples of consultancy tasks.

### **3.11 FRAUD INFORMATION**

Fraud is a deliberate illegal activity, which means to conceal something, to deceive people, to cheat, and to benefit. It is the management's responsibility to detect fraud and to take the necessary measures (Okura, 2013: 115).

Fraud organisms can be from inside or outside, and the main source is human. The source of human errors are communication errors, accountability errors, lack of knowledge and skills, and lack of monitoring. Fraud's three basic elements are opportunity, motivation and excuse. The symptoms identified do not necessarily mean fraud, but merely express the potential and are referred to as the red flag in the audit literature (Anderson, 2003:116).

Fraud risk management model includes awareness and awareness, risk assessment and analysis, prevention, detection, monitoring and reporting, investigation. Internal audit activity should evaluate how the organization manages fraud potential and fraud risk.

The Fraud investigation requires a systematic investigation of concealed illegal facts and a confession from the staff or party that has committed the violation. In the Fraud investigation, firstly, it is determined whether it is fraud, how it is explained, the damage occurred, the parties involved in fraud are determined and fraud is revealed in all its dimensions (Okura, 2013: 125).

As a result of the investigation, the evidence required for the case should be collected and recorded, but the interviews should be conducted in the form of an internal interview rather than as a legal investigation, otherwise legal sanctions may be faced. In the interview with the party that made the violation, questions with known answers are asked in order to obtain confession, the purpose of unknown questions is to collect information (Okura, 2013:130).

The organization board and senior management determine the actions to be taken at the end of the fraud investigation, and the internal audit activity evaluates the adequacy and effectiveness of internal controls within the scope of fraud prevention.

### 3.12 PREVIOUS STUDIES

Throughout history, management and governance have always existed wherever there is human and organization. This brought with it the audit system. Even though it had existed under primitive conditions, the control system has improved itself with the development of governance and management along with the industrial revolution. The revived economic and socio-cultural life has made the notion of control compulsory. The concept of audit and control has existed in the private sector, public sector and humanitarian organizations which we call the third sector, and this continues to evolve (Günel, 1995:18).

Humanitarian aid organizations, in other words, non-governmental organizations play a major role with monitoring the policies and practices of governments and donors, contributing to the process of political dialogue, transferring the services related to financial and humanitarian resources to needy regions, establishing communication networks for the establishment of a more coordinated civil society (Akçay, 2012:16).

In this context, the importance of the supervision of humanitarian organizations which have an important place in the sector has increased with its developing structure.

According to the definition made by the International Institute of Internal Auditors, internal auditing; is an independent, impartial assurance and advisory activity aimed at developing and adding value to an organization's activities. Internal Audit helps to achieve the objectives of the organization by evaluating the effectiveness of the risk management, control and corporate governance processes and by taking a disciplined approach. From this definition, it is understood that internal audit is an important mechanism for enterprises, institutions and organizations to achieve their goals.

The importance of Internal Audit activity has led to the creation of many academic studies. Accordingly, some of the studies that have contributed to the preparation of this study and which have contributed to the development and renewal of internal audit are listed below.

In general, auditing is the investigation, observation, questioning and conclusions of all the activities of an organization in order to achieve its objectives and the degree of compliance with the predetermined local or international standards

within the framework of a specific plan. In the following process, it can be defined as the objective and systematic evaluation of these results and communicating them to the related party or parties (Köse, 2007:5).

It is a systematic process in which the results and findings obtained by guiding the financial management and control systems of organizations to become valid, reliable and consistent, are communicated to the concerned and thus contribute to the development of organizations. This process; to evaluate the results based on evidence by objective analysis and measurement according to predetermined objectives and local and international standards, to help prevent future errors (Günel,1995:18).

The purpose of the internal audit is to determine whether the purpose of the organization to which it is affiliated has been achieved in the most efficient manner, in a timely manner and in accordance with the applicable legal order, rationally. In doing so, it investigates and checks the appropriateness of the methods, actions and processes performed to achieve the purpose, whether they ensure optimum efficiency, efficiency and economy and service quality, and disclose any deviations. At the end of this process, it recommends general correction remedies; establishes bridges between education, communication, center and provincial and participates in planning and regulation works in the center. All this helps the process to work in the most appropriate way. In this context, internal audit is of high importance for every organization (Gündüz, 1974:63).

Internal audit is the assurance tool of the board of directors, which ensures that the whole organization has the resources, systems and processes necessary for effective and efficient operation. During the internal audit process, the board of directors and the management ensure that qualified professional examinations and tests are carried out and provide the necessary resources to audit the activities of the organization. Internal audit provides independent verification that the organization is proactive and effective against existing and emerging threats in the process of destination (Picket, 2010:468).

Internal Audit Coordination Board defines internal audit as assurance and consultancy in two ways. These two definitions fully comply with international internal audit standards. Whether there is an effective internal control system within the administration; whether the risk management, internal control system and processes of the institutions operate effectively; whether the information produced is



accurate and complete; whether their assets are protected; to provide reasonable assurance in and out of the organization whether the activities are carried out effectively, economically, efficiently and in accordance with the legislation. Meanwhile, the internal audit is to make recommendations for the systematic evaluation and development of corporate governance, risk management and internal control activities and processes in order to achieve the objectives of the administration (İDKK, 2013:4).

This study is based on the academic researches, published articles, books and personal experience of myself on humanitarian aid and audit. The basic need for the preparation of this study arises from the needs of academic studies and professional observations specifically humanitarian aid and audit system. All studies which are referred in this study, have specific subjects such as only humanitarian aid, or internal audit system.

On the other hand, the increasing number of foreign humanitarian organizations in Turkey especially in Gaziantep gained momentum with the civil war in Syria after 2011. However, due to the fact that the needs of internal audit requirement in Turkish Law for these organizations operating under different corporate status, these organizations continued to operate with high, operational, human resources, financial, compliance, internal control, management, reputation and fraud risks. This situation created the potential problems and shutdown risks for the organizations. The problems and examples encountered as a result of the lack and / or insufficient internal audit activities in humanitarian organizations have been mentioned in the previous sections.

As a result of these reason and needs, this study created as a part of the road map to an internal audit system by suggesting activities of humanitarian organizations operating in Turkey-Gaziantep is minimized or eliminated by the said risks to enable them to continue seamlessly.

A similar study was studied as a master's thesis. In this study, the internal audit of foundations was examined, and the foundations' law-regulation was compared with the international internal audit standards. According to the results of the study, it was determined that the law and regulations of foundations were not in compliance with international internal audit standards. In addition, in this study, the managers of the selected foundations were interviewed and the awareness levels of the foundation

managers regarding the international internal audit standards were examined and it was concluded that the awareness levels of the foundation managers were insufficient (Alaş, 2016).

In another similar study, in the public sector and therefore in universities, internal audit differs from the classical system of inspections by means of efforts to add value to management, assurance and consultancy services. standards. In the case of Harran University; the comparison of the internal audit system and practices in the universities of our country with the international internal auditing professional practice standards, and the problems encountered in practice and solutions to these issues are discussed (Yeltekin,2018).

In another research conducted in the internal audit in universities, it was observed in the examinations conducted during the research process of the thesis that the internal audit units whose creation and functioning were organized by the relevant institutions existed only in the State Universities. In this thesis, the application of internal audit in a Turkish State University, the benefits of the internal audit activity in the universities and the difficulties faced tried to be put. In the conclusion part of the thesis, the opinions and the arguments formed as a result of the examinations are put forward and a general evaluation of the subject of the thesis is made (Tolga,2011).

On the other hand, in different study by addressing the issue of humanitarian aid on a global scale, its historical process, philosophical and political development has been analyzed with a critical method, the problems it has raised have been addressed and comparisons have been made with alternative approaches in the field (Örgel,2018).

In the preparation of this study, Engin Akçay's "Bir Dış Politika Enstrümanı Olarak Türk Dış Yardımları." It is one of the main sources my study on freamework of Turkish Foreign Aid, which has been dealt with since the Ottoman period and explained the momentum gained during the Republican period and especially after the 1980s in the context of Turkish Foreign Policy.

Vefa Toroslu "TTK Kapsamında İç Kontrol ve İç Denetim " It is a comprehensive study in which general information about audit, internal control system, internal audit system is given, internal audit practices in our country and legal regulations are examined, and the Internal Audit Terms Dictionary, International

Internal Audit Standards and application examples are given in the appendix of the book.

H. Ömer Köse, "Dünyada ve Türkiye'de Yüksek Denetim " In this book, which is one of my main sources in the preparation of this thesis, general information on the basic subjects of audit such as conceptual content, scope, types and principles of audit is presented, information about audit methodology, standards and general operation. In addition, performance audit, historical development, organizational structure and functions of higher audit have been discussed comparatively for the European continent. In our country, problems arising from constitutional and institutional arrangements of auditing, structure of our financial system and audit approaches have been discussed. Finally, in the development process of the international system, the internationalizing dimension of public control was emphasized; The control mechanisms in international and supranational organizations are examined with some examples.

Another source is Spencer Picket's "Audit Planning: A Risk Based Approach" and "The Internal Auditing Handbook". These resources describe the concepts of internal audit, internal control, risk management and governance in full detail within the framework of COSO and The IIA international internal audit standards.

Finally, the main sources of this thesis; COSO-Committee of Sponsoring Organizations of the Treadway Commission, is a committee of five sponsoring organizations whose representatives come together periodically to work on specific projects. COSO's projects are undertaken, reviewed and finalized in accordance with policies agreed to by the sponsoring organizations on accounting, licensing, public relations, website development, copyright, document translation oversight, administrative assistance and research areas. In this thesis, "Enterprise Risk Management" and "Internal Control Integrated Framework" mainly were utilized. (COSO, 2019)

The Institution of International Internal Auditors, The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator to provide dynamic leadership for the global profession of internal auditing. Members of this institution globally work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

In this thesis, especially international internal audit standarts, international professional practice framework, core principles, code of ethics, definition of internal audit were utilized (The IIA, 2019).

İç Denetim Koordinasyon Kurulu; This committee, which is affiliated to the Turkish Ministry of Treasury and Finance, publishes periodical internal audit issues. In this thesis, board publications on issues such as internal audit process, internal audit and fraud, internal audit talent framework, internal audit in public and control environment are utilized.

Although similar studies have specifically studied in the humanitarian field or in the internal audit field, this study provides an original work to the litreture that a combination of humanitarian issues and internal audit field, especially in Turkey-Gaziantep.

## **CHAPTER FOUR**

### **METHODOLOGY OF STUDY**

#### **4. METHODOLOGY OF STUDY**

##### **4.1 ANALYZING OF INTERNAL AUDIT ACTIVITY IN HUMANITARIAN AID ORGANIZATIONS**

###### **4.1.1 Purpose of The Research**

The aim of this thesis is to compare the internal audit system of the humanitarian organizations established with the legislation of associations and international internal audit standards and examine how the internal audit, internal control, risk management and governance processes described in the previous chapters are performed in a human organization and thus is a guide to all humanitarian organizations.

This study aims to present an internal audit path guide for the organizations operating in Gaziantep with the examination of the beginning of humanitarian aid and its current status, its legal basis, necessity and purpose, its connection with internal audit, and the necessity of internal audit for the humanitarian aid organizations.

In this study conducting a research on internal audit practices in humanitarian aid organizations operating in Gaziantep as the third sector. The current legislative status of internal audit in this organizations has been compared with the international internal audit standards to evaluate the compliance level of Turkish law of association to the international internal audit standards.

The aim of this study is to contribute to the development of internal audit standards and to establish the legal basis for developing humanitarian aid sector in Turkey. In addition to this, to contribute to their activities by presenting an internal audit model to the organizations that are currently operating and which do not have an

internal audit system, and to provide up-to-date data for future studies and to create a research area.

For these purposes the demographic and general information of humanitarian aid organizations and data on organizational structures such as number of active associations, numerical data of humanitarian aid organizations, regulations related to foreign NGOs in the law of associations, number of foreign NGOs operating, percentage of associations income and percentage of humanitarian aid, number of employees in these organizations in Turkey and Gaziantep have been examined.

In addition, the law of associations and internal auditing standards are overviewed, compared and the level of compliance of Turkish associations law with international internal audit standards is examined. Finally, the highest budget organization was determined by asking 158 humanitarian aid organizations. The most recent audit report of the organization, which has the highest budget and an internal audit system, was reviewed and a case study was conducted.

#### **4.1.2 Importance of The Research**

This research is important because it will contribute to humanitarian organizations, organization management and researchers, managers and researchers who want to bring permanent solutions to the problems of internal audit, internal control, risk management and governance in these institutions. In addition, this research is important because it will contribute to the establishment of the internal audit system in humanitarian organizations established under the legislation of associations in accordance with the standards.

In humanitarian aid organizations operating in Turkey, the internal audit activity to be carried out in accordance with national and international generally accepted auditing standards, internal control, risk management, and governance systems in conjunction with the restructuring and ensuring the functionality of the internal audit activities will contribute to the development of organizational management approach.

