



**THE EFFECTS OF INTERNAL CONTROL SYSTEM ON CORPORATE  
GOVERNANCE: APPLICATION IN COMPANIES WITHIN THE SCOPE OF  
BIST CORPORATE GOVERNANCE INDEX\***

**İÇ KONTROL SİSTEMİNİN KURUMSAL YÖNETİM ÜZERİNDEKİ  
ETKİLERİ: BIST KURUMSAL YÖNETİM ENDEKSİ KAPSAMINDAKİ  
ŞİRKETLERDE UYGULAMA**

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**Abstract**

*Internal control system and corporate governance are fundamental concepts for the managements that want to be afloat in global economy. In the study, effects of internal control system on corporate governance are tried to be determined. For this purpose, survey study was sent to chairman of executive board / executive board members, general manager / assistant general manager, internal auditor and audit committee members of 49 companies that are within the scope of BIST (Istanbul Stock Exchange) corporate governance index and data which can be used in analysis is obtained from 38 companies. After qualitative data was obtained in the study, the data was analysed in SPSS medium.*

**Keywords:** *Internal Control, Corporate Governance, BIST (Istanbul Stock Exchange)*

**Öz**

*İç kontrol sistemi ve kurumsal yönetim küresel ekonomide ayakta kalmak isteyen işletmeler için önemli kavramlardır. Çalışmada iç kontrol sisteminin kurumsal yönetim üzerindeki etkileri tespit edilmeye çalışılmıştır. Bu amaçla BIST Kurumsal Yönetim Endeksine dahil 49 şirketin Yönetim Kurulu Başkan / Yönetim Kurulu Üyeleri, Genel Müdür / Genel Müdür Yardımcıları, İç Denetçi ve Denetim Komitesi Üyelerine anket çalışması gönderilmiş olup, 38 şirketten analizde kullanılacak veri elde edilmiştir. Çalışmada nitel veriler elde edildikten sonra SPSS ortamında analiz edilmiştir.*

**Anahtar Kelimeler:** *İç Kontrol, Kurumsal Yönetim, BIST*

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## **1. SUMMARY**

The technological developments and globalisation case occurring in the world brought many alterations both in social and economical life. Because the managements are no longer formations that are one-man businesses and have limited staff; but the formations that the ownership structure is more complex and have a large number of staff, the changes are obliged by directly affecting management philosophy. Internal control system not only provide maximization in the efficiency of work processes in order that the managements reach their aims and protection of assets of the management in the meanwhile, but also is a process that gives reasonable guarantee at the points of assurance of financial reports' accuracy and legislative harmonization.

Both international economical crisis and big company scandals emphasized the importance of corporate governance applications one more time. After the developments that occurred, many countries, especially USA and our country Turkey, take a firm action for including corporate governance principles that are based on equity, transparency, accountability and responsibility to their country's regulations. It is clear that applying corporate governance by internalising without considering it as an obligation will provide many benefits such as opportunity of finance with low cost, usage of management sources more active and productive, enhancing the endurance of managements against risks. At the same time, that the corporate governance serves maintainability that is very important case for managements is another very important aspect. Corporate governance is also a very important concept for countries because of some definite factors such as decreasing the effects of financial crisis on country's economy, enhancing the country's public opinion on international arena, its contributions to production and employment opportunities.

In the study, the relation of internal control system and corporate governance concepts that are fundamental for the managements is tried to be ascertained. For this purpose, survey study was sent to chairman of executive board / executive board members, general manager / assistant general manager, internal auditor and audit committee members of 49 companies that are within the scope of BIST (Istanbul Stock Exchange) corporate governance index and data which can be used in analysis is obtained from 38 companies. After qualitative data was obtained in the study, the data was analysed in SPSS medium.

## **2. INTERNAL CONTROL CONCEPT AND COMPONENTS**

### **2.1 Internal Control Concept**

After the first identification of internal control was made in the United States in the 1940s, many definitions have been made by different organizations. The most well-known and acknowledged of these was done by COSO. Some of these definitions can be summarized as follows.

