



Auditing in agricultural sales cooperatives and unions

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Abstract

Aim: This research examines how independent audit principles can help agricultural sales cooperatives in Turkey with their controlling issues. This research examines the potential contributions of an independent audit, which was implemented to ease the burden of auditing agricultural sales cooperatives and unions in Turkey.

Method: This research relied on secondary sources of information such as existing literature reviews and relevant pieces of legislation. The Ministry of Commerce's "communiqué on the determination of Agricultural Sales cooperative unions to be subject to independent audit," published in the Official Gazette on June 14, 2013, and data from the General Directorate of Artisans have both been used as sources for this article.

Findings: Based on the findings of the SWOT analysis conducted within the context of this plan, the lack of effective and guiding existing internal and external audit mechanisms, as well as the negative experiences encountered by some types of cooperatives, are identified as weaknesses.

Implications/Novel Contribution: An effective audit mechanism can be created with the help of these discussions and suggestions, which can influence the viewpoints of public officials tasked with and have the authority to formulate policies, particularly about the supervision of cooperatives. Not only that but suggestions for improving cooperative oversight are also offered.

Keywords: Agricultural Sales Cooperatives and Unions, Independent Audit, Auditing Problems of Cooperatives

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INTRODUCTION

Statement of The Problem

With a history stretching back to 1914, Turkey's agricultural sales cooperatives now count more than 500,000 members as partners. It's worth noting that the Thrace Oil Seeds Agricultural Sales Cooperatives Union (Trakyabirlik) is the 113th largest company in Turkey as of 2017 (<https://bit.ly/2sGaUn6>). Independent auditing of Agricultural Sales Cooperatives and Unions is crucial in this setting. In Turkey, independent auditing of agricultural sales cooperatives and unions became mandatory in 2013. This auditing regulation would be crucial in addressing the cooperatives' auditing issues discussed in this research.

Objectives

Cooperatives in Turkey face significant challenges, one of which is a need for more independent auditing. Inadequate state supervision and a dysfunctional internal audit mechanism for cooperatives undermine public trust in the institutions and hamper their ability to do their jobs effectively.

Before 2013, Turkey's agricultural sales cooperatives and unions, which are among the country's largest and most important businesses, lacked an efficient auditing system. The Agricultural sales cooperatives and unions' financial and structural problems necessitated major revisions to law No. 4572 in 2013. The law did away with inactive supervisory boards and instituted an independent auditing system.

Since there is a dearth of research in this area, it can be argued that this study can make a valuable contribution. Independent auditing of agricultural sales cooperatives and unions is a relatively new phenomenon.

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Agricultural sales cooperatives and unions in Turkey operate on the principles of mutual aid and solidarity to protect the interests of their members. In this regard, it offers instrumental services as input to its partners, optimal product evaluation, and funding for its partners. In addition to helping to regulate markets, cooperatives that sell agricultural products can boost earnings for everyone involved.

Third parties, public institutions, and society stand to gain greatly from the independent audit system and the regulated agricultural sales cooperative and association.

How far the independent audit, implemented to resolve the audit of agricultural sales cooperatives and unions in Turkey, can help to resolve the issue is explored in this research. The research also includes suggestions for improving cooperative oversight.

Public officials, who are in a position to shape policy, particularly in the supervision of cooperatives, will be swayed by the discussions and suggestions made here to create a more robust audit mechanism.

Scope of the Study

Cooperatives are expanding worldwide, with the best examples in advanced market economies. The World Cooperative Monitoring Report gathered quantitative data on economic, organizational, and social factors from 2,379 non-cooperative enterprises controlled by cooperatives, partner organizations, and cooperatives around the world. The top 300 of these companies generated a total of \$2,164.23 billion in revenue in 2015, as measured by data collected that year. Nearly one-third of these cooperatives are involved in agriculture, and food production (Jui-Hsiung, Jiun-Hao, Yu-Chang, & Szu-Yung, 2018; World Co-operative Monitor, 2017). Among the largest economic organizations with more than 1 billion members, Cooperatives can be found in virtually every global market (Azizam, Ismail, Sulong, Nor, & Ahmed, 2015; Guaranty Trust Bank, 2015). Cooperatives in agriculture and livestock raising significantly ensure food security and reduce poverty worldwide, especially in industrialized nations (Mochtar, 2018; World Co-operative Monitor, 2017).

Most Turkish farms are run by families, and these tend to be small, inefficient operations that struggle to compete in today's global marketplace. Cooperatives in the agricultural sector can help alleviate many problems plaguing solo farmers.