It is observed that the humanitarian aid organizations are operating in Turkey within high risk because of the absence of their internal audit system. These open risks might cause these organizations with the termination of humanitarian aid activities in Turkey, bad reputation, many kinds of fraud and it can be diversified such as informal

employment, grey-economy, supporting illegal organizations, corruption, kickback, Anti-trafficking, conflict of interest and etc...

In order to prevent or minimize such risks that can be multiplied, to minimize these risks and to ensure that humanitarian organizations achieve their goals effectively and efficiently, the internal audit guide proposed in the study aims to establish and operate risk management, internal control and governance processes within the framework of international standards and to measure the effectiveness and efficiency of these processes.

In this thesis, the concept of humanitarian aid and internal audit, internal control, risk management, governance concepts are examined theoretically, internal audit legislation in associations is compared with international audit standards in associations and the level of compliance of associations legislation with international internal audit standards is examined. The existence of an internal audit function in accordance with international standards in associations and foreign non-governmental organizations operating in this field in Gaziantep and the legislative basis of the internal audit activity performed within the organization are searched. The latest audit activity carried out by a non-governmental organization operating in Gaziantep and the results of this audit are monitored and the general situation is evaluated.

#### **4.1.3 The Scope and Limitations of The Research**

The scope of this research is internal audit activities of foreign humanitarian aid organizations and their field offices which are operating in Turkey Gaziantep, the organizations which are established in Turkey in accordance with Turkish law and the founders many of them are foreigner. In this context, the internal audit activities of humanitarian aid organizations are limited in terms of IIA international internal audit standards.

The survey questions which aimed to determine the demographic structure of organizations have been sent to 158 different organizations in 277 which are selected according to the Turkish Ministry of Internal Affairs data, and it is received 144 responses and one of them which has biggest budget, is studied on last internal audit report and the unstructured interview was made with the internal control officer. The research is limited with Gaziantep cause of the many of organization's operation center

locating in Gaziantep. In addition to this, because of the time, reachable sources and cost reasons the study is limited with only one city.

#### **4.1.4 The Sample and Research Method**

This research aimed to determine the current situation and problems in humanitarian organizations by comparing the internal audit system in terms of international auditing standards as stated in the Law of Associations in general. For this purpose, 2-question questionnaire was prepared to determine the existence of internal audit system of the organizations in order to make the comparison more understandable and to explain the deficiencies and differences more clearly. According to the results of this survey, the most recent internal audit report of an organization with the highest budget and an internal audit system that complies with international audit standards was studied and internal control officer of the organization was interviewed.

It is a qualitative research in which literature review, situational analyzes and situational assesment are conducted. Comparative methods were adopted in the research. There is no case of acceptance or rejection of the hypothesis in quantitative research. By using qualitative analysis technique, issues related to understanding internal audit, internal control, risk management and governance structures have been explained and a road map has been drawn to increase the level of compliance with international standards of organizations operating according to the legislation of associations.

Internal Audit activities, internal control, risk management, and governance systems and their the current situations of in humanitarian organizations are examined according to the IIA Standards, COSO Internal Control Framework, COSO Enterprise Risk Management.

The sample was selected according to the Turkish Ministry of Internal Affairs data. Turkish associations legislation compared with the international internal audit standarts The survey questions which aimed to determine the demegrapich structure of organizations have been sent to 158 different organizations in 277 which are selected according to the Turkish Ministry of Internal Affairs data, and it is received 144 responses and one of them which has biggest budget, is studied on last internal audit report.



The demographic and general information of humanitarian aid organizations and data on organizational structures such as number of active associations, numerical data of humanitarian aid organizations, regulations related to foreign NGOs in the law of associations, number of foreign NGOs operating, percentage of associations income and percentage of humanitarian aid, number of employees in this organizations in Turkey and Gaziantep have been examined.

In addition, the law of associations and internal auditing standards are overviewed, compared and the level of compliance of Turkish associations law with international internal audit standards is examined. Finally, the highest budget organization was determined by asking 144 humanitarian aid organizations. The most recent audit report of the organization, which has the highest budget and an internal audit system, was reviewed and a case study was conducted.

In this scope; Comparing the legislation of associations with international internal audit standards and conducting a situation analysis, however, by selecting an organization monitoring and evaluating the internal audit report and again conducting a situation analysis were utilized from previous studies carried out in similar fields.

The questions asked for the determination of demographic characteristics were also formed by making use of previous studies and they were made suitable for the purpose.

To summarize, the concept of humanitarian aid and internal audit, internal control, risk management, governance concepts are examined theoretically, internal audit legislation in associations is compared with international audit standards in associations and the level of compliance of associations legislation with international internal audit standards is examined. The existence of an internal audit function in accordance with international standards in associations and non-governmental organizations operating in this field in Gaziantep and the legislative basis of the internal audit activity performed within the organization are searched. The latest audit activity carried out by a non-governmental organization operating in Gaziantep and the results of this audit are monitored and the general situation is evaluated.

According to the information obtained from the literature research, as mentioned in the previous chapters of the study, it was seen that standards and models were formed in the evaluation of the effectiveness of internal audit activities, internal control, risk management and governance systems. In this study; In terms of

compliance with internal audit standards, IIA Standards, COSO Internal Control Framework, COSO ERM components, internal audit and internal control, risk management, governance structures were evaluated in terms of humanitarian organizations. In this thesis, the internal audit, internal control, risk management and governance processes, which are explained theoretically in the previous chapters, are examined in practice in a humanitarian organization.

## **4.2 INTERNAL AUDIT ACTIVITIES IN ASSOCIATIONS**

### **4.2.1 The Internal Audit of Humanitarian Aid Organizations in Turkish Law**

The second part of the Law No. 5253 on Foundations has the content of Genel General Provisions Related to Associations. There is no regulation in the Associations Law or the Associations Regulation on other matters related to the purpose and scope of the internal audit activity that is essential in associations. The Seventh Part of the Regulation on the Auditors of Associations of the Ministry of Interior, which was enacted separately from the Law, refers to the external audit. The Internal Audit Report published by the General Directorate of Civil Society Relations stated the mandatory framework of the internal audit to be carried out in associations. Apart from this, internal audit principles are left to the internal audit committee of the association.

Article 9 of the Law on Associations No. 5253 enacted in 2004 has left the procedures and principles of internal audit to the internal regulations of the association and the initiative of the audit committee.

Internal auditing is essential in associations. Internal audit may be performed by the General Assembly, the Board of Directors or the Board of Auditors, as well as by independent audit institutions.

The fact that an audit has been conducted by the General Assembly, the Board of Directors or independent audit institutions does not eliminate the obligation of the audit committee. The Audit Committee; whether the association operates in accordance with the purpose and purpose of the activities indicated in the statute, the books, accounts and records are kept in accordance with the legislation and the statutes of the association; reports to the board of directors and the general assembly when it meets. Upon the request of the members of the supervisory board, all information, documents and records must be presented or given by the authorities of the association,

and the request to enter the management places, establishments and attachments shall be fulfilled (Associations Law, 2004. 5253:9).

The Internal Audit Arrangements in the Draft Audit Report published by the General Directorate of Civil Society Relations are shown in the table. This report is a limited report covering the areas to be examined in the internal audit of associations, mandatory procedures and principles in accordance with the law. Indicates the required fields for external audits to be carried out by the Ministry of Finance or the Ministry of Interior. As mentioned above, the implementation of the internal audit in detail is left to the board of the association audit by law.

Figure 1: The Internal Audit Arrangements in the Draft Audit Report

Section	Article Title	Number of Subtitles	Source
<b>I.</b>	Introduction	<b>1-1.7</b>	General Directorate of Civil Society Relations
<b>II.</b>	Inspection Issues	<b>2.-2.17</b>	General Directorate of Civil Society Relations
<b>III.</b>	Aid Collection Activities	<b>3.-3.12</b>	General Directorate of Civil Society Relations
<b>IV.</b>	Previous Audit Results	<b>4.</b>	General Directorate of Civil Society Relations
<b>V.</b>	Financial Information	<b>5.</b>	General Directorate of Civil Society Relations
<b>VI.</b>	Comments and Reccomendations	<b>6.-6.02</b>	General Directorate of Civil Society Relations
<b>VII.</b>	Results	<b>7.7.02</b>	General Directorate of Civil Society Relations

According to the “Figure 1” audit report template of Department of Associations; the first section describes the personal information of the audited association. In the second part; association membership procedures, general assembly meetings, association activities, receiving assistance from abroad, books and registration methods of the association, expenses of the association, receipt documents, association tavern, association's other facilities, association's chest, declaration, joint projects, platforms, association's immovable property, publications, questions and determinations related to the commercial activities of the association and other issues.

In the third part, general information about the association's collection of charitable activities, permission to collect aid, employment of public officials, identity document, receipts and tickets, registration, delivery of aid money, final account, expenses of the activity, aid collection revenues and questions are determined.

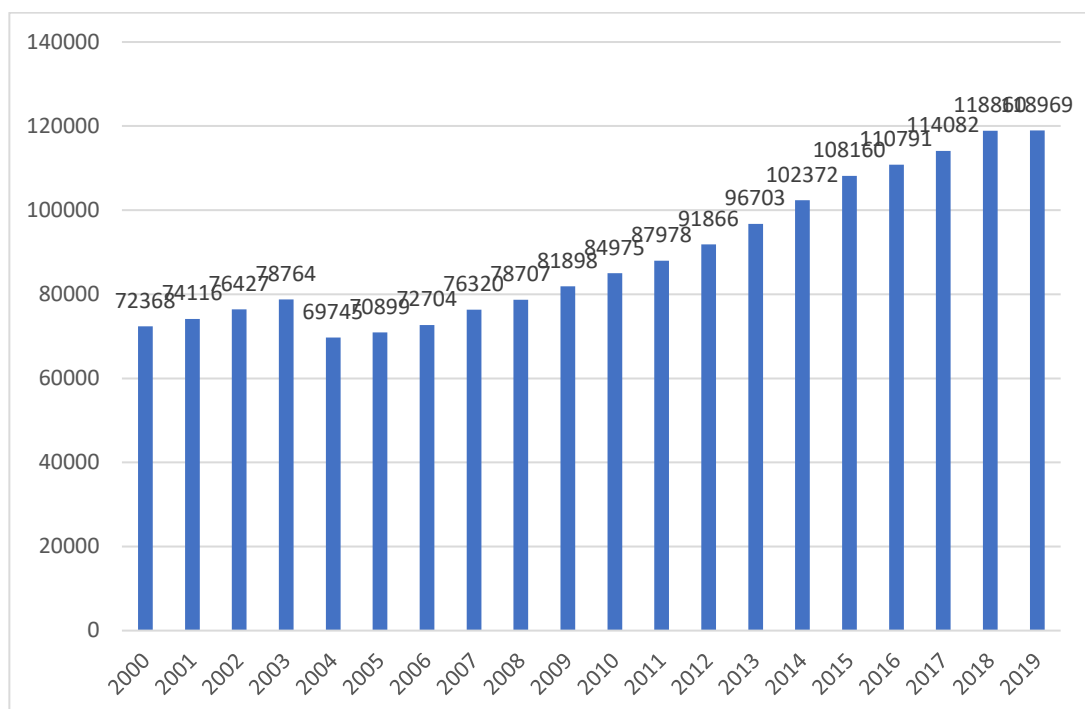
In the fourth section, financial information, the accounting records, the fifth section is to determine the fulfillment of the recommendations by taking into account the criticisms of the previous audits.

In the sixth section, the criticized and recommended issues related to the current audit are stated and the seventh part is concluded, and the audit report is finalized. Here the duties are assigned to the general assembly and the board of directors. The entire draft report can be seen in the circular "2009/45 Association Internal Audit Report" issued by the Department of Associations of the Ministry of Interior.

#### 4.2.2 Demographic Structures “Turkey&Gaziantep”

In this part of the study will be discussed and data about the association in Gaziantep in Turkey. The data in the table below was obtained from the General Directorate of Civil Society Relations as of September 2019.