According to the COSO; "internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance" (COSO, 2013, p. 3).

The International Institute of Internal Auditors (IIA) defined the definition of internal control in 1999; "internal control is an integral part of the organization management; an important part of organization management which ensures reasonable efficiency in ensuring effectiveness and efficiency in activities,

ensuring reliability in financial statements and related reports, compliance with applicable laws and regulations, budget implementation and continuity in organizational activities” (Uyar, 2010, p. 38).

According to the INTOSAI Guidelines for Internal Control Standards for the Public Sector, “internal control is an integral process that is effected by an entity’s management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity’s mission, the following general objectives are being achieved” (INTOSAI, 2006, p.6).

- executing orderly, ethical, economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- safeguarding resources against loss, misuse and damage.

Public Financial Management and Control Law No. 5018, Article 55; “internal control encompasses financial controls and other controls comprising organizational, methodology, procedural and internal audit established by the administration in order to ensure that the activities are performed in an effective, economic and efficient way in accordance with the aims, defined policies of the administration and with legislation, the assets and resources are protected, the accounting records are held correctly and completely, the financial information and management information are produced in time and securely” (Public Financial Management and Control Law No. 5018, Article 55).

From the Capital Markets Board of Turkey, the internal control system of the Communiqué on Independent Auditing in the Capital Market (Seri: X, No:16), “including compliance with management policies; covers the organizational plan applied to the entity and its operations in an orderly and efficient manner, regular and efficient execution of the assets, prevention and determination of errors, fraud and irregularities, correct and complete accounting records and reliable compilation of financial information in a timely manner” (Communique Regarding SPK Capital Markets Independent Auditing Standards Series: X, No: 16).

On the basis of all these descriptions we can say that; internal control is a process that is directed by board of directors, managers and other staff, gives reasonable guarantee for productivity of activities for reaching the goals of the management, protection of management assets, legislative harmonisation, accounting system and accurate financial tables, determination of fault, tricks and irregularities.

## **2.2. Components of the Internal Control System**

Internal Control-Integrated Framework was published in October 1992 by COSO which was constituted in 1985 by joint venture of five private sector foundations as American Accounting Association-AAA, American Institute of Certified Public Accountants-AICPA, Financial Executives International-FEI, The Association of Accountants and Financial Professionals in Business-IMA, The Institute of Internal Auditors-IIA. The report has been found widely usage as a worldwide accepted guide both by the private sector and the public sector. In the report issued by COSO, internal control is generally defined, components of internal control are explained, internal control what to do and what can not to do, duties and responsibilities are expressed in the internal control system. The report was updated in May 2013 as a result of developments. Five internal control system components are listed as Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring in the COSO report. 17

principles supporting these five components have been added in the report published in 2013.

### **2.2.1. Control Environment**

It is the most the most important component in internal control components. It is the basis for other components. Generally; includes the appropriate management approach to ensure the management of the internal control system and effective policies of the top management to ensure the management philosophy and working style in the enterprise, to give up the commitment to ethical values, to ensure that the management board is independent of the senior management, human resources and all the procedures related to their job descriptions; balanced and written determination of authority and responsibilities for efficient and efficient execution of all processes; and consideration of professional competence and expertise in personnel recruitment.

### **2.2.2. Risk Assessment**

Businesses are faced with a number of uncertainties in the process of attaining the objectives. Such uncertainties include the possibility that may hinder the company to achieve its goals. Risk assessment; is the process of evaluating and managing these factors after determining internal and external adverse factors that can prevent them from attaining the goals in the process of reaching the objectives of the business. The prerequisite for companies to assess these risks is determination for different levels of different targets. Afterwards, the risks associated with these targets are identified and assessed. This whole process is not just about the inner environment of businesses. Businesses should take into consideration the changes and developments that may occur in the external environment and the external environment during the risk assessment process.