Formerly operating under the guardianship system, agricultural sales cooperatives contributed significantly to state agricultural policy and participated in support procurement. Agricultural sales cooperatives have entered a new, more self-sufficient era since the turn of the millennium. An efficient and thorough audit is necessary for cooperatives to function properly and deliver the benefits their members are promised. It has long been an issue in Turkey that cooperatives are not adequately audited. In particular, additional strengthening of external audit mechanisms is required because of the long-standing absence of internal audits.

Method of the Study

This research relied on secondary sources of information such as existing literature reviews and relevant pieces of legislation. Data from the General Directorate of Artisans and the "communique on the determination of Agricultural Sales cooperative unions to be subject to independent audit" prepared by the Ministry of Commerce and published in the Official Gazette on 14/06/2013 have been used as sources here.

The study looked at the big picture of agricultural sales cooperatives and unions in Turkey, taking into account audit-related issues and discussing how crucial it is to have independent audit ingress in the oversight of these organizations.

AGRICULTURAL SALES COOPERATIVES IN TURKEY

The first agricultural sales cooperatives in Turkey was established by the fig producers in Aydin province in 1914. The first law on the establishment of agricultural sales cooperatives is the law numbered 2934, dated 1935. Lastly, Agricultural Sales Cooperatives and Unions were reorganized in 2000 with the law numbered 4572. These

cooperatives and their unions, which worked under the tutelage of the state until the 2000s, became autonomous with the legal arrangements made after 2000.

Following the autonomization of Agricultural Sales Cooperatives and Unions, in accordance with the principles of cooperatives, with a strong and independent financial structure; in 2013, fundamental changes were made in Law No. 4572 in order to manage them effectively, efficiently and sustainably and to restructure their existing debts. In this framework, it is aimed to eliminate the problems in the management and audit structure of cooperatives and unions and to apply the principles of contemporary cooperatives (<https://bit.ly/3axKtRt>).

The purpose of agricultural sales cooperatives; to protect the interests of its partners and to continue its activities through mutual solidarity and cooperation. For this purpose, agricultural sales cooperatives make best efforts to increase the profit of its partners by evaluating the products of its partners in the best way and ensuring the stability of producer and consumer prices by regulating product markets. In this direction, it provides inexpensive input and financing to its partners and takes extension service on technical issues.

Turkey in agriculture and industrial goods trade, there are a lot of very important agricultural sales cooperatives (Inan et al., 2008). In Turkey, according to data from the Ministry of Agriculture and Forestry in March 2018, 399 agricultural sales cooperatives are the number of partners of these cooperatives is 533 456 (<https://bit.ly/2NNeEKQ>).

AUDITING AND AUDITING PROBLEMS IN TURKISH AGRICULTURAL SALES COOPERATIVES

Cooperatives are among the trading companies in the Turkish Commercial Code no. 6102. However, cooperatives have their own differences compared to other trading companies. One of these differences is their non-profit. In addition, having some principles and values and operating in line with their common interests are the characteristics that distinguish co-operatives from other enterprises. For the cooperative enterprises established and operating in accordance with voluntary and mutual trust, the good functioning of the management function depends first of all on the good functioning of the audit function. Inadequacies in the performance of audit functions in the enterprises prevent the information that is important in decision-making to reach the management in a regular, sufficient, and timely manner by disrupting the internal discipline. This situation in general, as in other enterprises, cooperative enterprises by disrupting the functioning of the decision mechanism, reduces the ability to move and shakes the trust in the enterprise (Saglar & Tuan, 2009).

There are three laws in force relating to cooperatives in Turkey. These are Law No. 1163 on Cooperatives, Law No. 1581 on Agricultural Credit Cooperatives and Unions and Law No. 4572 on Agricultural Sales Cooperatives and Unions. According to Law no. 1163, the provisions of the Turkish Commercial Code no. 6102 on joint stock companies shall be applied in cases where there is no contrary provision in the Law no. 1163 (Turan, Chormey, Büyükpınar, Engin, & Bakirdere, 2017). Agricultural Sales Cooperatives and Unions are subject to the Law No. 4572 on Agricultural Sales Cooperatives and Unions, which are among these laws. Co-operative enterprises often face unlawful situations, sometimes due to lack of information and sometimes due to abuse of malicious executives. In this process, cooperatives need an effective cooperative audit in order to overcome the problems they face. Audit in cooperatives; audit committee, regardless of whether they are made by the state or independent audit institutions are handled in terms of the following three issues (Altug, 1991):

1. Material control of the cooperative existence.
2. Audit of the accounts of the cooperative.
3. Audit of the legal transactions of the cooperatives.