Figure 2: The number of active associations in Turkey

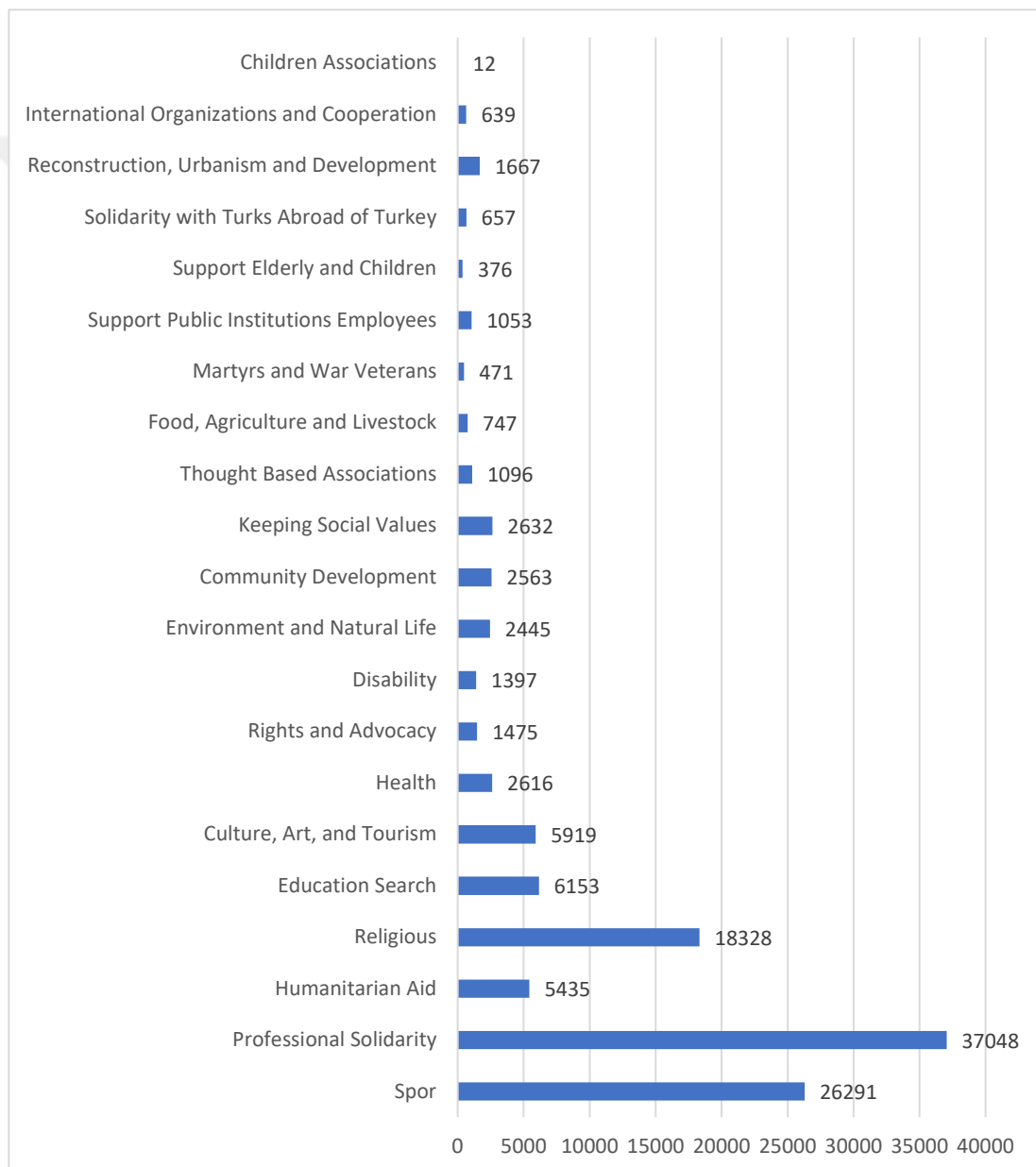


Source: DERBIS- General Directorate of Civil Society Relations, 2019.

The number of associations in Turkey in recent years has increased rapidly and reached 118.967 finally with the impact of the Syrian crisis (Figure 2).

As seen in the following figure a total of 5,435 of these associations operate in the field of humanitarian aid (Figure 3).

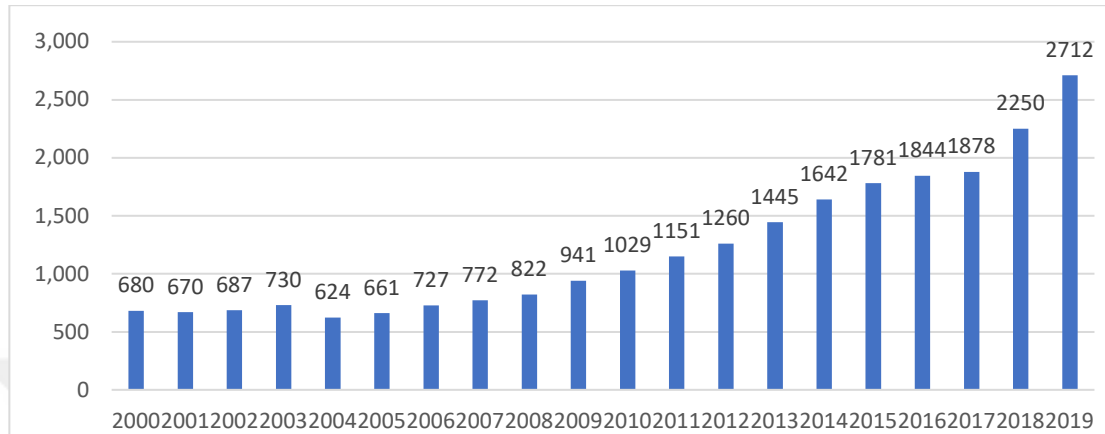
Figure 3: Number of active associations by field of activity in Turkey



Source: DERBIS- General Directorate of Civil Society Relations, 2019.

Among these datas, the number of active associations in Gaziantep is 2,712 can be seen in below figure (Figure 4).

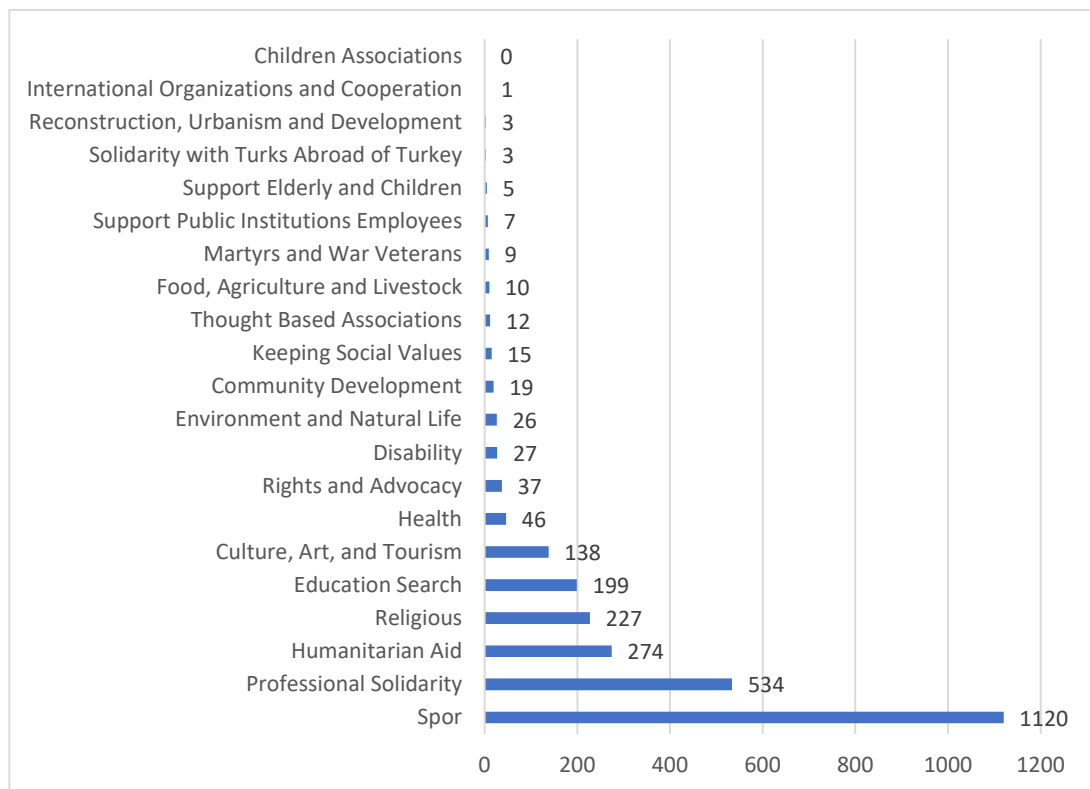
Figure 4: The number of active associations in Gaziantep



Source: DERBIS- General Directorate of Civil Society Relations, 2019.

The number of humanitarian aid associations in Gaziantep “274” can be also seen below figure (Figure 5).

Figure 5: Number of active associations by field of activity in Gaziantep



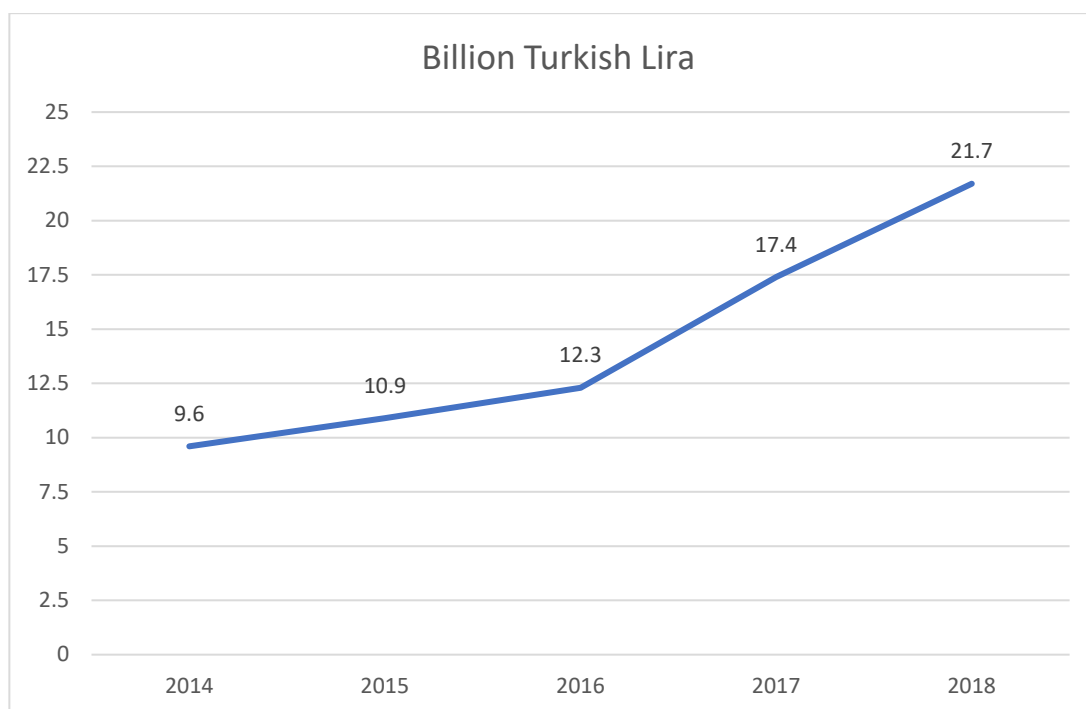
Source: DERBIS- General Directorate of Civil Society Relations, 2019.

Apart from these, foreign NGOs which are allowed to operate in Turkey the number is 130. Although not all of them operate in the field of humanitarian aid, 8 foreign non-governmental organizations operating in Gaziantep operate in the field of humanitarian aid. The establishment of foreign non-governmental organizations is regulated in articles 92 and 117 of the Turkish Civil Code no, in Articles 5 and 36 of the Law on Associations No. 5253 and in Articles 21 to 30 of the Fifth Section entitled “International Activities” of the Associations Regulation.

Foreign non-governmental organizations to carry out their activities in Turkey and to open branch-office need to get permission from the Ministry of Internal Affairs. Procedures, and methods are explained in the “Associations Legislation Regarding Application and After Permits for Foreign NGOs.”

Even though the number of associations operating in the humanitarian field operations in Turkey remains far behind the developed world countries, Turkey experienced a rapid growth in recent years and rose to the position of a separate sector in Turkey. This can be understood more clearly when looking at the following budgetary data. By the end of 2018, total revenues of associations operating in Turkey is about 22 billion Turkish Liras (Figure 6).

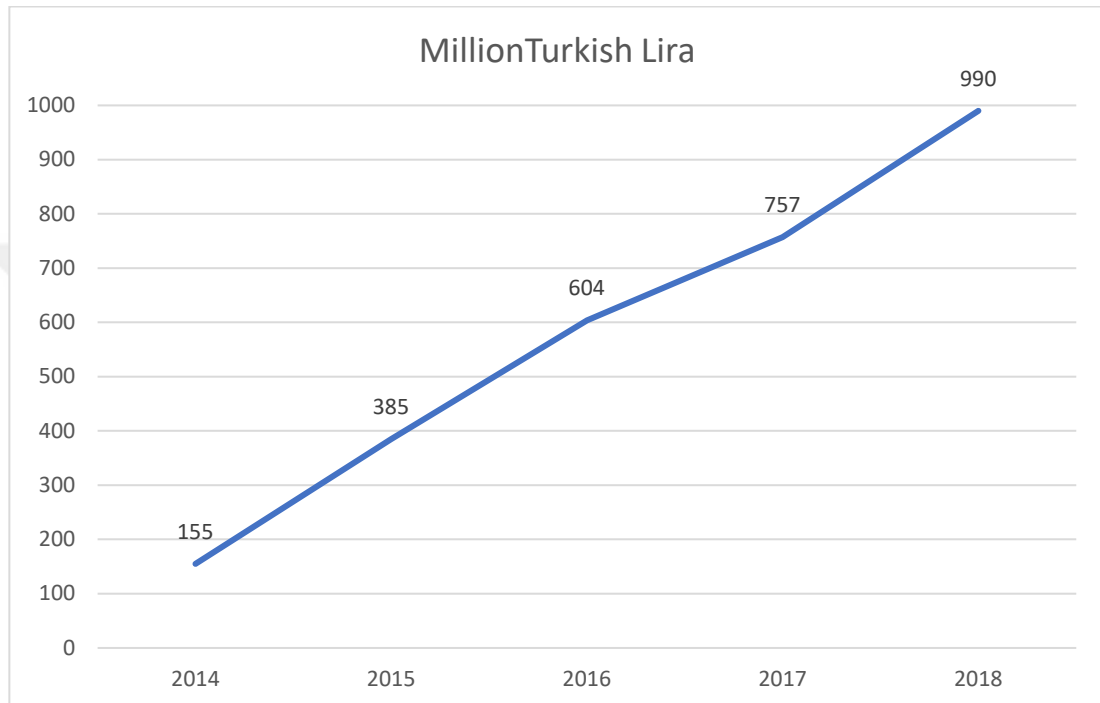
Figure 6: Associations of Turkey total income “Humanitarian percentage”



Source: DERBIS- General Directorate of Civil Society Relations, 2019.