### **2.2.3. Control Activities**

All policies and procedures developed by the management and the management aim to eliminate the risks that they may face in achieving their objectives are within the scope of control activities. Control activities are actions performed at different levels of the operator and at each stage of the business process. The control activities prevent the problems that may occur during the work flow processes, prevent the occurrence of bigger problems with the early diagnosis of the failures despite the precautions taken and provide quick resolution of the detected failures. Due to the fact today is age of technology, physical controls as well as control activities carried out in computer environments are considerably important.

### **2.2.4. Information & Communication**

Sharing the quality information that is necessary for reaching the business purposes to the interested parties through business or external sources is a prerequisite for the healthy flow of business processes. While managers need information in decision-making processes, information is needed at the lower-level staff in order for the decisions taken by management to be implemented by staff. It is also an important issue to establish a healthy and efficient communication network from top to bottom and from bottom to top with the aim of directing personnel especially in the businesses. Adequate and timely sharing of the generated information not only within the business users but also with the external users related to the business is also a requirement of a transparent management approach.

### **2.2.5. Monitoring Activities**

The internal control system is the whole of the activities carried out for the purpose of redesigning

the system according to the changing conditions inside and outside the business by determining whether the operator operates in a designed manner with the aim of achieving its objectives and if necessary determining the defective points and taking the necessary precautions. Comparison is made between the current status of the business and its status should be with the monitoring activities. At the same time, due to fact that of being business of changing and developing structures by the time, the internal control system has to be restructured according to changing conditions, the needs of the business in the direction of these changes and developments will be determined and the restructuring process will be shed light on with regular monitoring of the system.

### **3. CORPORATE GOVERNANCE CONCEPT AND CORPORATE GOVERNANCE PRINCIPLES**

#### **3.1. Corporate Governance Concept**

Due to fact that corporate governance is a management model in a broad perspective and many parties are related to the issue, many corporate governance definitions have been made with different perspectives. Some of these definitions are as follows. Corporate governance is the entire set of rules, regulations and principles of management, set of relationships of interest between the company's management, the company's board of directors, shareholders and other stakeholders (business related), in order to ensure good corporate governance practice. (Akdoğan and Akdoğan, 2011, p. 3).

In a narrow sense corporate governance is the whole of the rules governing relations between company management and shareholders and stakeholders. In other words, it is a management philosophy aimed at protecting the rights of all stakeholders (stakeholders) directly or indirectly related to the activities carried out by the company, including shareholders, in any company and aiming to reveal the responsibilities and obligations of the management of the company (Aktan, Retrieved from <http://www.canaktan.org/yonetim/kurumsal-yonetim/aktan-kurumsal.pdf>, on 16.01.2015).

In these definitions, corporate governance is emphasized in terms of business relations and emphasized that corporate governance which is a management philosophy that regulates the relations of interest between managers, board of directors, shareholders and other stakeholders. Corporate Governance is a collection of systems aimed at using assets and values given by business partners for the use of business managers in a way that yields productive results and allowing managers to give an account for partners (and indeed the whole society) about the outcomes of this usage (Aysan, 2007, p. 18). In the aforementioned definition, corporate governance is a system that serves the efficient use of business resources and the philosophy of accountable management.

Corporate governance with a general statement is a set of principles and rules that are applied in the behalf of the company to carry out the activities within the scope of this roadmap and to ensure continuity by drawing a road map in line with the objectives of the company. (Yılmaz and Kaya, 2014, p. 20). Here, the corporate governance also provides continuity with the establishment of a framework for the business to achieve its objectives.

Another definition of corporate governance was made by the OECD (Organization for Economic Cooperation and Development). Organization of corporate governance; "it can be defined as a system in

which companies are guided and controlled and includes a hierarchy of relations between the management of the company, the board of directors, shareholders and other interest groups. Corporate governance sets out the way in which the company's goals and objectives are identified and demonstrates a set of performance monitoring tools that can be used to access them. Corporate governance is within a broader framework of economics, consisting of a set of elements shaping the activities of firms from macroeconomic policy to the level of competition in product and factor markets. The framework of corporate governance is based on legal, regulatory and institutional factors at the same time” (OECD Corporate Governance Principles, 2004).