It can also be said that the audit in cooperative enterprises is more than a financial audit and includes administrative audit (Soni & Saluja, 2013).

Turkey's cooperative audit problems in the past and has since maintained its place on the agenda. In the Cooperative Strategy and Action Plan (2012-2016), which was prepared by the Ministry of Commerce in 2012, the issue of the audit was seen as a priority issue. According to the results of the SWOT analysis conducted within the framework of this plan, the weaknesses of trust and image that arise due to the lack of effective and guiding existing internal and external audit mechanisms and the negativities experienced in some types of cooperatives are weak aspects. In this context, it is explained that there is a need for an external audit system in matters such as strategic objectives, cooperatives, accounting, legal and administrative procedures, business plans and operational

performance. In addition, it was emphasized that the internal audits carried out by the cooperatives and their superiors, partners and the supervisory board should be made more efficient and to achieve results. For this purpose, it is aimed to reveal an appropriate internal and external audit model and as a result, to completely revise the existing system (Guaranty Trust Bank, 2012).

Article 4 of Law No. 4572 on Agricultural Sales Cooperatives and Unions, 28.03. It was revised by Article 21 of the Law on Customs Amendment No. 6455 dated 2013 and Amendments to Certain Laws and Decree Laws. With this regulation, the audit committees which are among the organs of agricultural sales cooperatives and unions have been abolished as of 11.04.2013 (<https://bit.ly/2RfSI2j>). These cooperatives have two bodies, the general assembly and the board of directors.

With the amendment made in article 1 of the law in 2013, the purpose of the law is to regulate the provisions regarding agricultural sales cooperatives and their unions, to ensure that these organizations are managed in accordance with the principles of cooperatives and corporate governance, to operate effectively, efficiently and sustainably under market conditions in an autonomous, strong and independent financial structure and to strengthen agricultural sales cooperatives 45, (4572). (Law No. 7809 on Agricultural Sales Cooperatives and Unions). With this amendment, it was aimed to strengthen agricultural sales cooperatives and unions and draw attention to institutionalization and independence and autonomy.

In line with these changes, a transparent and accountable professional management was tried to be established in agricultural sales cooperatives and unions. With the abolition of the audit committees, arrangements were made to make the board of directors a decision, oversight, and audit body and the execution was aimed to be left to the general directorate. In order to fill the audit gap resulting from the abolition of the audit boards whose functionality is the subject of discussion, regulations regarding the independent audit have been made in the Law (Cenkis, 2014).

AUDITING IN TURKISH AGRICULTURAL SALES COOPERATIVES AND UNIONS

Independent Audit

An independent audit may be defined as an independent auditor examining the financial statements of enterprises in terms of compliance with standard accepted accounting principles in accordance with audit principles and rules by using objective evidence collection and evaluation methods and presenting the audit reports to the parties in need of information about the enterprise (Bayazitli, 1991). An independent audit is a process that contributes to the production of high-quality accounting information required by enterprises. In this process, internal control and accounting information systems of the enterprises are examined and deficiencies or deficiencies are tried to be determined (Ozcelik, Senol, & Akturk, 2014) Although independent audit firms are seen as a microtransaction that contributes to the reliability of firms as an audit concerning investors and creditors, it has macroeconomic effects due to its results (Sakin, 2018).

The scandals that started with the Enron company in the USA in 2001 and arose from fraud in the financial statements of reputable auditing firms such as World Com and Arthur Andersen revealed the necessity of various regulations on accounting and auditing profession. This process, on the one hand, the companies whose shares are traded on the stock exchanges, on the other hand, has lost a great deal of trust in the audit companies. In this process, the importance of quality financial reporting for companies and the market was better understood and the Sarbanes Oxley Act (SOX) was enacted in 2002 to restore confidence that has shaken capital markets. This Law has led to significant changes in the duties and responsibilities of participants in the financial reporting process (Asare, Cunningham, & Wright, 2007). The law consists of two chapters (Articles 302 and 404), which focus on internal control issues, in particular, financial reporting (Zhang, Zhou, & Zhou, 2007). Within the framework of these two articles in the law, it is obligatory to identify risks on the financial reporting of companies and to document and evaluate the controls related to these risks. Company executives are held responsible for the effectiveness of the audits and severe criminal sanctions are imposed (<https://pwc.to/30HqBH6>). The law has undergone various changes over time, but the basic principles of the law have not changed.

