



AGILE AUDIT APPROACH  
AND  
INTEGRATING  
INNOVATION INTO  
INTERNAL AUDIT



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From Editor...

The Public Internal Auditors Association (KIDDER) of Turkey is established in 2007. KIDDER is trying to contribute to the knowledge accumulation of its members. For this purpose, KIDDER invites experts to the conferences. However, so far, only some internal auditors attended to conferences. Therefore, KIDDER has decided to prepare a bulletin for other internal auditors who could not attend to conferences.

The subject of the bulletin is “Agile Audit Approach and Integrating of Innovation into Internal Audit” discussed on November 3rd, 2018 in Istanbul.

Bahadır TOPAL, Cantekin ERTEKİN, Mehmet Gökhan KARATOY, Turan GÜZEL and Tülün ÖZTÜRK contributed to this bulletin with their articles.

Yours sincerely...

Editor  
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Bahadır TOPAL

Chairman of KİDDER

## IMPRESSIONS ABOUT “AGILE AUDIT APPROACH & INTEGRATING INNOVATION INTO INTERNAL AUDIT” AND “EMBRACING THE CHALLENGES OF THE FUTURE”



Public Financial Management and Control Law (Number: 5018) came into force in 2003 at Turkey. After the law, the Presidencies of Strategy Development, financial control, the principles of planning and performance, spending authority, internal audit and internal control were included in the Turkish public administration structure that is compatible with developments in the world has been established and this structure has become a global management and control system mechanism covering the dynamics of our country in the last 15 years.

In accordance with the strategic goals and plans required by being global power, the internal control system which can be defined as a new management system and the internal control mechanism that regulates each stage with internationally accepted

principles and standards are established.

Since 2006, internal auditors have worked in Public Administrations. The Public Internal Auditors Association of Turkey (KİDDER) was established in order to sustain the development of internal audit, to increase the professional competencies of internal auditors and to be representative of their rights. Our Association which is a large family with members works in close to 800 public institutions organizes various seminars, workshops, etc. as well as organizes continuous professional development and certification trainings. In this way, KİDDER continues to inform our colleagues and the public about our profession and to increase awareness.



With the support of Kadıköy Municipality, KIDDER organized an event titled Integration of Innovation to Internal Audit and Agile Audit Approach. In this activity, the method of change in the spirit of internal audit, general evaluations of innovative and transformational concepts affecting the productivity of the world and our country are discussed in the sample size.



In the event; Cantekin ERTEKİN, internal auditor of Hyundai Motor Company and works in the field of innovation, gave information on innovation that has taken place in production and management systems as well as the process of change in internal audit and the understanding of agile audit. Mehmet Gökhan KARATOY, Oyak Savunma ve Güvenlik Hizmetleri A.Ş. Chief Innovation Officer, shared the best practices of innovation in internal audit and good practices within the scope of sectoral examples. We would like to thank to Aykurt NUHOĞLU Mayor of Kadıköy, the Association of Independent Financial Advisors, Mustafa UZUN Head of Internal Audit Unit of Kadıköy Municipality and our colleagues for their supports.

After the event, I attended a conference about “Internal Audit: Embracing the challenges of the future” organized by the EU Commission in Brussels in order to represent KIDDER. This conference was attended by our colleagues from Europe and many countries of the world with Richard Chambers CEO of The Institute of Internal Auditors.



Vice President of the European Commission Frans TİMMERMAN's, European Commission Director of Internal Audit Manfred KRAFF, IIA President Richard CHAMBERS emphasized that the world is in a rapid change, the future will come sooner and even faster, and therefore the institutional organizations and especially auditing should adapt to these changes quickly. Also, it was emphasized that innovative approaches would be a facilitator in focusing the risks by internal auditors in the management of change.