On the basis of all these descriptions corporate governance is a management philosophy that provides

the balance of the advantages of those concerned about the management,  
the effective usage of operating assets,  
defining a management form which is under the principles of equity, transparency, responsibility and accountability,  
constructing a base for reaching the goals of the management and  
this philosophy is supported by legislative regulations.

### **3.2. Corporate Governance Principles**

All globally accepted basic principles of corporate governance are as follows;

- Fairness
- Transparency
- Accountability
- Responsibility

Corporate governance principles; cover the concept of responsibility fairness / equality principle which emphasizes fair and equitable treatment to all rights holders, internal and external stakeholders, the transparency principle, which stipulates that all information related to the activities and activity results of the company should be disclosed to the public in a timely and accurate manner, an accountability principle that expresses the obligation to make necessary disclosures to business interest groups of those who manage the business and are in the decision-making position and processing activities must be realized within the framework of both legal regulations and social responsibility concept.

Today, businesses that implement the basic principles of corporate governance will be able to increase the competitive power in global financial markets, which are in the process of rapid change and development, and to leave behind their competitors and attract international investors. Hence, basic corporate governance principles can help the business finance and grow further.

#### **3.2.1. Fairness**

It is emphasized that all shareholders in the business should be treated equally with fairness / equality principle. It is necessary for shareholders to have equal right to use their voting rights in ensuring their access to information, in the process of making important decisions for the business. Decisions to be taken by the administrators should in particular prevent the violation of minority rights. In addition, business management is obliged to take measures to ensure the protection of the rights of all stakeholders.

A fair approach should be adopted for shareholders as well as business people, suppliers, customers and the broader community across society.

### **3.2.2. Transparency**

It is necessary that all interest groups related to the business should be informed adequately and timely about the activities and activity results of the business with transparency principle. Decision makers who are in a position related to business activities have the responsibility of informing the stakeholders about the financial situation of the business, its operational results, its future strategies and related to the risks awaiting business. Because of whatever the share ratio, all stakeholders have the right to have information about the future of their investments. Providing information to the shareholders of the company management responsibility rather than see it as a necessity has to acted voluntarily on this issue. Also disclosed information is important that it reflects truth and reality. As well as these, it also requires timely sharing of information where such information will directly affect the decisions of existing and potential investors. Regarding people need to be access the information timely and easily. Truth reflects the reality, timely given information will increase the business confidence of the public, and this trust will serve to attract investors to operate the business.

### **3.2.3. Accountability**

Explanation responsibilities of the business management related business activities is expressed with accountability principle. Due to reason that capital owners and decision makers are different in the businesses, accountability obligation of decision makers should be revealed for the protection of the rights of capital owners. In particular, the corporate bankruptcies occur due to poor management practices and the resulting economic crises, the importance of accountability of managers about actions have once again emphasized. The decision makers' plans for the current situation and future of the business, communicating with stakeholders, informing, accountability requirement regarding with future business-related risks and possible consequences are discussed under this principle.

### **3.2.4. Responsibility**

Responsibility principle and the responsibilities of decision makers in their decisions regarding their business activities in the behalf of the business are expressed. Decision makers must act in a way that they are in the best interests of the business and accountable to the shareholders. In addition, managers need to act within the framework of social responsibility and legislation of the country, otherwise being responsible for sanctions may be faced which are also discussed in this principle framework. Because, observing the interests of the society and harmonization with statutory legislation are factors that increase the image of the business and important for investors. Both new investors can provide resources for the operation and also protect the investments of existing investors has a close relationship with the business image.