Gaziantep's share in total income is almost 1 billion Turkish Liras. (Figure 7) These incomes of associations may be obtained from abroad as well as domestically provided that the records are kept as stated in the legislation.

Figure 7: Associations of Gaziantep total income



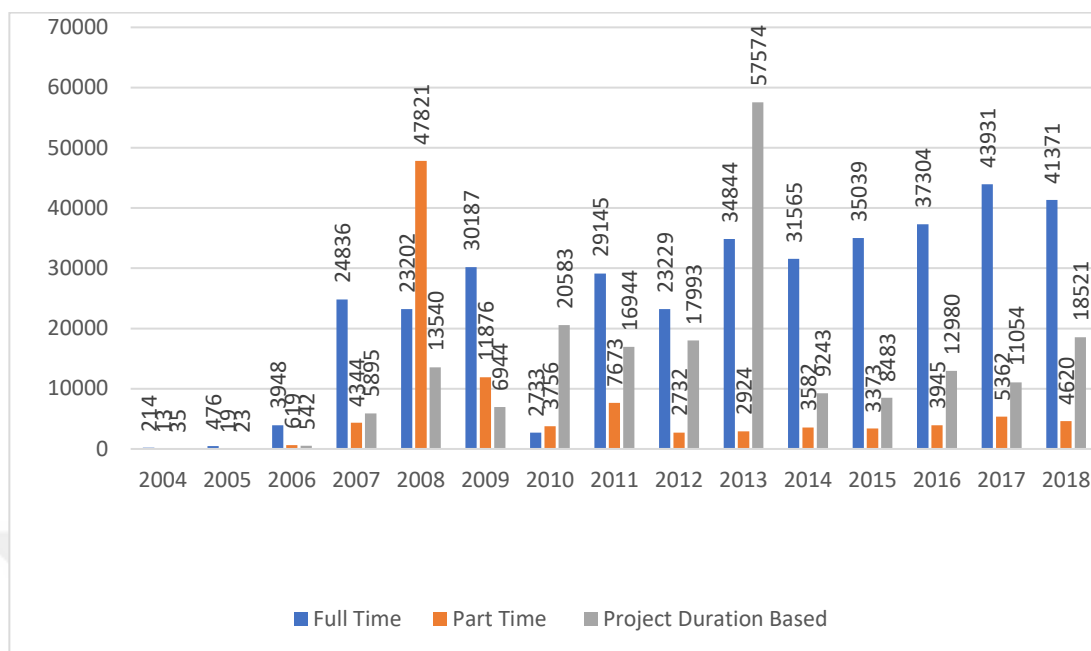
Source: DERBIS- General Directorate of Civil Society Relations, 2019.

The humanitarian operations in Turkey will be discussed lastly as the number of employees by year for digital data belonging to the organization.

By the end of 2018 the number of employees in the humanitarian sector in Turkey is around 40 thousand vast majority of them are working full-time. At the time of the outbreak of the Syrian crisis in 2011, the number has doubled in the last 8 years, with just over 20,000. Although there was a significant increase in the number of project-time employees in 2013, it was replaced by full-time employees in the following years. The reason is that during periods of start of the first foreign organizations operating in Turkey in the field of humanitarian aid workers is hiring a project basis. The numerical data for Turkey and Gaziantep can be seen in the following figures.



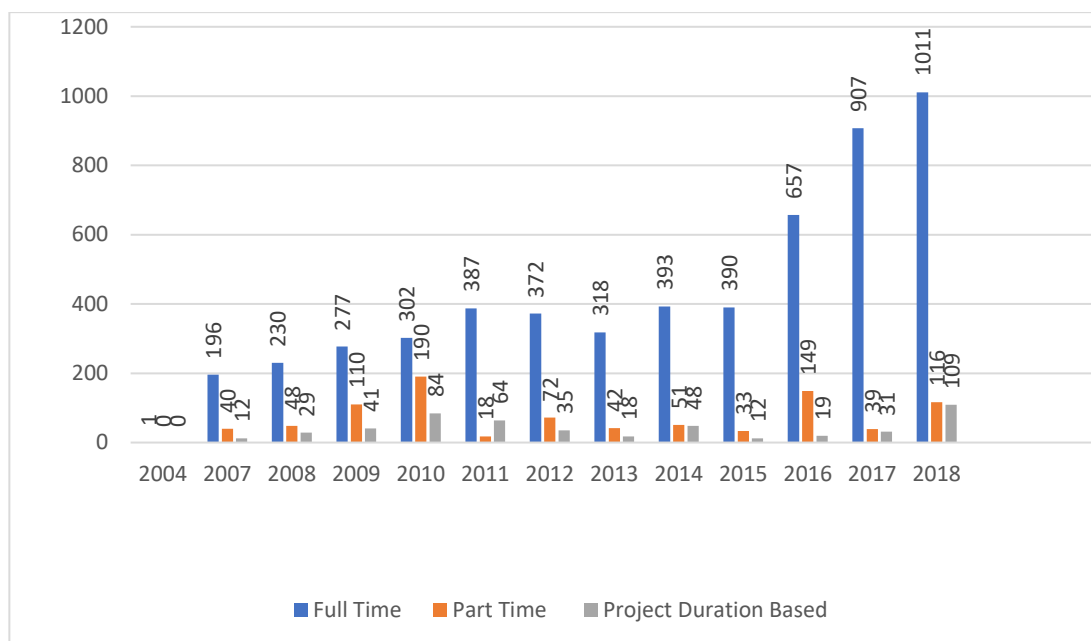
Figure 8: Number of employees by years in Turkey



Source: DERBIS- General Directorate of Civil Society Relations, 2019.

As can be seen at the figure 8, by the end of 2018 the number of employees in the humanitarian sector in Turkey is around a thousand, around a hundred of these are project basis and part-time employees.

Figure 9: Number of employees by years in Gaziantep



Source: DERBIS- General Directorate of Civil Society Relations, 2019.

While the total number of employees was only 1 in 2004, it is seen that there is an increase of over one thousand percent in 2018, Gaziantep (Figure 9).

Number of employees, annual revenue, number of humanitarian organizations indicate the level of humanitarian aid industry in Turkey and Gaziantep have to be taken seriously.

#### **4.2.3 Comparison of Internal Audit Regulations with IIA International Internal Audit Standards in Associations**

In this part of the study; In order to demonstrate the conformity of the internal audit regulations specified in Article 9 of the Law on Associations and the Draft Internal Audit Report published by the General Directorate of Civil Society Relations with international standards, in Table 1, a comparison was made by specifying the association legislation and the IIA International Internal Auditing Standards main Quality and Performance Standards and sub-standards.



Table 1: Comparison of Internal Audit Legislation in Foundations with IIA International Internal Audit Standards

STANDART CODE-NAME	IIA INTERNAL AUDIT STANDARTS	ASSOCIATIONS REGULATIONS	COMPARISION
<b>ATTRIBUTE STANDARTS</b>			
<b>1000 – Purpose, Authority, and Responsibility</b>	<p>The objectives, powers and responsibilities of the internal audit activity must be formally defined in an internal audit regulation that complies with the definition of internal audit, ethical rules and standards. The Internal Audit Manager shall periodically review the internal audit regulation and submit it to the senior management and the Board of Directors for approval.</p> <p>Under this standard title; 1010-The sub-standard on the Definition of Internal Audit, Ethical Rules and Standards in the Internal Audit Regulation has been determined.</p>	<p>The fact that an audit has been conducted by the General Assembly, the Board of Directors or independent audit institutions does not eliminate the obligation of the audit committee.</p> <p>The Audit Committee; whether the association operates in accordance with the purpose and purpose of the activities indicated in the statute, the books, accounts and records are kept in accordance with the legislation and the statutes of the association; reports to the board of directors and the general assembly when it meets.</p> <p>Upon the request of the members of the supervisory board, all information, documents and records must be presented or given by the authorities of the association, and the request to enter the management places, establishments and attachments shall be fulfilled.</p>	<p>The internal audit principle in associations was introduced for the first time by the Law on Associations No. 5253. Although the purpose, powers and responsibilities of the internal audit activity are specified in the Associations Law, there is no regulation on the preparation of the Internal Audit Regulation or Directive approved by the Association's governing body and determining the objectives, powers and responsibilities of the internal audit activity, which must be periodically reviewed.</p> <p>It is not certain that the IIA International Internal Auditing Standards are referred to.</p>
<b>1100 – Independence and Objectivity</b>	<p>Internal audit activity must be independent, and internal auditors must act objectively in performing their duties.</p> <p>Under this standard title; 1110 - Internal Independence 1111 - Direct Interaction with the Board of Directors, 1120 - Individual Objectivity, 1130 - Independence or deterioration of objectivity</p>	<p>There is no mention of independence or objectivity in associations legislation.</p>	<p>There is no regulation regarding the independence of the internal audit activities and the objectivity of the auditor.</p> <p>It is not certain that the IIA International Internal Auditing Standards are referred to.</p>

STANDART CODE-NAME	IIA INTERNAL AUDIT STANDARTS	ASSOCIATIONS REGULATIONS	COMPARISION
<b>ATTRIBUTE STANDARTS</b>			
<b>1200 Proficiency and Due Professional Care</b> –	<p>Tasks must be performed with competence and maximum professional care and attention. Under this standard title;</p> <p>1210-Efficacy 1220-Maximum Professional Care and Attention 1230- Continuous Professional Development, sub-standards have been determined.</p>	<p>There is no mention of Proficiency and Due Professional Care in associations legislation.</p>	<p>There is no regulation regarding the proficiency and due professional care of the internal audit activities and the the auditors Like others, this standard is entirely left to the regulations of the association's bylaws.</p> <p>It is not certain that the IIA International Internal Auditing Standards are referred to.</p>
<b>1300 Quality Assurance and Improvement Program</b> –	<p>The internal audit manager must prepare and maintain a quality assurance and improvement program covering all aspects of the internal audit activity. Under this standard title;</p> <p>1310-Requirements for Quality Assurance and Development Program, 1311-Internal Evaluations, 1312-External Evaluations, 1320-Reporting on Quality Assurance-Development Program, 1321- Use of the phrase ur International Internal Auditing Applies to Professional Practice Standards, 1322-Disclosure of contradictions standards have been determined.</p>	<p>There is no mention of Quality Assurance and Improvement Program in associations legislation.</p> <p>No arrangements have been made regarding the quality assurance and development program, internal and external evaluations, quality assurance and development reporting, compliance with international internal audit standards and disclosure of nonconformities.</p>	<p>There is no regulation regarding the Quality Assurance and Improvement Program of the internal audit activities.</p> <p>The internal and external evaluations of the quality assurance-development programs can be used to measure the compliance of internal audit activities with international internal audit standards and to disclose any non-compliance with standards.</p> <p>It is not certain that the IIA International Internal Auditing Standards are referred to.</p>

STANDART CODE-NAME	IIA INTERNAL AUDIT STANDARTS	ASSOCIATIONS REGULATIONS	COMPARISION
<b>PERFORMANCE STANDARTS</b>			
<b>2000</b> – <b>Managing the Internal Audit Activity</b>	<p>The Internal Audit Manager must manage the internal audit activity in an effective manner to ensure that the activity adds value to the organization.</p> <p>In this standard title,            2010-panning,            2020-Notification and Approval,            2030-Resource Management,            2040-Policies and Procedures            2050-Coordination (Coordination)            2060-Reporting to Senior Management and Board of Directors,            2070-External Service Provider and Organizational Responsibility for Internal Audit sub-standards have been determined.            Since 2013, the code number 2070 has been published as a new standard.</p>	<p>There is no mention of Managing the Internal Audit Activity in associations legislation.</p> <p>In association legislation;            There are no regulations regarding the management of internal audit activity in terms of planning, notification and approval, resource management, policies and procedures, coordination, reporting to management, external service provider and organizational responsibility for internal audit. Associations are left to internal regulations.</p>	<p>There is no regulation regarding the Managing the Internal Audit Activity. No arrangements have been made regarding the management of internal audit activities that may be performed by the internal audit unit within the organization or by the external service provider.</p> <p>It is not certain that the IIA International Internal Auditing Standards are referred to.</p>