The topics presented and discussed at the congress were: “Keeping pace with the fourth industrial revolution” presented by Jeanne BOILLET, “Moving toward an augmented reality for auditing” presented by Elisabeth AUBINEAU, “Artificial intelligence in audit and risk” presented by Mona DE BOER, “Providing assurance and addressing stakeholders expectations” presented by Helena Abreu LOPES, Data analytics and innovation in audit presented by Alan DUDLEY, “Can drones and AI-enabled document analysis support audits in the future” presented by Tobias ALBRECHT, “Preparing for the future” presented by Richard CHAMBERS, “Future-proofing the internal auditors skillset” presented by Coskun CAKAR, “Future-proofing the public auditors skillset” presented by Tytti YLI-VIIKARI, “ADR analytics” presented by Arthur VERKERE and Simon HEIJNEN, “Providing assurance and addressing stakeholders expectations public sector” presented by Soledad Llamas TUTOR, “Stakeholder expectations” presented by Carolyn DITTMEIER, “Internal audit embracing challenge of the future” presented by

Maarten VERWEY, “Approaching robotic process automation with confidence” presented by Rudy TODOROV. Even these issues show us what level of internal audit should reach quickly. (Congress presentations are available at [https://ec.europa.eu/info/events/ias-conference-2018-2018-nov-06\\_en](https://ec.europa.eu/info/events/ias-conference-2018-2018-nov-06_en))

### IAS Conference 2018 - "Internal Audit: Embracing the challenges of the future"

6 November 2018

Brussels, Belgium

At this stage, we are seeing the results of our willingness to succeed in professional work while working with the amateur spirit that pleases us as KIDDER. On 3rd of November 2018, we talked about innovation and agile control in Istanbul then I went to Brussels on 6th of November 2018, I saw that the similar issues we discussed at Istanbul. In our country, there are some innovative approaches that we implement or plan to implement in the field of internal audit. I saw that the issues we discussed in Brussels were similar with what we discussed in Istanbul. In the past 10 years, we are proud of developing a mechanism which is equal and even more applicable to other countries in the field of auditing.

On the other hand, during the EU Commission's Internal Audit Congress, we had the opportunity to talk with Mr. Colleger KRAFF the General Director of Internal Audit, Hans Peter Lechner former vice-president of the IIA Global Standards, and many colleagues. We



talked about the best examples of the internal audit practice in Turkey and our colleagues' knowledge and experience level. If possible, we will receive support for their participation in an international internal audit event which is planned to be carried out by KIDDER in early 2019.



During these contacts, we also conveyed our request with The Institute of Internal Auditing Turkey (TIDE) to become a member of the Public Internal Audit Committees recently implemented by ECIIA, in consultation. We agree to continue negotiations to clarify this issue next year.

As KIDDER, we want the development of our profession and colleagues. And in our country which is a global power, we will strive to keep internal audit as an example to the world. We would like to thank to The President of Turkey,

former Prime Ministers, Ministers, Undersecretaries, Rectors, Mayors, General Managers and Governors, the Internal Audit Coordination Board, The Internal Audit Harmonization Department, and their experts, TIDE, MAHUZDER, SAYDER, TAYAD, Strategy Platform, BMMGD and BADED members for their support in the realization of important achievements in the field of internal audit in the last 10 years.

My best regards...



Turan GÜZEL

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Tülün ÖZTÜRK

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## INNOVATIVE THINKING IN PUBLIC INTERNAL AUDITING



In the report about the state of the internal audit profession which is prepared by PWC in 2017, it was stated that the value added of internal audit decreased compared to the previous year. This situation can be considered as a reduction of the importance of the function of the internal audit or it can be perceived as not providing the necessary integration to the age. Because today's needs are changing, institutions are looking for new methods to better serve citizens. New research and development activities are carried out on how to adapt to the innovations by following the world instantly.

Research and development (R&D) is defined by the Turkish Language

Institution as a detailed study by experts to ensure the effectiveness, efficiency and improvement of a product or a study. On the other hand R&D is defined by the OECD as the creative work carried out on a systematic basis for increasing knowledge of the knowledge of people, culture and society and the use of this repertoire to design new applications. In the process of R & D studies, information is continuously produced and these information are evaluated in new processes. Therefore, R & D studies are not in vain. It is ensured that the designs made in the process of increasing the knowledge and improving the consciousness are made available to meet the requirements. As





Esko Aho says, R & D is the process that turns money into knowledge, and innovation is the process that returns information to money.

Understanding the subcultures that constitute the main culture in institutions will guide the formation of differences in the audit approaches, and in particular the resolution of institutional problems related to communication. In an environment where new elements are constantly involved, internal auditors are not able to ignore this situation in their evaluations.

Understanding the corporate culture, ensuring the institutional development and being able to sufficient knowledge about achieving the goals by situation analyzes of the management is possible through internal control and internal audit. Internal audit can be successful if it uses its existing innovative functions in its philosophy.