## **4. METHOD**

Since the beginning of 2000s, with the corporate governance operation bankrupts and scandals, a mostly spoken new concept has occurred as a result of both the accounting frauds done in the worldwide famous companies like Worldcom and lack of being detected of these frauds by audit firms. With the current

developments, many corrections have done by many countries including our country and USA as a initial position. In our country, the first studies about corporate governance have done by Turkish Industry and Business Association and these regulations have been followed by the regulations done by Capital Markets Board and Banking Regulation and Supervision Agency. Moreover, in the Turkish Commercial Law numbered 6102, there are some regulations related to corporate governance. Also, in our country, in the date of 31.08.2007, BIST Corporate Governance Index with the initial value of 48.082,17 has been started to be calculated.

In the BIST Corporate Governance Index, except for Close Monitoring Bazaar and C and D lists, there are companies whose sharings are treated in İstanbul bazaar and rapport note of corporate governance is 7 on 10 scale and at the same time at least 6,5 on 10 scale for each title. Corporate governance compliance note is given by rating bureaus determined by SPK according to Principles of Corporate Governance published by SPK.

In this part, I will write about the study done with the aim of confirming the effects of the internal control system on the corporate governance in companies within BIST Corporate Governance Index.

#### **4.1. Aim and Importance of the Research**

The aim of the research is to confirm the internal control systems's place in the achievement of the sense of corporate governance by examining internal control system of the companies within BIST Corporate Governance Index. The relation between five components of internal control and principles of corporate governance has been tested. Components of internal control and corporate governance principles has been tested. It has been tried to be proven that working and a good internal control system has positive effect on corporate governance and lack of internal control has a bad effect on corporate governance applications.

Whether in our country or abroad, studies related to the subject are available. However, in the BIST Corporate Governance Index, any study investigating the effects of internal control on corporate governance has been found. Studies to be done at the companies included in the BIST Corporate Governance Index is important due to the fact that the companies must take note of compliance with corporate governance principles.

#### **4.2. Scope of Research**

In the study, as it is aimed to confirm the place of internal control system in the achievement of the sense of corporate governance by examining internal control system of companies within BIST Corporate Governance Index, survey study has done to Board Chairman/ members of board, general manager/ assistants of general manager, internal auditor and audit committee members. In the date of the study there were 49 companies within BIST Corporate Governance Index and these 49 companies has composed of stratification. All of the mentioned companies have been tried to be reached and data that can be used in analysis from 38 companies have been obtained. The mentioned rate of return is %78. Busy Schedule of company managers and obstacles to reach the mentioned people are the restriction of the research.

The main reason why the companies within BIST Corporate Governance Index have been chosen is that to attach these companies to index, their rapport note to principles of corporate governance given by



ratings bureau determined by SPK is 7 on a 10 point scale and for each title at least 6,5 on a 10 point scale. Therefore, the mentioned companies are accepted as having enough achievement in corporate governance.

#### **4.3. Research Method**

In the study, survey method from data collection techniques was used. During the preparation of the questionnaire, "Internal Control-Integrated Framework" report was published in May 2013 by COSO which was benefited.

The survey form consists of survey questions which include the introductory page that summarizes the purpose of the study and the content of the survey and three sections. A total of 39 questions were included in the survey. In the first section there are 5 questions in order to obtain the information prepared by the participant, 4 questions prepared in order to obtain information about the company in the second section. There are 30 questions prepared according to likert scale of 5 in the third part of the questionnaire, which was prepared in order to determine the effects of the internal control system on corporate governance (1: Absolutely Disagree, 2: Disagree, 3: Undecided, 4: Agree, 5: Absolutely Agree)

In the process of collecting survey data, relevant persons were called by phone, information about the purpose and importance of the questionnaire was given. Following, after the questionnaire form was sent to the correspondent's e-mail address, the reply was also received via electronic mail. Some of the interested parties were interviewed directly on the phone and the survey form was collected the answers given via on the telephone, some of the answers regarding survey were taken from face to face interviews, too.

The SPSS (*Statistical Package for Social Science for Windows*) program was used to transfer the data obtained from the questionnaire form to the computer environment, to analyse the data and to test the hypotheses.

#### **4.4. Literature Review**

Some of the studies done in our country and abroad regarding the task are summarized below.