STANDART CODE-NAME	IIA INTERNAL AUDIT STANDARTS	ASSOCIATIONS REGULATIONS	COMPARISION
<b>PERFORMANCE STANDARTS</b>			
<b>2100 – Nature of Work</b>	Internal audit activity; It has to evaluate and contribute to the improvement of governance, risk management and control processes with a systematic and disciplined approach. This standard in the title; 2110-Governance / Corporate Governance, 2120-Risk Management, 2130-Control codes and sub-standards were determined.	The Audit Committee; whether the association operates in accordance with the purpose and purpose of the activities indicated in the statute, the books, accounts and records are kept in accordance with the legislation and the statutes of the association; reports to the board of directors and the general assembly when it meets. 5253/9	In the said regulation regarding the purpose of internal audit activity in foundations; It is not necessary to evaluate the internal audit's governance / corporate governance process and contribute to its improvement.  It is not certain that the IIA International Internal Auditing Standards are referred to.
<b>2200 – Engagement Planning</b>	Internal auditors must prepare and prepare a separate plan for each task, taking into account the objectives, scope, timing and allocation of resources. Under this standard title; 2201-Considerations in Planning, 2210-Mission Objectives, 2220-Task Scope, 2230-Allocation of Task Resources, 2240-Task Work Program standards have been determined.	No arrangements have been made regarding the issues to be considered regarding the task planning, task objectives, scope, allocation of resources, and preparation of the task work program.	No adjustments have been made, there is no standard for task planning.  It is not certain that the IIA International Internal Auditing Standards are referred to.
<b>2300 – Performing the Engagement</b>	Internal auditors must identify, analyze, evaluate and register sufficient information to achieve the objectives of the task they undertake. Under this standard title; 2310-Identification and Identification of Information, 2320-Analysis and Evaluation, 2330-Registration of Information, 2340-Mission Supervision, sub-standards have been determined.	No arrangements have been made regarding the identification and identification of information related to the performance of the task, analysis and evaluation, registration and supervision of the task.	No adjustments have been made. There is no standard for performing the task.  It is not certain that the IIA International Internal Auditing Standards are referred to.

STANDART CODE-NAME	IIA INTERNAL AUDIT STANDARTS	ASSOCIATIONS REGULATIONS	COMPARISION
<b>PERFORMANCE STANDARTS</b>			
<b>2400 – Communicating Results</b>	<p>Internal auditors are obliged to report the results of their duties.</p> <p>Under this standard;</p> <p>2410-Reporting Criteria; Reports should include the objectives and scope of the task, as well as the conclusions, recommendations and action plans.</p> <p>2420-Quality of Reporting; Reports must be accurate, objective, clear, concise, constructive, complete, and timely.</p> <p>2421-Errors and Deficiencies; If the final reporting involves a significant error or omission, the Internal Audit Manager must communicate corrected information to all parties receiving the incorrect and incomplete report.</p> <p>2430- Use of the phrase tir International Internal Audit Conducted in accordance with Professional Practice Standards 2431-Disclosure of Discrepancies in Appointments: When non-compliance with the Definition of Internal Audit, Ethical Rules or Standards affects a particular task, when reporting the results, the principles or rules of the Code of Ethics and Standards are not fully complied with, the reasons of the discrepancy, the effect of the discrepancy on the duty and the results of the reporting. it is difficult:</p> <p>2440-Distribution of Results; The Internal Audit Manager is obliged to distribute the results of the tasks to the appropriate parties.</p> <p>2450-General Opinions; When a general opinion is issued, the expectations of senior management, the board of directors and other stakeholders must be taken into account and supported by adequate, reliable, relevant and useful information.</p>	<p>The first section describes the personal information of the audited association.</p> <p>In the second part; association membership procedures, general assembly meetings, association activities, receiving assistance from abroad, books and registration methods of the association, expenses of the association, receipt documents, association tavern, association's other facilities, association's chest, declaration, joint projects, platforms, association's immovable property, publications, questions and determinations related to the commercial activities of the association and other issues.</p> <p>In the third part, general information about the association's collection of charitable activities, permission to collect aid, employment of public officials, identity document, receipts and tickets, registration, delivery of aid money, final account, expenses of the activity, aid collection revenues and questions are determined.</p> <p>In the fourth section, financial information, the accounting records, the fifth section is to determine the fulfillment of the recommendations by taking into account the criticisms of the previous audits.</p> <p>In the sixth section, the criticized and recommended issues related to the current audit are stated and the seventh part is concluded, and the audit report is finalized. Here the duties are assigned to the general assembly and the board of directors.</p>	<p>No adjustments have been made.</p> <p>Although the General Directorate of Civil Society Relations has drafted an Internal Audit Report, there is no standard for reporting the results.</p> <p>It is not certain that the IIA International Internal Auditing Standards are referred to.</p>



STANDART CODE-NAME	IIA INTERNAL AUDIT STANDARTS	ASSOCIATIONS REGULATIONS	COMPARISION
<b>PERFORMANCE STANDARTS</b>			
<b>2500 – Monitoring Progress</b>	The Internal Audit Manager shall establish and implement a system for monitoring the fate of the results reported to management.	There is no mention of Monitoring Progress in associations legislation.	No adjustments have been made.  There is no standard for Monitoring Progress.  It is not certain that the IIA International Internal Auditing Standards are referred to.
<b>2600 – Communicating the Acceptance of Risks</b>	When the Internal Audit Manager concludes that the senior management has agreed to assume an unacceptable level of risk for the organization, the senior management must discuss the matter with the senior management. If the Internal Audit Manager decides that the matter has not been resolved, he / she has to forward the matter to the board of directors.	There is no mention of Communicating the Acceptance of Risks in associations legislation.	No adjustments have been made.  There is no standard for Communicating the Acceptance of Risks  It is not certain that the IIA International Internal Auditing Standards are referred to.

When the comparison table is analyzed in general, it is observed that the legislation of the associations speaks to a very limited extent about internal audit and does not comply with international standards to a large extent.

#### **4.2.4 Internal Audit in Humanitarian Aid Organizations: Gaziantep Case**

In order to determine the association to be examined and to make the comparisons and quantitative data made in the previous chapters meaningful, the questions stated below were sent to 158 of the 282 associations includes 5 of non-governmental organizations by e-mail and 144 of them received feedback. The questions in this section were not asked to put forward any claims, but to obtain a general view of the existence of internal audit in organizations and the internal audit report to select the organization to be examined on a meaningful basis. It is stated in the e-mail that short answers as well as detailed explanations can be given when asking questions.

1. Do your organization has own internal audit function? How do you provide internal audit services for your organizations?
2. Could you please indicate your 2019 budget?

53 organization stated that there is an internal audit function directly and that it is audited by different professional branches such as Finance Manager, Accounting Manager, Compliance Officer, and Bookkeeper. 24 organizations stated that they have internal audit functions and that they are audited by audit firms. 8 firms stated that they have their own internal audit functions, 3 of them were audited from the head office and 5 of them stated that they were audited regularly in the office. 59 companies answered the questions directly with no. All those audited by the head office are non-governmental organizations and the other five is associations which has been established according to the Turkish Law.

For the second question, the 41 organization has responded, and the 103 organization has not shared the budget information because of their internal policies. Among the respondents to the second question, 15 of them are those who say no directly to the first question, 8 of them are those who receive external audit service, and 16 of them say that internal audits are carried out by different professional branches and the one of them who conduct the internal audit system in office and the other one is the non-governmental organization which is audited by head office. The

total budget of 41 organizations for 2019 is 131.654.870 Turkish Lira. The biggest budget is 44.298.019 Turkish Lira and the minimum budget is 308.627.00.

The highest budgeted organization has been requested to share the most recent internal audit activity report and this organization has been selected for research.

#### **4.2.4.1 Internal Audit in a Humanitarian Organization**

In this section, the most recent internal audit report of a selected organization will be shown, and it is aimed to create ideas for other organizations that do not have or need to be developed their internal audit report structure. This organization will be called A.

In this audit report “Table 2”, the procurement, finance, human resources, grants and other parts of the organization were examined. The audit report begins with general evaluations in which the results of these sections are explained, the audit period and date, the name of the branch, the rating score, then the recommendations and the opinion of the branch.

In the next section, the audit findings that affect the rating score are detailed, just below the audit work with numerical data and the rating score of the last three audits are shown. The last part gives information about the ranges of the rating score.

The company was interviewed by asking some questions about internal audit systems.

How many auditors do you have in the organization and how often are your offices audited?

*“We have an internal control and compliance officer in our office, and the members of the board of auditors come to our audit headquarters twice a year. We, as the office, prepare a monthly internal control report that we monitor and control our activities. Our compliance and internal control personnel work in a coordinated manner and display a continuous control activity. In the internal control and compliance section, we have control points that will be references to the internal audit report.”*

How do you test the reliability and effectiveness of your internal audit system?

*“Our Board of Inspectors regularly conducts process and performance evaluations to world-renowned and recognized audit firms. We also receive external audit services.”*

How do you determine the control points in your internal audit report?

*“Our control points are determined by a commission established by our Board of Inspectors in line with the objectives, needs and risks of our organization and submitted to the approval of the audit committee and the board of directors and in consultation with the external service providers.”*

I see a rating score that you create for your audit reports, do your auditors give it based on their own assessment?

*“No, our auditors only go to the office to be audited by selecting a random sample covering the period from the last audit date to the present date, entering the findings into our audit system on computer and the rating score of the office is formed by a software running in the back.*

*There is a percentage of risk that each control point imposes on our organization, a score is determined based on the percentage of risk or the type of risk. As soon as the auditor enters the findings, the software performs a calculation, and after the auditor evaluations are entered into the system, the general audit report and the score of the office are automatically generated.”*

What is the basis of the internal audit in your organization as legislation?

*“The supervisory board will respond better, but as far as I know, I was an internal audit inspector before. Our organization has its own internal regulations, including all aspects of the organization, including ethical values, and we must comply with the internal laws of our country, Turkish law and international auditing standards. While evaluating our internal audit system, our compliance with international internal audit standards is also evaluated.”*

What benefits does internal audit provide to your organization?

*“In addition to our internal audit, internal control and compliance controls, we also have a risk management system. All of these work in a coordinated manner, which is vital to us in achieving our goals. Because an unexpected event of abuse or external or internal risk may leave you behind in achieving your goals. We, as the sector, are operating in an area that requires very transparency, where we must constantly maintain our reputation and build trust in people. For this reason, our internal audit system enables us to secure ourselves and to secure our goals and the trust of the society towards us.”*

Has there been any fraud in your office or organization?

*“This question contains confidential information about the organization. So it is not right for me to respond to specific events, but I can tell you this. Wherever there is human and money, there is always risk and there is always a need for supervision. However, you encounter such events that sometimes the system you set up is not enough to prevent that event or does not respond. That is why internal auditing is an area open to innovation that constantly improves itself, and of course we are constantly trying to evaluate and improve our own systems in the face of the events we encounter.”*

I ask my last question to get your opinions within the framework of my thesis. Would you recommend an internal audit system for all organizations, large and small, operating in a very sensitive area of trust and humanitarian aid and development?

*“Internal audit is a resource-based structure, with time, cost, and staff to allocate to this activity. In order to carry out an internal audit activity that complies with international audit standards, you need to devote significant resources. I don't think small organizations can do that. However, each organization can establish its own internal control, risk management and governance system. Because the goals, needs and risks of an organization are best known to the employees of that organization, control and audit should always be essential in every business. Finally, in Gaziantep, in Turkey or anywhere in the world, all organizations operating in this area, should establish an audit system in accordance with its internal regulations, laws of their country, and the laws of the countries they are legally registered. Because a fraud event will not only prevent an organization from achieving its goals, it can also steal millions of lives.”*

Table 2: Internal Audit Report Template of Organization A

<b>GAZIANTEP</b>	<b>2019/01</b>	<b>RATING SCORE</b>
		<b>C</b>

### 1- AUDIT SUMMARY

<b>PROCUREMENT</b>	In the examinations of procurement, the signature of the grantee on the receipt and / or instruction in 14 transactions is not compatible with the signature sample of the grantee in the system, no grantee signatures in 34 transactions and no visual compliance queries were made in 6 transactions were founded. These deficiencies are attributed to the fact that purchasing personnel do not pay due attention to the issue.
<b>FINANCE</b>	In the examinations carried out on finance, it was found that confirmation receipts were not provided or incomplete in the purchase payments and personnel salary payments requested by the human resources in general, that signature disputes or deficiencies were not taken into consideration and that the accounting records were realized at a later date than the grant payment dates. It is considered that these deficiencies stem from the insufficient level of awareness of the personnel regarding risks and process.
<b>HUMAN RESOURCES</b>	In human resources examinations, it has been determined that personnel Pin Numbers have not been requested for all personnel yet, personnel positions and job scopes have not been notified to some personnel, security investigations of some personnel have been made incomplete, salary increases have not been clearly indicated in the agreement and salary confirmation receipts have not been signed by the personnel. These deficiencies are considered to be due to the fact that the human resources specialist is on maternity leave and instead of hiring assistant-level personnel.
<b>GRANTS TECHNICAL</b>	It has been determined that agreements, amendments made to the agreements, project approvals, project purchase and donation receipts and cargo documents of information technology products abroad are not kept as hard copies in grant files under the scope of the review. It is considered that these deficiencies are due to the lack of sufficient number of grant experts.
<b>OTHER</b>	Some project activities resulted in payments being made to Syrian staff based in Turkey. However, there is not provided with evidence to show that such staff have a work permit issued by the Turkish government. It is understood from management comments; the work permits of all employees were submitted and there is a registered file for each employee in the work permit system of Turkish government. But because of exceptional circumstances in Turkey, the approval is delayed for several months for all charity organizations operating in Syria. It is determined that there are revised overdue fire tubes in the office.

