

FOR A SAFE TOMORROW

TeoLupus Newsletter
FOR A SAFE TOMORROW

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COVID-19 Pandemic and Managing Corporate Risks

Due to the COVID-19 pandemic, we have been going through extraordinary days since the beginning of 2020. The concepts of risk management, internal control, internal audit, process improvement, development of internal procedures and business culture are important for all institutions and are important components of efficiency, effectiveness, and institutionalization. Declining production, sales, and increasing global competition because of the COVID-19 pandemic in the world and our country will require companies to work more efficiently and at lower costs in the future.



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The pandemic has required companies to redefine their risks. Prominent risks include cash flow (collections and payments), employee health measures, incentives such as short-term working allowance, investment, changes in customer expectations (quality and price), demand, pricing, supply continuity, production & sales planning, legal dispute risks, digital technology risks, business continuity, and emergency management.

These issues are especially important for small-and-medium-sized enterprises (SMEs). On average, 95% of all enterprises in Turkey are SMEs and these enterprises employ approximately 70% of the total workforce. Weaknesses of SMEs include financing and technology problems, qualified personnel, opening up to new markets, taxation and financial issues, low productivity, branding, lack of value-added production, the need to develop innovation capacity and the need to develop institutional infrastructure.

The other issue is the prevention of fraud and abuse in companies. According to the International Association of Certified Fraud Examiners (ACFE) Global Study on Occupational Fraud and Abuse 2020, on average, a company loses 5% of its annual revenue to fraud and abuse.

At this stage of globalization, it is very difficult for companies to survive by addressing only the domestic market. We can say that companies of all sizes have at least one competitor or may be exposed to a new risk at any time. Even the customs and incentive policies of countries to protect their domestic markets may not protect companies against competition as much as in the past years.

For this purpose, it has become inevitable for companies to increase their productivity and strengthen their corporate decision-making processes by learning the methods, standards, frameworks, procedures, management tools, corporate services and other value-added tools used by their international competitors.

For this reason, it is very important to develop and improve an enterprise risk management system, internal control system, internal audit, and well-functioning procedures and processes mentioned above. In addition, appropriate ERP selection, adequate human resources processes, recruiting qualified employees, and similar tools, structures and systems will increase the competitiveness and institutional resilience of companies. It is useful to pay special attention to these services, which will be created with in-house expertise or can be outsourced.

ISO-27001 Information Security

In the ISO 27001 Information Security Management System awareness conversation held in the Teolupus Business Talks, participants were informed by discussing issues such as information and risk concepts, major threats to information security, corporate entity concept, malicious software, malicious hardware, test statistics about information security, e-mail and messaging security, information security requirements, social engineering concept, clean desk clean screen concept (ISO/IEC 17999), password security and policy, personal and sensitive data, legal compliance, general security principles, factors affecting information security management system design and implementation, and ensuring corporate information security.

<https://teolupus.com/teo/teolupus-is-sohbetleri-3-temmuz-2019-gunu-iso-27001-bilgi-guvenligi-basligiyla-duzenlendi/>



2 Goals 1 Project



Teolupus provided on-site and applied internal audit service training to the newly established Internal Audit Unit members of one of our customers. In addition, according to our 6-month work plan, the risks of the procurement, production and cost accounting processes of the company according to the COSO Internal Control Framework and the COSO Enterprise Risk Management Framework were evaluated together with the members of the Internal Audit Unit, and a risk-based internal audit practice was carried out through co-sourcing. In this process, the necessary risk management, internal control and internal audit planning, information, document and reporting infrastructure of the unit were created and monthly and final internal audit reports were submitted to the board of directors. At the same time, the modern internal audit perspective was explained to all key personnel of the company.

<https://teolupus.com/teo/kurumsal-risk-yonetimi-ic-kontrol-ic-denetim-egitimi/>

Private Corporate Training

Teolupus presented internal audit, risk management and internal control awareness training to our customer prepared privately for the company, and we raised awareness about the importance and sensitivity of this issue by informing top and middle level managers about internal audit and risk management.

<https://teolupus.com/teo/kurumsal-ic-denetim-risk-yonetimi-ve-ic-kontrol-farkindalik-egitimini-tamamladik/>



Global Fraud and Abuse Report

ACFE (Association of Certified Fraud Examiners) is the world's premier fraud prevention organization and leading provider of fraud prevention education and training, with more than 85,000 members worldwide, reducing business fraud and increasing public confidence in the integrity and objectivity of the profession.



Among the various activities carried out in this context is the "Global Study on Occupational Fraud and Abuse" report published every two years. The summary of the report prepared according to the 2504 cases of abuse reported from 125 countries (13 cases were also reported from Turkey) in the April 2020 report, which is the latest version, is as follows:

Frauds fall into three main categories: misappropriation of assets, corruption, and financial statements fraud. According to the report:

- Institutions lost 5% of their annual income due to one of these types of abuse.
- The total loss in these cases is \$3.6 billion and the average loss per case is \$1.5 million.
- The average time from the start of fraud and abuse cases to their detection is 14 months.
- In 86% of cases, "asset misappropriation" is the most common form of fraud and abuse, while "financial statements fraud" is the least common type of fraud among all cases.
- The businesses that encounter the most cases of fraud are those with 1000-9999 employees. On the other hand, the loss is higher in companies with 100 or fewer employees.