Usul et. al (2011:48-54) aimed to measure whether the corporate government principles are applied in municipality managements or not and in which rate they applied. In the study, face to face survey study is made with accountancy directors of Marmara region municipality managements which were chosen via random sampling. In the study, totally 45 questions that were divided into 6 groups were asked to subjects in order to measure the efficiency of internal control system and they were asked to give answers as "yes", "no" and "partly". According to the data obtained as a result of the studies, it is understood that in Marmara region municipality managements, an active internal control system is not discovered in institutive meaning and thus, understanding of corporate governance does not exist in those managements. It is determined that the management of municipal managements are in the direction of directors' demands, especially transparency and accountability does not exist, high amounts of money can be wasted from government budget as appropriate to political targets.

Baskıcı (2015: 163 – 180) aimed to reveal the relation between internal control system and corporate governance in his study. In the study, a survey is applied to authorised persons regarding companies which are registered to Istanbul stock exchange. The survey form consists of two parts that 45 questions that includes first part from 7 questions concerning the general features of the companies they

are working and demographic features and five point likert scale that is oriented to investigation task (1) very important, (2) important, (3) partially important, (4) not important, (5) absolutely not important). As a result of the study, a positive and strong relation is revealed between internal control system and corporate governance.

Elbannan (2009: 127 – 149) tried to reveal the relation of internal control quality with financial reporting in the financial reporting of companies in his study. The internal control weakness explanations between November 2003 and May 2005 of the companies are used as data in the study. In the study, some results were obtained as the low level internal control quality companies has lower credit note, lower scale, lower profitability, lower cash flow, net losses in current and past periods, high income variability, high leverage rates when compared to high internal control quality companies. At the same time, it is stated that the lacks in the internal control system leads to higher financial costs, lower income, lower interest to company in capital market for the firms. As a result, it is pointed that there is a positive way relation between internal control system and corporate governance.

Leng and Ding (2011: 286 – 294) aimed to reveal the effects of corporate governance structure to internal control explanations in their studies. With this reason, they created a totally 1309 non-financial company sample as quoted to Shenzhen exchange 465 and quoted to Shanghai exchange 844 in 2010 as appropriate to investigation criteria. With the investigation, it is determined that internal control explanations have a positive relation with the fees of the managers, education levels of the managers and inspectors. Again with this investigation, there is a negative way relation between the possessive rate of the government on the company and internal control explanations. In the study, a meaningful relation between internal control explanations and possession rate, greatness of board of directors, rate of independent board members, greatness inspectorate cannot be determined.

Adeyemi and Adenugba (2011: 691 – 698) tried to reveal the effects of an active internal control system on the activities of company board of directors and managers in their studies. At the same time, the role of external audit in corporate governance is investigated in the study. In the study, secondary data is obtained form 12 banks from Nigeria finance sector and these data were analysed with the supplementary statistics. A result as both internal control system and external audits are very effective on corporate governance is found. Especially in family firms, it is stated that the oppressive attitude of top managements blocks the development of internal control system. At the same time, it is stated that external auditors and control authorities are being part of the company and generally, companies in financial sector has weak internal control systems and independent external audit is not recognised.

Al-Zwyalif (2015: 57 – 66) tried to reveal the effects of internal control system's components as control environment, risk evaluation, information and communication and monitoring on the principles of corporate governance as equality, transparency, accountability, responsibility. With this purpose, a survey is done to board of managers' members, finance managers, accounting directors and internal controllers of 27 Jordanian insurance companies. 162 surveys were handed out and 123 feedbacks that can be used in analysis were obtained. Rate of feedback is nearly %76. As a result of the statistical analyses done with survey results, it is stated that the dependence of internal control system to its components significantly contributed to consolidation of corporate governance principles.

## 5. FINDINGS AND COMMENT

The data related to people filling the survey forms in the companies applying the survey are seen in the tables below. Giving the personal data related to company workers in a research conducted to the companies is not very important and as we get the sense about the company over these people, they are important in the event of a more detailed analysis so these data are being given.