### 2-AUDIT RECOMMENDATIONS

1	Providing motivation for alerting purchasing personnel to related deficiencies and increasing the level of attention and care.
2	Recruitment of expert human resources personnel as soon as possible or support the existing human resources assistant with training.
3	Recruitment of competent grant experts to the Grant department, which will be proportional to the number of projects.
4	Ensuring compliance with the internal and legal regulations by eliminating the deficiencies of signature and document
5	It is recommended that the work permit applications of the Syrian personnel should be followed closely and that the personnel who do not have a work permit should not be employed remotely or from the office.

### 3-MANAGEMENT REVIEW MEETING

OFFICE / BRANCH LEAD	We agree with the findings and evaluations identified by internal audit personnel. By taking into consideration the suggestions mentioned in the report, the findings will be removed, and the repetition will be avoided.
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### 4-EFFECTED THE RATING SCORE/ SUMMARY OF AUDIT

FIELD OF OPERATION	SAMPLE AMOUNT	CONTROL RATE	SUMMARY OF FINDINGS	FINDING		AFTER CLOSING	
				NUMBER	AMOUNT	NUMBER	AMOUNT
OTHER			SUMMARY OF FINDINGS	FINDING			
			Work Permits	6	0,00		
			Suspended transaction	0	0,00		
			SDN linked operation	0	0,00		
			Ratio of overdue internal audit findings to total number of findings (%)		0,00 %		
			Number of revised overdue fire tubes		9		
			Number of personnel working in branches for more than 5 years		0		
			Number of personnel who do not use uninterrupted leave for 10 days		0		
			Office of the lack of inventory registration documents		No		
			Total cash deficiency for the last 6 months		50 TL		
PROCUREMENT	80	80,5 %	Lack of signature / instruction (Payment)	09	0,00	0	0,00
			Lack of signature / instruction (Money Transfer)	0	0,00	0	0,00
			Signature mismatch	0	0,00	0	0,00
			Lack of Visual Compliance	0	0,00	0	0,00
			Procurements not included in the Evaluation Committee	0	0,00	0	0,00
			Prepaid Purchase	0	0,00	0	0,00
			Lack of purchase advertisement	0	0,00	0	0,00
			<b>TOTAL</b>	<b>0</b>	<b>0,00</b>	<b>0</b>	<b>0,00</b>
			FINANCE	100	42,1 %	SAM or Visual Compliance Printout	0
Proof of Payment	0	0,00				0	0,00
Complies with VAT exemption / refund requirements?	0	0,00				0	0,00
Reasoning for correction explained & valid	0	0,00				0	0,00
Does the grant meet Cost-Share Requirements (if applicable)?	0	0,00				0	0,00
Advance/Reim. Request Summary	0	0,00				0	0,00
Advance: Approved Budget Statement	0	0,00				0	0,00
Advance: Monthly Bank Rec (for adv. Accounts)	0	0,00				0	0,00
Reim/Liqu: Expense Detail (accounting voucher back up)	0	0,00				0	0,00
Lack of Confirmation Receipts	0	0,00				0	0,00
Salary slips signature	0	0,00				0	0,00
Accounting records are on date	0	0,00				0	0,00
Monthly Bank Rec (for adv. Accounts)	0	0,00				0	0,00
<b>TOTAL</b>	<b>0</b>	<b>0,00</b>	<b>0</b>	<b>0,00</b>			
HUMAN RESOURCES	30	90,43 %	Pin Numbers	0	0,00	0	0,00
			Security Investigations	0	0,00	0	0,00
			Excess of Authority (Head Office & Branch Authority)	0	0,00	0	0,00
			Staff-employee agreements	0	0,00	0	0,00
			Expense Reports Signatures	0	0,00	0	0,00
			Staff Trainings	0	0,00	0	0,00
			Signing of legally mandatory documents	0	0,00	0	0,00
			Staff without social security record	0	0,00	0	0,00
			<b>TOTAL</b>	<b>0</b>	<b>0,00</b>	<b>0</b>	<b>0,00</b>
GRANTS TECHNICAL	5	90,3 %	Grant Agreements double-sided signature	0	0,00	0	0,00
			Lack of Memorandum of Understanding	0	0,00	0	0,00
			Lack of Deed of Donation	0	0,00	0	0,00
			Lack of Head Office Approval	0	0,00	0	0,00
			Lack of Donor Approval	0	0,00	0	0,00
			Lack of Hard Copy Files	0	0,00	0	0,00
			Unclosed Grants	0	0,00	0	0,00
<b>TOTAL</b>	<b>0</b>	<b>0,00</b>	<b>0</b>	<b>0,00</b>			

## 5-BRANCH, AUDIT AND RATING DETAILS

BRANCH DETAILS	
BRANCH NAME	GAZIANTEP
Branch Code	GZT-TR01
Region	Europe-Middle East
Branch Class	1.Grup
Procur. Riski (k TL)	145.599
Grant Riski (k TL)	18.795.450
HR Risk (k TL)	907.909
Total Risk (k TL)	19,848.958

AUDIT DETAILS	
Report No	2019/01
Audit Date	23 August, 2019
Audit Period	07/01/2019 28/06/2019
Auditor	
Procur. Contro Rate	80,5% (117.256)
Grant Audit Rate	90,3% (17.009.959)
HR Audit Rate	90,43% (820.998)
Total Audit Rate	90,4% (17,948.213)

RATING DETAILS	2018/01	2018/02	2019/01
BRANCH RATING	D(% 42,29)	C(% 62,65)	C(% 65,47)
The branch rating score is calculated systematically according to the percentages and weights of the findings.			

RATING SCORE	MIN. PUAN	MAX. PUAN	RATING RISK LEVELS
D	0,00%	50,00%	It indicates the presence of an unacceptable level of control weakness and appropriate action is urgently required.
C	51,01%	70,00%	Action is required to ensure that XXX is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences
B	70,01%	85,00%	Action is desirable and should result in enhanced control or better value for money
A	85,01%	100,00%	It means that there is no control weakness or that there is an insignificant level of control weakness and there is no need to take action.
	NA		



### 4.3. FINDINGS AND DISCUSSION

Firstly, the existence of internal audit in associations was examined in Turkish law and in addition, the Internal Audit Report of Associations, which is the sole basis of internal audit in associations, was examined according to the data of the Department of Associations.

According to the Turkish law and the sample of Internal Audit Report of Association, it is mentioned the internal audit is necessary and obligated, however, its scope, limitations and details are not specified.

Although the sample internal audit report contains control points for the records of a number of financial documents, it is clear that it is far from international internal audit standards. In addition, there are no control points or articles close to or similar to international internal audit standards in Turkish law.

Within the scope of the study, data belonging to the Department of Associations of the Ministry of Interior were examined. The number of active associations in Turkey, according to their areas of activity (humanitarian aid) number of associations, according to the total number of associations scope in Gaziantep (humanitarian aid) number of associations, regulations relating to foreign NGOs s the matter concerned the Associations Law, foreigners operating in Turkey NGO s and the number of foreign NGO s and the number of operations in Gaziantep All Turkey associations and the percentage share of income and humanitarian aid, Gaziantep associations and the percentage share of income and humanitarian aid, according to year the number of employees in associations in Turkey, the number of employees in the association in Gaziantep by years.

The number of associations in Turkey in recent years has increased rapidly and reached 118.529 finally with the impact of the Syrian crisis, a total of 5,476 of these associations operate in the field of humanitarian aid. Among these, the number of active associations in Gaziantep is 2,712 and the number of associations active in the field of humanitarian aid is 274.

Apart from these, foreign NGOs which are allowed to operate in Turkey the number is 130. Although not all of them operate in the field of humanitarian aid, 8 foreign non-governmental organizations operating in Gaziantep operate in the field of humanitarian aid. The establishment of foreign non-governmental organizations is regulated in articles 92 and 117 of the Turkish Civil Code no, in Articles 5 and 36 of the Law on Associations No. 5253 and in Articles 21 to 30 of the Fifth Section entitled “International Activities” of the Associations Regulation.

Even though the number of associations operating in the humanitarian field operations in Turkey remains far behind the developed world countries, Turkey experienced a rapid growth in recent years and rose to the position of a separate sector in Turkey. By the end of 2018, total revenues of associations operating in Turkey is about 22 billion Turkish Liras. Gaziantep's share in total income was 1.1 billion Turkish Liras.

By the end of 2018 the number of employees in the humanitarian sector in Turkey is around 40 thousand vast majority of them are working full-time. At the time of the outbreak of the Syrian crisis in 2011, the number has doubled in the last 8 years, with just over 20,000.

All these statistics show that humanitarian aid has developed rapidly over the years. There is also a significant increase in terms of personnel employment in terms of budget. Humanitarian aid, which has become a major sector, also necessitates the necessity of risk prevention tools. At this point, organizations need their internal audit, internal control, risk management and governance functions.

After the statistical data, the Law of Associations and the internal audit approach were compared with the international internal audit standards. According to the comparison;

It is not clear that the limited expression in the association’s legislation is referenced to the International Standards on Internal Auditing.

There is no regulation regarding the independence of internal audit activities, objectivity of internal auditors, quality assurance program and reporting, internal and external evaluations, declaration of compliance with international internal audit standards and disclosure of non-conformances. The independence and impartiality of the internal audit activity is not ensured.

No regulations have been made on the standards for the management of internal audit activities, task planning, performance of tasks, reporting of results, monitoring progress, and communicating acceptance of risks.

Although the terms of risk management and control sub-standards are referred to under the quality of work standard, there is no regulation referring to the governance sub-standard statements.

It is stated that internal audit is essential in associations and the definition of internal audit has not been made. There are no regulations on ethical principles and codes of conduct.

There is no regulation on the preparation of the Internal Audit Regulation / Directive, which defines the objectives, powers and responsibilities of the internal audit, which is approved by the governing body of the Association and is subject to periodic review.

A quality assurance and improvement program that does not cover internal audit in all respects and continuously monitors its functionality has not been addressed.

Internal audit does not include a statement to assess whether the foundation's information technologies are supportive in achieving strategic goals and objectives.

There is no regulation on the likelihood of fraud and how this risk should be managed.

The internal audit activity does not include a statement of the Association to have effective controls by evaluating the effectiveness and efficiency of controls and encouraging their continuous development.

There is no statement by the internal audit officers about the performance of written tasks and work planning and written work schedules considering the purpose, content, timing and source of audit of all the tasks they undertake.

A monitoring and monitoring system are not mentioned to monitor the fate of the internal audit report results reported to management.

Internal auditors have the necessary competencies and skills; awareness of the external service provider's responsibility for maintaining an effective internal audit activity; internal auditors record all information and documents on which they are based and in their opinion; the complete and timely submission of reports on an impartial, clear basis, based on concise statements; regulations have not been included.

Finally, humanitarian organizations operating in Gaziantep were asked questions to determine the existence of a 2-question internal audit system and the organization with the highest budget internal audit system was selected. An 8-item interview was conducted with the internal control officer of this organization to evaluate the internal audit system of its organization. According to the survey and interview;

The questions which are asking the existence of internal audit system and the 2019 budget of the organizations were sent to 158 of the 282 associations includes 5 of non-governmental organizations by e-mail and 144 of them received feedback. 53 organization stated that there is an internal audit function directly and that it is audited by different professional branches such as Finance Manager, Accounting Manager, Compliance Officer, and Bookkeeper. 24 organizations stated that they have internal audit functions and that they are audited by audit firms. 8 firms stated that they have their own internal audit functions, 3 of them were audited from the head office and 5 of them stated that they were audited regularly in the office. 59 companies answered the questions directly with no. All those audited by the head office are non-governmental organizations and the other five is associations which has been established according to the Turkish Law.

For the second question, the 41 organization has responded, and the 103 organization has not shared the budget information because of their internal policies. Among the respondents to the second question, 15 of them are those who say no directly to the first question, 8 of them are those who receive external audit service, and 16 of them say that internal audits are carried out by different professional branches and the one of them who conduct the internal audit system in office and the other one is the non-governmental organization which is audited by head office. The total budget of 41 organizations for 2019 is 131.654.870 Turkish Lira. The biggest budget is 44.298.019 Turkish Lira and the minimum budget is 308.627.00.