A strong internal control within Risk-based assessments, laws and Coso (Control solutions) integrity is a reality that the age requires.

For example, considering the municipalities: Determination of priority municipal services is possible with information from external elements. The evaluation of these services is possible with the DECISION SUPPORT SYSTEMS and RISK BASED management approach. If you do not update yourself according to the new requirements in the age of information you can not survive.

Is there our institutional deficiencies? In this case, strategic goals are for this. In order to achieve these goals, it is in our hands to use the instruments used by our contemporaries and to improve them.

"If you can't explain it simply, you don't understand it well enough" – Einstein.

If we can clearly explain our work to users, we will have a more efficient way of feedback. Therefore, we must follow the current developments and provide adaptation to them as soon as possible.

A significant change is observed in the role of internal audit approach and its role in organizations. Internal Audit is no longer providing information, but a value-adding.

The adoption of the open innovation model will enable the target group to reach more easily, especially in terms of public institutions. Using of all innovation instruments, even on an institutional basis, is an indication that the institution is open to development. This is an evidence of a sustainable existence.

As a result ; The success of institutions is the success of the country. Within the scope of this idea, all studies conducted using contemporary approaches to achieving corporate goals are valuable. Internal audit will continue to fulfill its function of adding value to its DNA.



Cantekin ERTEKİN

Internal Auditor | Hyundai Motor Company

## CAN INNOVATION BE AUDITED?



While the age of destructive innovation in which we are involved in forcing many business processes to transform, it is unlikely that the internal audit functions will explore the activities carried out in a faster and technological way under the classical approach (old school) and create the expected value in time.

PwC In 2017, the ratio of stakeholders reporting Internal Auditing added a significant value to the 7 Status of the Internal Audit Profession% report dropped from 54% in 2016 to 44% in 2017. This rate in 2017 is the lowest in 5 years. I attribute this to the technology

as being supervisors, to integrate innovation into our business, and to transform from corporate role to internal consultants.

(<https://www.pwc.dk/da/publikationer/2017/sotp-internal-audit-2017.pdf>)

Like many professions, internal audit should move the focus from a purely financial analysis-oriented approach to a technology and innovation-oriented approach. In recent days, it should pay attention to trends such as efficiency auditing, performance auditing, technology auditing, culture control, and innovation control. Analyze the



company's predisposition to technology and innovation and provide assurance and consultancy services in this area. It should work to ensure that internal entrepreneurship and innovation become a corporate culture, and ensure the inclusion of innovation and entrepreneurship in the company's strategies, the long- and short-term goals of the organization. Analyzes for long-term targets measurement and inspection.

The SMART method or abbreviation is a term used as a criterion for identifying targets. SMART was created by combining the words Specific Measurable Accepted Realistic Timely.

<b>S</b>	Specific
<b>M</b>	Measurable
<b>A</b>	Accepted
<b>R</b>	Reasonable
<b>T</b>	Time-bound

Innovation must be clearly defined, shared with employees and measurable in order to become an institution target. Internal Audit should carry out the necessary analyzes to measure innovation;

How many new products and services did we offer last year and how is this compared to the ideal?

How long does it take to switch from initial approval to full implementation?

How much of our income comes from the products or services introduced in the last 2 years?

How effective is our idea generation program? How many ideas do we produce?



How many ideas are sent per employee and how many are approved?

What resources are we devoting to people, time and money?

To what extent are people empowered to try new ideas?

Do we accept and reward risk?

Do we blame people for failure when the initiatives are not successful?

Can people challenge company policy or boss decisions?

Complaint or entrepreneur?

Are we intentionally looking at outside ideas?

Do the departments cooperate clearly in the projects?

What prevents us from applying more ideas quickly?



Mehmet Gökhan KARATOY

Chief Innovation Officer | Oyak Savunma ve Güvenlik Hizmetleri A.Ş.