**Table 1: Gender of the Participants**

	Frequency	Per cent	Valid per cent	Total Per cent
Women	15	39,5	39,5	39,5
Men	23	60,5	60,5	100,0
TOTAL	38	100,0	100,0	

In the managements participated to survey, %39,5 of the participants are women and lack is men participants.

**Table 2: Ages of the Participants**

	Frequency	Per cent	Valid per cent	Total Per cent
20-29 Age Range	7	18,4	18,4	18,4
30-39 Age Range	21	55,3	55,3	73,7
40-49 Age Range	8	21,1	21,1	94,7
50-59 Age Range	1	2,6	2,6	97,4
Over 60 Age	1	2,6	2,6	100,0
TOTAL	38	100,0	100,0	

In the companies which participated survey, more than half of the participants are at 30-39 age range, other participants from other age ranges are not so much and there are not many participants over 50 age.

**Table 3: Positions of Participants in the Companies**

	Frequency	Per cent	Valid per cent	Total Per cent
Chairman of Executive Board / Executive Board Member	1	2,6	2,6	2,6
General Director / Asisstant General Director	1	2,6	2,6	5,3
Internal Auditor	34	89,5	89,5	94,7
Audit Committee Member	2	5,3	5,3	100,0

TOTAL	38	100,0	100,0	
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That the participants are generally from “internal auditors” reveals the fact that they know all the principals regarding internal control. This reveals that the answers given to survey are all data that is appropriate to accuracy for the analysis. Moreover, reliability analysis regarding this task is made and the results are occurred as high reliable data.

**Table 4: Education of Participants**

	Frequency	Per cent	Valid per cent	Total Per cent
Bachelor	25	65,8	65,8	65,8
Post Graduate	12	31,6	31,6	97,4
Doctorate	1	2,6	2,6	100,0
TOTAL	38	100,0	100,0	

In table 4, %65,8 of the people who are participated to survey and many are internal auditor are bachelor’s degree, %31,6 of them are post graduate and the rest have doctorate degrees.

**Table 5: Term of Employment of the Participants**

	Frequency	Per cent	Valid per cent	Total Per cent
Less Than 5 Years	22	57,9	57,9	57,9
Between 5-9 Years	7	18,4	18,4	76,3
Between 10-14 Years	6	15,8	15,8	92,1
Between 15-20 Years	2	5,3	5,3	97,4
20 Years and More	1	2,6	2,6	100,0
TOTAL	38	100,0	100,0	

From the participants to the survey, %57,9 of them worked less than 5 years, %18,4 of them works between 5-9 years, %21,1 of them works between 10-20 years, the rest %2,6 works 20 years and more.

**Table 6: Sectoral Divisions of the Participants**

Manufacturing	15
Financial Corporations	11
Technology	3
Hotel and Restaurants With Wholesale and Retail Trade	7
Construction and Prosperity	7
Mining	1
Transportation, Communication and Storage	4

In table 6, sectoral divisions of the managents are shown.

**Table 7: Activity Periods of the Companies Participated to Survey**

	Frequency	Per cent	Valid per cent	Total Per cent
10-19 Years	5	13,2	13,2	13,2
20-29 Years	3	7,9	7,9	21,1
30-39 Years	5	13,2	13,2	34,2
More than 40 Years	25	65,8	65,8	100,0
TOTAL	38	100,0	100,0	

In 40 years of activity period of the companies that participate to the survey, there are 13 managements and they show a normal distribution. %65,8 part shows activity for more than 40 years.

The reliability analysis of the data obtained as a result of the conducted surveys has been done by calculating Cronbach's Alpha coefficient and the result is 963. It means a high level reliability.