The highest budgeted organization has been requested to share the most recent internal audit activity report and this organization has been chosen for research.

According to these results, it is evaluated that most of the humanitarian organizations operating in Gaziantep do not have an internal audit system operating according to international internal audit standards.

According to the interview conducted with the internal control officer of the organization selected to be examined for internal audit report, it is determined that the organization is audited twice a year according to international internal audit standards, Turkish law, the laws of the country where the organization is affiliated and its internal regulations. It was stated that an external assessment was made to ensure that the internal audit system complies with international standards. It has been assessed that the internal audit system provides added value to the organization and helps to prevent possible fraud incidents and helps to control risks. The necessity of having an internal audit system for all organizations in the field of humanitarian aid was evaluated. In addition, it is evaluated that this organization is adequate in terms of compliance with international internal audit standards.

General findings of this interview; It is evaluated that there is internal audit unit / department in general. The internal audit activity is performed by the organization audit body. Internal audit is functionally independent and impartial. It is conducted in a manner that provides reasonable assurance or engages in consulting activities. The internal audit function has function in improving the activities of the foundation and in adding value. It is seen as an auxiliary activity in achieving the objectives of the organization. Risk-based internal audit has been adopted. There is risk management. Internal audit activity is effective in the development of the organization's ethical culture. The organization's control processes are evaluated twice a year. The results of internal audit reports are followed up and monitored.

Therewithal the purpose and organization of the foundation is determined in the organization documents, the mission and vision determination, the establishment of personnel task definitions and organizational structures of the organization, strategic planning and programming in line with the objectives and objectives are commonly seen in internal control structures. Risks that prevent obstacles to the objectives and objectives of the organization are defined and control strategies and methods are determined to meet the risks. Information and communication systems have been established to ensure efficiency in performance monitoring, decision-making processes and service delivery. The necessary control mechanisms for information technologies have been developed. Internal control system is evaluated. The functions of determining the limits of authority and delegation of authority in the activities of the organization, adopting the principle of separation of duties, checking the

conformity of the works and transactions with the procedures, reporting the objectives and activities of the organization and recording and filing the works and transactions including the incoming and outgoing documents are performed.

Internal Control Officer of the organization's level of awareness about internal audit activities is sufficient. Internal audit is given due attention inside of organization. The level of compliance with international internal audit standards seems to be sufficient. There is regulation regarding the independence of internal audit activities, objectivity of internal auditors, quality assurance program and reporting, internal and external evaluations, declaration of compliance with international internal audit standards and disclosure of non-conformances. There is regulations have been made on the standards for the management of internal audit activities, task planning, performance of tasks, reporting of results, monitoring progress, and communicating acceptance of risks.

A quality assurance and improvement program has been designed to cover the internal audit in all respects and to continuously monitor its functionality. The internal audit activity is managed in a way that provides value to the foundation. Internal audit activities in organizations develop recommendations for the evaluation and improvement of corporate governance processes. The internal audit function does evaluate the design, operation and functionality of the Foundation's activities on ethical principles. Internal audit does assess whether the foundation's information technology is supportive in achieving its strategic goals and objectives.

A monitoring and monitoring system are applied to monitor the fate of the internal audit report results reported to management. Internal auditors have the necessary competencies; awareness of the external service provider's responsibility for maintaining an effective internal audit activity; internal auditors record all information and documents on which they are based and in their opinion; the complete and timely submission of reports on an impartial, clear basis, based on concise statements; Although there is partial compliance, there is generally insufficient level of compliance. Internal audit is stated to be essential and internal audit is not defined.

## CONCLUSION AND SUGGESTIONS

The phenomenon of humanitarian aid has become one of the greatest requirements of the globalizing world. The need for assistance and development resulting from war, conflict, natural disaster in different parts of the world has made humanitarian aid a growing sector. The concept of humanitarian aid, which has existed since the early days of history, is a sector of billions of dollars in budgets. Millions of different types of organizations such as non-profit organizations, foundations, associations, charities and profit-making organizations have emerged for this purpose. Emerging as a third sector, humanitarian organizations have always attracted attention with their budgets and activities in the world. The concept of internal auditing has become an essential issue for humanitarian organizations that are institutionalized as a private company. Because these organizations have to protect their transparency, impartiality, independence and reputation in the eyes of the society.

An organization can establish the system of internal audit either through its own internal resources or through external resources. After the board of directors and the audit committee are formed, the audit manager is elected. Auditor recruitment, training of current candidates, preparation of internal audit guide, preparation of guidelines, selection of working papers, selection of software to be used, determination of audit universe, macro risk assessment and internal audit planning, structuring of individual audit processes, reporting, owner and senior manager presentations The internal audit marketing processes are established in accordance with international internal audit standards as detailed in the previous sections. Establishing the internal audit system with the organization's own resources; eliminates confidentiality concerns, facilitates the acceptance of services throughout the organization the audited processes enable better co-operation and participation of managers and employees, allowing internal auditors to become familiar with the organization over time.

The provision of these services from outside accelerates the work (specialization time, training, audit periods, etc.), reduces costs, ensures that the

expertise is fully utilized and ensures that the internal auditors work independently of the management. Audit results become more objective, preventing labor losses (illness, leaving, etc.), more external advice (psychological impact), CIA certified consultants are employed, which means that there is an internal audit service within the international standards.

Before all aspects of the internal audit system are established and processes are identified, a risk management, internal control and governance model should be in line with the mission, vision and strategic objectives of the organization, taking into account sectoral variables and risks. The general framework for these has been examined in detail in the previous chapters. With the establishment of this internal system, which is a sine qua non of internal audit, internal audit stages can be established to measure their effectiveness and efficiency.

These stages; Determination of the audit universe: (all areas that can be audited in an organization: process, system, project, etc.), meetings are held with all senior executives, department, branch and unit managers, company organizational structure, management understanding, culture and operations are analyzed. Internal regulations are examined, and the business processes of the company are defined. The stage of determining the risk model of the organization in which the risks of the organization are grouped, and the risk categories are determined is started. Risk factors are determined in the context of risks that threaten the organization, risk assessment model is determined, audit issues and risk levels are evaluated within the framework of this model, audit issues are ranked from the risky to the riskiest in parallel with the assessment results. When setting up this stage, it is useful to take advantage of COSO ERM, which is explained in detail in the previous sections. Internal audit evaluates the effectiveness and efficiency of this process through a risk-based audit plan. In this way, assurance is provided for effective management of risks through internal audit, losses are prevented, fraud are deterred, and corporate governance is strengthened.

Another issue is the establishment of an internal control system. Internal control is a managerial function whose ultimate responsibility is not transferable. The ultimate responsibility lies with the senior manager of that organization. It is a must for accountable, responsible, transparent and fair management for good corporate governance. Creating internal control systems is not a goal, but a tool on the road to good corporate governance. The existence of an internal control system can be



mentioned if an organization fully implements the control environment, risk assessment, control activities, information & communication and monitoring elements within the organization. An organization that establishes an internal control system and operates effectively and efficiently ensures that the reporting activities are accurate and complete, that its operations are carried out effectively and efficiently, that its assets are protected, and that its activities comply with the legislation and internal regulations.

The internal control system starts with the control environment and ends with monitoring. However, there is a dynamic process here, and each of the elements of internal control is constantly revised over time. The control environment is improved through activities such as determining processes throughout the organization, performing process analyzes, writing business procedures, issuing workflows, determining job and task definitions, establishing ethical rules. In order to create an effective and efficient internal control process, it is useful to benefit from the COSO Internal Control Framework, which is explained in detail in the previous sections.

There is a strong internal control system, but only if there is a strong internal audit activity. An internal control system that is not audited by contemporary, risk-focused internal audit activity cannot be considered effective. Together with the established internal control system, the internal audit activity provides assurance whether the control bodies established to manage risks operate effectively and efficiently.

Internal auditing should be carried out impartially and objectively by internal auditors with minimum qualifications, the contribution of internal audit activities should be adopted by all employees of the organization and regulatory public authorities should be strict followers of the application. Furthermore, the effectiveness of internal auditing in the adequacy of controls in terms of public disclosure and transparency constitutes a guarantee. Failure to perform internal audit in accordance with international standards should be considered as a matter that constitutes governance risk.

It is a necessity of contemporary auditing approaches that internal audit activity, which is an important management function for non-profit foundations, is carried out at international standards.

In organizations carrying out internal audit activities; The effective, efficient and healthy conduct of internal auditing is directly proportional to the conduct of the internal audit in accordance with international internal auditing standards and ethical principles and rules.

The objectives, powers and responsibilities of the internal audit function are defined, regulation of implementation procedures and principles, evaluation of audit quality, adherence to standards and professional ethics in conducting internal audit and ensuring the awareness of managers are important issues.

Arrangements should be made to comply with international internal audit standards and internal audit practices should be conducted within the framework of international standards. In the light of the developments in the field of internal auditing in the world and the good practices of internal audit activities and internal control systems in the private sector and public institutions such as banking, insurance, capital market in our country, the deficiencies in the implementation of the internal audit activities in the foundations which are not for profit organizations are eliminated and the design and compliance with the international internal audit standards arrangements should be made.

In our country, it is important to carry out audit activities in accordance with internationally accepted internal auditing standards of associations, which are one of the non-profit organizations.

Conducting internal audit arrangements in foundations in accordance with international internal audit standards and adhering to these issues in the execution of the internal audit function by defining audit standards will enable it to gain functionality by improving, improving and improving internal audit activities.

As a requirement of the audit function, association administrations should incorporate the culture of internal audit practice standards in internal audit, which is a systematic and disciplined approach, in order to improve the effectiveness of the internal control system, risk management, corporate governance principles. Identification of internal audit objectives, powers and responsibilities, regulation of implementation procedures and principles, evaluation of audit quality, adherence to standards and professional ethics rules in conducting internal audit and ensuring manager awareness are important issues.

In this respect, the activities of the associations in order to achieve the objectives and targets stated in the establishment documents in accordance with the current legislation and strategic plans, if any, depend on the establishment of an internal audit and internal control system that assures the adequacy of internal control systems and risk management in the future.

Thanks to the implementation of strategic planning and performance evaluations applied in humanitarian organizations in our country associations; budget planning, effective resource allocation, objectives, activities and projects compatible with the objectives, mission and vision of the association, systematic realization, monitoring and evaluation of activities and projects will be ensured.

It is among the objectives of the internal audit activity to carry out internal audit studies and develop recommendations on the internal control system in a manner to ensure the achievement of the strategic goals and objectives of the Association.

In associations, the level of compliance of internal audit activities with international standards should be increased. Internal audit units should be established within the organization by taking the business and transaction sizes as criteria.

Corporate governance, which necessitates compliance with principles such as accountability, transparency, fairness, responsibility and adherence to the law, consists of strengthening internal audit mechanisms, increasing the efficiency of internal control systems, establishing risk management, and developing ethical culture. In associations that internalize this management culture, internal audit activities will work in a manner that will contribute to the achievement of objectives and targets with a systematic and disciplined approach.

Conducting, developing and structuring the internal audit activity, which is also an important management function for humanitarian organizations, in accordance with the international standards, ensures the compliance of the activities with the legislation, the effective and economic management of its assets and liabilities, the prevention of irregularity and corruption in business and transactions, the accuracy and reliability of the information. and timely reporting, protection of assets against misuse and loss, accountability, responsibility, transparency, and the establishment of a corporate governance infrastructure.

The internal audit arrangements to be made regarding the rules within which the associations shall carry out the governance, internal control and risk management

processes to be applied in organizational structures; It should be designed within the framework of international internal audit definition, international internal audit standards and professional ethics rules.

To summarize, the effective internal audit and internal control system to be established in humanitarian organizations is important because of; protection of organizational assets, compliance with management policies, avoiding fraud and fraudulent transactions, ensuring that accounting records are complete and valid, and that financial information is prepared in a reliable and timely manner. In addition, the laws of the country of operation will be ensured. An internal audit, internal control, risk management and governance function that accomplishes these objectives will enable the organization to achieve profitability and efficiency targets in its operations. It will also gain transparency and credibility with the community. In addition, the organization will provide the relevant information in a timely manner and will support the consolidation of trust between the organization. From a wider perspective, the organization's reputation in the eyes of the national and international community will be strengthened.

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## APPENDIX

### APPENDIX A.1.

#### INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

##### Introduction to the Standards

Internal auditing is conducted in diverse legal and cultural environments; for organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity.

The purpose of the *Standards* is to:

Guide adherence with the mandatory elements of the International Professional Practices Framework. Provide a framework for performing and promoting a broad range of value-added internal auditing services. Establish the basis for the evaluation of internal audit performance. Foster improved organizational processes and operations. The Standards are a set of principles-based, mandatory requirements consisting of:

Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels. Interpretations clarifying terms or concepts within the Standards.

The Standards, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework; therefore, conformance with the Code of Ethics and the Standards demonstrates conformance with all mandatory elements of the International Professional Practices Framework.

The Standards employ terms as defined specifically in the Glossary. To understand and apply the Standards correctly, it is necessary to consider the specific meanings from the Glossary. Furthermore, the Standards use the word "must" to specify an unconditional requirement and the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

The Standards comprise two main categories: Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals

performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services.