## INNOVATION - THE GLOBAL VALUE CHAIN AND THE IMPORTANCE OF INTANGIBLE CAPITAL



In order to reach the developed country level, we must take this wind behind and evaluate this process well. We should plan our development policies that will contribute in the long term in the most appropriate way to the current and current situation. We should develop projects that create benefits under the umbrella of university-industry cooperation. The proliferation of these centers, which will attract investors' attention, will both increase the inflow of foreign capital and strengthen our hand in the new world order by stimulating the technology production in

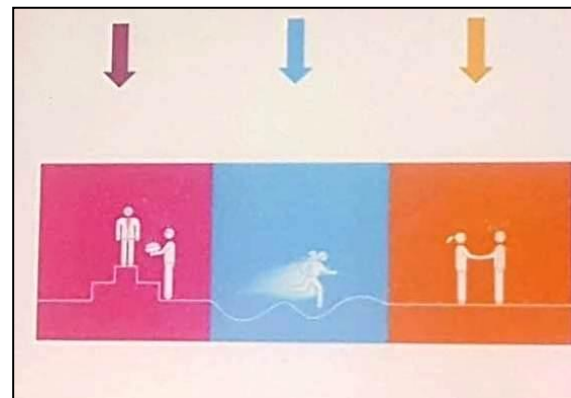
our country. If I want to produce technology, to improve its business, to renew its business processes, to offer innovative services and to cooperate with the university-industry, I will do my duty. We do not know what will change in the future, but today we need to build new systems on innovation, focus on country policy and work to create a corporate culture in companies. In addition, in the new world order, you must motivate them by supporting your creative minds and talented employees, which are the most important element of informal capital. In the context of the



new world order, focusing on innovation and achieving value-creating jobs seem to be the most appropriate strategy for us to get out of the process without injury and move faster. Maybe it's time to say we're in this game.

We can define innovation, which means different things for everyone, as the unlimited form of strategic creativity and system of generating profitability. Contrary to general belief, innovation does not only include inventing a new product, but also refers to the creation of value for already existing systems, products and processes. In brief, innovation is a system of generating profitability and value. Up until now, I have shared my experiences and thoughts regarding the significance of innovation, its benefits and almost all the issues that are related to innovation. In developed countries, the value that is attributed to innovation is much higher compared to many other countries; however, I have observed that in those countries the perception of innovation is also limited to seeing it as a trend or as a requirement for competition. Innovation is, unquestionably, required to create value regarding various issues such as competition, profitability, devising a new product, providing the sustainability of products, survival, education, a clean environment and social responsibilities. My experiences and studies indicate that innovation has significance beyond its known and generally applied aspects. There is a need for a standardized research that

presents validity on a global scale. First, we have to construct a sustainable structure that will enable us to embrace innovation as a culture between individuals and societies and consequently help us transfer it to future generations. For this end, there should be some changes in the education system and the significance of innovation, as equal to math, should be acknowledged.



There are many instructors, managers, researchers and consultants who have made a name for themselves on this very topic with their profound knowledge on innovation. The trainings that are provided, the investments, the products that are manufactured only prove useful to certain people or institutions. It is also true that some global companies make million-dollar investments for innovation. But we have to constitute a sustainable system and a standard structure. I think there is a need for a standard setup, which will inoculate innovation as a culture and transfer it to future generations.

There should be an enterprise at the level of a reform and a system should be



constructed so as to influence the age we live in. In unity, all of the countries or the leading countries should start an innovation reform that will enable us to pass to a new technological age. Even though we may not experience the results in our lifetimes, we can leave behind us a modern age characterized by the use of innovative, entrepreneurial and space-related technologies. It is a necessity to do it in unity. Each and every person who has a say in this field should come together and share their knowledge to determine the best method ahead of time. Innovation means sharing, producing, taking a step for the future... I think the most correct and beneficial step will emerge in the process of this construction. Everybody whose heart is set on this should assume responsibility and we should act with this awareness.



We all miss the big picture while thinking that we are being innovative. I tried to participate in as many conferences as possible to inoculate the culture of innovation and I have spread

the virus to many university students. However, I have also emphasized that without a structure that will value and support innovation on individual, institutional and country levels everything that is achieved will go to waste. As an individual who received successful results in countless innovation competitions, acted as a jury member and provided training on this issue, I can confidently say that innovation should not be about saving the day. Innovation is not saving the day; it is building the future. We should raise young people who are innovative, creative and are entrepreneurs. There are many foundations, societies, free initiatives, techno-cities, research-development laboratories and incubator centers for this, but I do not think this is enough. For a sustainable system, an innovation reform on a global scale is required.

This piece of writing is a call to all the authorities who are dedicated to innovation and who are aware of the big picture. We should struggle patiently and come together for this significant step. "Everything begins with an idea, the rest is COURAGE." The greatest inheritance that we can leave to the future generations is an innovation reform.

"Have the courage to fight for your dreams."