**Table 8: Correlation Table of the Variables**

	Corporate Governance Index	Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring Activities	Internal Control(=Control Environment+ Risk Assessment+ Control Activities+ Information & Communication+ Monitoring Activities)
Corporate Governance Index	1	,143	,535**	,333*	,406*	,190	,480**
Control Environment	,143	1	,664**	,478**	,560**	,495**	,673**
Risk Assessment	,535**	,664**	1	,766**	,655**	,554**	,862**
Control Activities	,333*	,478**	,766**	1	,572**	,337*	,683**
Information & Communication	,406*	,560**	,655**	,572**	1	,522**	,861**
Monitoring Activities	,190	,495**	,554**	,337*	,522**	1	,642**
Internal Control(=Control Environment+ Risk Assessment+ Control Activities+ Information & Communication+ Monitoring Activities)	,480**	,673**	,862**	,683**	,861**	,642**	1

In the table above, the relation between internal control system and components of internal control system and points on corporate governance index that occurred according to the ratings which are done by independent auditing firms.

Firstly, averages of totally 30 questions - regarding Control Environment (9 questions), Risk Evaluation (7 questions), Control Activities (4 questions), Information Communication (6 questions) and Monitoring (4 questions) that are accepted as the components of internal control – are calculated in each part. Then, average of total 30 questions regarding internal control is calculated and a new data set is provided. Afterwards, the existence of the relation between them is tried to be revealed.

According to the result obtained, that the existence of the relation between internal control system and control environment, 0,673\*\*, internal control system and Risk evaluation 0,862\*\*, internal control system and control activities 0,683\*\*, internal control system and information communication 0,861\*\* internal control system and monitoring 0,642\*\* that this relation is positive and meaningful relation, that these are the components which are existing in literature and accepted by both other managements and public are revealed.

Although scoring gap of corporate governance index that is revealed by independent firms is accepted to be between 1 and 10, the scores occurred are between 8 nd 10. Thus, situation of bad governance corporation is not considered when scoring is done before statistical analysis is made. Corporate governance is provided to be subjected to be scored between good and superb. The scoring is done as “1 – tolerable”, “2 – good”, “3 – preferable”, “4 – great”, “5 – superb”.

Moreover, the relation between corporate governance index and risk evaluation 0,535\*\*, control activities 0,333\*, information communication 0,406\*, and internal control (control environment + risk evaluation + control activities + information communication + monitoring) 0,480\*\* is emerged as positive and meaningful. Before the beginning of the study, a major part of the main hypothesis and sub – hypotheses that shows the relation between internal control system and corporate governance system with each component is revealed to be accepted.

The main hypothesis that is as “there is a positive meaning relation between corporate governance index and internal control system” is accepted.

From the sub-hypotheses, the one as “there is a positive meaning relation between corporate governance index and risk evaluation that is one of components of internal control system” is accepted.

From the sub-hypotheses, the one as “there is a positive meaning relation between corporate governance index and control activities that is one of components of internal control system” is accepted.

From the sub-hypotheses, the one as “there is a positive meaning relation between corporate governance index and information communication that is one of components of internal control system” is accepted.

Despite these, the hypotheses regarding other components from the components of internal control are rejected.

## 6. RESULT, DISCUSSION AND SUGGESTIONS

In this study that the effects of internal control system on corporate governance are tried to be determined, it is revealed that there is a positive oriented strong relation between internal control system and corporate governance. Beside the existence of internal control system in managements is very fundamental factor in terms of reaching targets of the management, with an effective internal control system, usage of the management assets inappropriately or out of aim can be avoided. Moreover, with good corporate governance applications, besides providing balance to benefits of those concerned related to management, defining a management regime that works under the principles of effective usage of management assets, equity, transparency and accountability, responsibility will be provided. Again, an internal control system that works effectively is very fundamental for good governance corporation applications. Because one of basic features of both internal control system and corporate governance is that management must be determinative at the point of carrying out targets.

In the literature search related to corporate governance and internal control system, it is seen that the relation between components of internal control system and rating scores of corporate governance is not revealed. With this study, making contribution to literature concerning internal control system and corporate governance is aimed. The research is made to companies that are included to BIST corporate governance index by getting cohesion score to corporate governance principles. Thereby, this is important because the companies that constitute basis to study be successful in corporate governance applications.

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