<https://acfe-public.s3-us-west-2.amazonaws.com/2020-Report-to-the-Nations.pdf>

Differences Between Internal Audit and External Audit

While the external auditor works to form an opinion on the financial statements, the internal auditor covers the entire business organization and forms an opinion on the effectiveness and efficiency of internal controls, risk management and governance structure and makes suggestions for eliminating deficiencies.

The objectives and scope of activities of external audit and internal audit differ. External auditing is mandatory for companies subject to the boundaries of the Public Oversight, Accounting and Auditing Standards Authority, with the authority given by the Council of Ministers. Needs such as internal audit, risk management, internal control and compliance are regulated by the Turkish Commercial Code, Capital Markets Board, Banking Regulation and Supervision Agency and similar related institutions, and companies apply to these services in terms of their own needs and sustainability.

The internal audit activity helps reduce the risks that external audit attaches importance to. While the internal audit is concerned with the effectiveness of the internal control system, external auditing is concerned with whether the internal control system will reduce the required audit tests.

While internal audit activities are spread over the whole year, external audit activities are generally carried out after the end of the year, except for some audit tests that must be done during the year.

<https://teolupus.com/teo/ic-denetim-ile-bagimsiz-denetim-arasindaki-farklar-nelerdir/>

Branding and Institutionalization

Turquality program, the world's first and only state-supported branding program, is a program of financial funding by the Ministry of Commerce of the Republic of Turkey for companies that want to institutionalize and strengthen their infrastructure. Today, increasingly fierce competition conditions and changing consumption patterns encourage companies that want to take part in the international arena to create strong brands that mean more added value and greater market share.



Turquality Supports, Brand Supports — Branding Development Road map — Manager Development Program and Vision Seminars are the supports of the Turquality Program. The goals of the program can be mentioned as "to increase the brand awareness of Turkish companies and to provide financial resources to companies with the brand potential to become a global brand". Since November 2004, corporate, financial and operational support has been provided to 199 companies within the scope of the Turquality Support Program and to 126 companies within the scope of the Turquality Brand Support Program, taking into account the changes in global markets and the demands of the program stakeholders. If companies that fulfill the conditions for being accepted into the program are accepted into any of the support programs; after receiving support from the companies approved by the Ministry to draw up a development road map, they are obliged to implement the projects within a certain period of time by using internal or external resources within the scope of the projects. According to the support list announced for companies that receive Turquality support or Turquality brand support, the following supports are provided as management consultancy under the title of "Creating a corporate infrastructure":

- Change Management
- Corporate Governance
- Financial Management
- Risk Management
- Process Management
- Human Resources Management
- Development Road Map

A certain part of the expenses made in this regard are covered by the Ministry. According to the support list, financial support of TL 3,164,000 is provided for 5 years for consultancy services for institutional infrastructure within the scope of Turquality support, and TL 1,898,000 is provided annually for 4 years for consultancy services received within the scope of Turquality Brand Support Program.

<https://www.turquality.com/>

Possible Impacts of COVID-19 on Financial Statements

It is seen that as of the end of March 2020, many businesses have suspended their activities for a certain period of time and activity restrictions have been imposed on certain sectors within the framework of the measures taken to try to create remote working conditions where possible. Due to significant declines in sales and significant delays in cash flows due to difficulties in the collection of receivables, the relevant information is given in the booklet prepared by the Istanbul Chamber of Certified Public Accountants on this situation, together with the experts on the subject.

https://archive.ismmmo.org.tr/YAYINLAR/e_kitap/31032020_bulten.pdf



Roles and Responsibilities Related to Internal Control

Board of Directors: The board of directors or the body performing this duty — separately from the senior management — fulfills its oversight responsibility according to the established requirements and expectations.

Top manager: It is the responsibility of the top manager to ensure the establishment of an adequate and effective internal control system in the institution, to monitor the operation and to improve it by taking the necessary measures.

Unit managers: They are responsible for creating an effective internal control system in their units, ensuring and monitoring its implementation, and improving weaknesses.

Personnel: Everyone working in the institution plays a role in the implementation of the internal control system.

Internal audit activity: Contributes to the improvement of the internal control system by constantly examining the design and operation of the internal control system, identifying its strengths and weaknesses, and providing evaluations and recommendations for improvement.

<https://teolupus.com/teo/ic-kontrolde-rol-ve-sorumluluklar/>

Beware the Coronavirus Scams



When an extraordinary event occurs that forces people to rapidly change their routine work and lifestyle, malicious people can come up with new methods of abuse by exploiting the situation. The US Federal Bureau of Investigation (FBI) warns people who can work from home during the pandemic against a variety of potential abuses. However, taking into account similar past situations, internal auditors should be mindful of additional fraud threats not addressed by the FBI. While the current pandemic is particular, it is inevitable that new forms of fraud and abuse will emerge. In this process, potential risks include investment fraud and false claims about COVID-19 vaccines and treatments, healthcare provider schemes, false or inflated bills for COVID-19 vaccine, illegal or incorrect manipulation of COVID-19 vaccine materials, and exploiting control weaknesses.

<https://iaonline.theiia.org/2020/Pages/Beware-the-Coronavirus-Scams.aspx>

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