Implementation Standards expand upon the Attribute and Performance Standards by providing the requirements applicable to assurance (.A) or consulting (.C) services.

Assurance services involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor. Generally, three parties are participants in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility.

The Standards apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the standards related to individual objectivity, proficiency, and due professional care and the standards relevant to the performance of their job responsibilities. Chief audit executives are additionally accountable for the internal audit activity's overall conformance with the Standards.

If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, conformance with all other parts of the Standards and appropriate disclosures are needed.

If the Standards are used in conjunction with requirements issued by other authoritative bodies, internal audit communications may also cite the use of other requirements, as appropriate. In such a case, if the internal audit activity indicates conformance with the Standards and inconsistencies exist between the Standards and other requirements, internal auditors and the internal audit activity must conform with the Standards and may conform with the other requirements if such requirements are more restrictive.

The review and development of the Standards is an ongoing process. The International Internal

Audit Standards Board engages in extensive consultation and discussion before issuing the Standards. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on The IIA's website as well as being distributed to all IIA institutes.

## INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF

### INTERNAL AUDITING (STANDARDS)

#### Attribute Standards

##### **1000 – Purpose, Authority, and Responsibility**

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

**Interpretation:** The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

**1000.A1** – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

**1000.C1** – The nature of consulting services must be defined in the internal audit charter.

##### **1010 – Recognizing Mandatory Guidance in the Internal Audit Charter**

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.

##### **1100 – Independence and Objectivity**

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

**Interpretation:** Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board.

This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

### **1110– Organizational Independence**

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

**Interpretation:** Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- Approving the internal audit charter.
- Approving the risk-based internal audit plan.
- Approving the internal audit budget and resource plan.
- Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.
- Approving decisions regarding the appointment and removal of the chief audit executive.
- Approving the remuneration of the chief audit executive.

Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

**1110.A1** – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

### **1111– Direct Interaction with the Board**

The chief audit executive must communicate and interact directly with the board.

### **1111– Chief Audit Executive Roles Beyond Internal Auditing**

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

**Interpretation:** The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

**1120 – Individual Objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

**Interpretation:** Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

**1130 – Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

**Interpretation:** Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

**1130.A1** – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

**1130.A2** – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

**1130.A3** – The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

**1130.C1** – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

**1130.C2** – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

**1200 – Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care.

**1210 – Proficiency**

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity

collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

**Interpretation:** Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

**1210.A1** – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

**1210.A2** – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

**1210.A3** – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

**1210.C1** – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

## **1220 – Due Professional Care**

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

**1220.A1** – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement’s objectives.
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Probability of significant errors, fraud, or noncompliance. Cost of assurance in relation to potential benefits.

**1220.A2** – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

**1220.A3** – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.



**1220.C1** – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results.
- Relative complexity and extent of work needed to achieve the engagement’s objectives.
- Cost of the consulting engagement in relation to potential benefits.

**1230 – Continuing Professional Development**

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

**1300 – Quality Assurance and Improvement Program**

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

**Interpretation:** A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’s conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement program.

**1310– Requirements of the Quality Assurance and Improvement Program**

The quality assurance and improvement program must include both internal and external assessments.

**1311– Internal Assessments**

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

**Interpretation:** Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

- Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards.
- Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

**1312– External Assessments**

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment.

- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

**Interpretation:** External assessments may be accomplished through a full external assessment, or a selfassessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

### **1320– Reporting on the Quality Assurance and Improvement Program**

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

**Interpretation:** The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually. The results include the assessor’s or assessment team’s evaluation with respect to the degree of conformance.

### **1321– Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”**

Indicating that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing is appropriate only if supported by the results of the quality assurance and improvement program.

**Interpretation:** The internal audit activity conforms with the Code of Ethics and the Standards when it achieves the outcomes described therein. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

### **1322– Disclosure of Nonconformance**

When nonconformance with the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

## **Performance Standards**

### **2000 – Managing the Internal Audit Activity**

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

**Interpretation:** The internal audit activity is effectively managed when:

- It achieves the purpose and responsibility included in the internal audit charter.
- It conforms with the Standards.
- Its individual members conform with the Code of Ethics and the Standards.
- It considers trends and emerging issues that could impact the organization.

The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.

### **2010 – Planning**

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

**Interpretation:** To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

**2010.A1** – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

**2010.A2** – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

**2010.C1** – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks,

add value, and improve the organization's operations. Accepted engagements must be included in the plan.

#### **2020 – Communication and Approval**

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

#### **2030 – Resource Management**

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

**Interpretation:** Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

#### **2040 – Policies and Procedures**

The chief audit executive must establish policies and procedures to guide the internal audit activity.

**Interpretation:** The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

#### **2050 – Coordination and Reliance**

The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

**Interpretation:** In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

#### **2060 – Reporting to Senior Management and the Board**

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.

**Interpretation:** The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management, and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charters.
- Independence of the internal audit activity.
- The audit plan and progress against the plan. Resource requirements.
- Results of audit activities.

Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues. Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organization.

These and other chief audit executive communication requirements are referenced throughout the Standards.

### **2070 – External Service Provider and Organizational Responsibility for Internal Auditing**

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

**Interpretation:** This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Code of Ethics and the Standards.

### **2100 – Nature of Work**

The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive, and their evaluations offer new insights and consider future impact.

### **2110 – Governance**

The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:

- Making strategic and operational decisions.
- Overseeing risk management and control.
- Promoting appropriate ethics and values within the organization.
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.

- Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

**2110.A1** – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.

**2110.A2** – The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.

## **2120 – Risk Management**

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

**Interpretation:** Determining whether risk management processes are effective is a judgment resulting from the internal auditor’s assessment that: Organizational objectives support and align with the organization’s mission. Significant risks are identified and assessed. Appropriate risk responses are selected that align risks with the organization’s risk appetite. Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities. The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization’s risk management processes and their effectiveness. Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

**2120.A1** – The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

**2120.A2** The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

**2120.C1** – During consulting engagements, internal auditors must address risk consistent with the engagement’s objectives and be alert to the existence of other significant risks.

**2120.C2** – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization’s risk management processes.

**2120.C3** – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

**2130 – Control**

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

**2130.A1** – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

**2130.C1** – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes.

**2200– Engagement Planning**

Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations. The plan must consider the organization’s strategies, objectives, and risks relevant to the engagement.

**2201– Planning Considerations**

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity’s objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity’s governance, risk management, and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity’s governance, risk management, and control processes.

**2201.A1** When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

**2201.C1** – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

**2210 – Engagement Objectives**

Objectives must be established for each engagement.

**2210.A1** – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

**2210.A2** – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

**2210.A3** – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

**Interpretation:** Types of criteria may include:

- Internal (e.g., policies and procedures of the organization).
- External (e.g., laws and regulations imposed by statutory bodies).
- Leading practices (e.g., industry and professional guidance).

**2210.C1** – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

**2210.C2** – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

### **2220 – Engagement Scope**

The established scope must be sufficient to achieve the objectives of the engagement.

**2220.A1** – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

**2220.A2** If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

**2220.C1** – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

**2220.C2** – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

### **2230 – Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

**Interpretation:** Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.



**2240 – Engagement Work Program**

Internal auditors must develop and document work programs that achieve the engagement objectives.

**2240.A1** – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

**2240.C1** – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

**2300 – Performing the Engagement**

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

**2310 – Identifying Information**

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

**Interpretation:** Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

**2320 – Analysis and Evaluation**

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

**2330 – Documenting Information**

Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.

**2330.A1** – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

**2330.A2** – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

**2330.C1** – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

**2340 – Engagement Supervision**

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

**Interpretation:** The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

#### **2400 – Communicating Results**

Internal auditors must communicate the results of engagements.

#### **2410 – Criteria for Communicating**

Communications must include the engagement's objectives, scope, and results.

**2410.A1** – Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

**Interpretation:** Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

**2410.A2** – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

**2410.A3** – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

**2410.C1** – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

#### **2420– Quality of Communications**

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

**Interpretation:** Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fairminded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information.

Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support

recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

#### **2421– Errors and Omissions**

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

#### **2430– Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”**

Indicating that engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing” is appropriate only if supported by the results of the quality assurance and improvement program.

#### **2431– Engagement Disclosure of Nonconformance**

When nonconformance with the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement and the communicated engagement results.

#### **2440 – Disseminating Results**

The chief audit executive must communicate results to the appropriate parties.

**Interpretation:** The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

**2440.A1** – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

**2440.A2** – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization.
- Consult with senior management and/or legal counsel as appropriate.
- Control dissemination by restricting the use of the results.

**2440.C1** – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

**2440.C2** – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

## 2450 – Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.

**Interpretation:** The communication will include: The scope, including the time period to which the opinion pertains. Scope limitations. Consideration of all related projects, including the reliance on other assurance providers. A summary of the information that supports the opinion. The risk or control framework or other criteria used as a basis for the overall opinion. The overall opinion, judgment, or conclusion reached. The reasons for an unfavorable overall opinion must be stated.

## 2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

**2500.A1** – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

**2500.C1** – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

## 2600 – Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

**Interpretation:** The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

## Glossary

**Add Value** The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

**Adequate Control** Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

**Assurance Services** An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control

processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

**Board** The highest-level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the Standards refers to a group or person charged with governance of the organization. Furthermore, "board" in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

**Charter** The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

**Chief Audit Executive** Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organizations.

**Code of Ethics** The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

**Compliance** Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

**Conflict of Interest** Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

**Consulting Services** Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

**Control** Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

**Control Environment** The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- 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.

**Control Processes** The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

**Core Principles for the Professional Practice of Internal Auditing** The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

**Engagement** A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

**Engagement Objectives** Broad statements developed by internal auditors that define intended engagement accomplishments.

**Engagement Opinion** The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

**Engagement Work Program** A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

**External Service Provider** A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

**Fraud** Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

**Governance** The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

**Impairment** Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

**Independence** The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

**Information Technology Controls** Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

**Information Technology Governance** Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology supports the organization's strategies and objectives.

**Internal Audit Activity** A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

**International Professional Practices Framework** The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories – (1) mandatory and (2) recommended.

**Must** The Standards use the word "must" to specify an unconditional requirement.

**Should** The Standards use the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

**Objectivity** An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

**Overall Opinion** The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

**Risk** The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

**Risk Appetite** The level of risk that an organization is willing to accept.

**Risk Management** A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

**Significance** The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

**Standard** A professional pronouncement promulgated by the International Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

**Technology-based Audit Techniques** Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer assisted audit techniques (CAATs)

Suggestions and comments regarding the Standards can be sent to:  
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## VITAE

Murat Arslan was born in 1988 in Gaziantep. He completed his primary, secondary and high school education in Gaziantep. In 2006, he entered the Department of International Relations at Istanbul University, Faculty of Political Sciences. While studying at the university, she attended Erasmus Exchange Program at Estonia International Audentes University and completed his internship at the Turkish Embassy in Tallin. Upon his return from Estonia, he started his internship at the Turkish Asian Center for Strategic Studies, supported this institution as a translator for 2 years and graduated in 2011 from Istanbul University. He started his professional career in ING Bank Internal Control Department and worked as Internal Control Specialist for almost 3 years. In 2015, he started his master's degree in Business Administration in English at Gaziantep University, Institute of Social Sciences. In 2016, he resigned from ING Bank and joined Chemonics International as a Compliance Specialist. In 2017 he went to the United States for language training and is still working as a Senior Integration Specialist at the same institution. He speaks fluent English and beginner Arabic.

## ÖZGEÇMİŞ

Murat Arslan 1988 yılında Gaziantep'te doğdu. İlkokul, ortaokul ve lise eğitimini Gaziantep'te tamamladı. 2006 yılında İstanbul Üniversitesi, Siyasal Bilgiler Fakültesi, Uluslararası İlişkiler Bölümü'nü kazandı. Üniversite eğitimi devam ederken bir dönem Estonya International Audentes University'de Erasmus Değişim Programıyla eğitim gördü, bu süreçte Tallin Türk Büyükelçiliği'nde stajını tamamladı, Estonya'dan döndükten sonra Türk Asya Stratejik Araştırmalar Merkezi'nde stajına başladı, bu kuruma çevirmen olarak 2 yıl destek verdi, 2011 yılında İstanbul Üniversitesi'nden mezun oldu, ING Bank İç Kontrol Departmanı'nda profesyonel kariyerine başladı, 3 yıla yakın İç Kontrol Uzmanı olarak görev yaptı, 2015 yılında Gaziantep Üniversitesi, Sosyal Bilimler Enstitüsü, İşletme Ana Bilim Dalı, İngilizce İşletme Tezli Yüksek Lisans Programı'na başladı, 2016 yılında ING Bank' daki görevinden ayrılarak Chemonics International şirketinde Uyum Uzmanı olarak işe başladı, 2017 yılında dil eğitimi için Amerika Birleşik Devletleri'ne gitti ve hala aynı kurumda Kıdemli Uyum Uzmanı olarak çalışmaktadır. Kendisi iyi derecede İngilizce ve başlangıç seviyesinde Arapça bilmektedir.