In Turkey, in 2002, issued by the SOA and the European Union (EU) updated in 2006, 8 in conjunction with Directive in effect, independent audit more began to be taken into account, and various regulations related to independent audit have been raised. Within this framework, important changes regarding the audit of capital companies; it was established in 2012 with the Turkish Commercial Code no. 6102 and Decree No 660. With

the entry into force of the Turkish Commercial Code No. 6102, capital companies have been required to perform independent auditing procedures in accordance with the defined criteria. In order to implement this practice and increase the reliability and transparency in the commercial life, the institutional arrangements related to the supervision of independent audit have been made as a result of the EU negotiations and as a result of this regulation, Public Oversight, Accounting (POA) and Auditing Standards Authority has been established (Yavuz, 2011). With the establishment of the POA, alignment with the EU acquis on independent auditing has also been achieved. The POA is a public legal entity with administrative autonomy and is responsible for conducting and auditing independent audit activities. The duties of the POA are as follows; to provide a suitable environment for reliable and high-quality financial reporting and independent auditing, to set standards for the preparation and auditing of financial reports in compliance with international standards and to perform public oversight effectively (Ozcelik et al., 2014).

The POA is also the auditing body responsible for the authorization of independent auditors or independent auditing organizations. While there are concerns that the collection of powers related to setting accounting and auditing standards and oversight of the independent audit in the POA may cause problems for the reliability of the POA, there are some thoughts about the fact that cooperation with other institutions and organizations can eliminate these problems (Karasu, 2014).

Benefits of Independent Audit

In companies subject to an independent audit, there is a concern that independent audit will bring additional costs to companies. In order to eliminate these concerns about the additional cost of independent auditing, it is important to disclose the benefits of independent auditing. Independent auditing provides various benefits to third parties, financial institutions, trade unions, and public institutions and society, especially audited enterprises (Demirtaş, 2016).

The various advantages and benefits of independent auditing to businesses can be listed as follows:

- Providing the correct information flow to management.
- To contribute to the management in making analysis and making the right decisions based on financial statements.
- To express an opinion as to whether the financial statements reflect the truth.
- To help prevent enterprise management and employees from cheating.
- To reduce the cost of financing through the reports approved by the independent audit.
- Better protect the rights of all shareholders of the entity (<https://bit.ly/2RGAD7c>).

Ozcelik et al. (2014), the results of a study determined the benefits of independent auditing for professionals in support of the above-mentioned benefits as follows; increasing the quality of accounting information, contributing to the institutionalization of enterprises, increasing the reliability of financial statements, increasing the credibility of the enterprises, protecting the rights of the partners, in particular, reducing the informal economy and the development of accounting for information.

Costs and Consequences of Not Performing Independent Audit

There are several benefits for companies to have independent audits, and there are some costs to be incurred. The elements covered by this cost are as follows (Saglar & Tuan, 2009):

- Independent audit fee
- Value-Added Tax (VAT) related to the total independent audit fee.
- Expenditures for the collection of evidence that the independent auditor considers important for the independent audit.

According to the Turkish Commercial Code (TCC) 6102, if the companies subject to independent audit avoid independent auditing according to the provisions of the law, they have to bear the following results:

1. Those subject to audit shall state clearly whether the financial statements have been audited or not, and if so, the auditor's opinion in the title of the relevant financial statement. This provision also applies to the annual activity report of the board of directors.

2. Although subject to audit, the unaudited financial statements and the annual report of the board of directors are subject to the unedited provision (Art. 397/2 of the TCC).

3. The financial statements and the annual report of the board of directors are deemed to be unedited;

a) The General Assembly shall not review, discuss, and release the statements.

b) It prevents the company from distributing profits, increasing capital, and reducing capital.

4. Financial statements cannot be presented to financing companies. This affects lending. Financial statements cannot be approved by Certified Public Accountants (SMMM) and Sworn-In Certified Public Accountants (YMM).

5. The Board of Directors shall be liable for any damages resulting from the failure to elect an auditor.

6. In case the auditor is not announced on the companies websites subject to an independent audit, the TCC is not subject to 562/12. Members of the governing body of the companies that do not create the website stipulated in Article 1524 in accordance with Article 1524 shall be punished with a judicial fine of one hundred days to three hundred days (the fine is 20 TL-100 TL per day and 6.000 TL-30.000 TL for 300 days-Art. 52/1 of the TCK)-2nd).

Importance of Independent Audit and Controlling in the Turkish Agricultural Sales Cooperatives and Unions

Cooperatives have problems in terms of their reliability in terms of effective management and audit structure transparency. According to experts, co-operatives need more independent auditing than other companies to overcome the problems they face due to the fact that reasons such as the fact that the multi-partner structures have the status of an organization of interest to the public interest, that the influence and control of the partners in management is weak, and that the sense of belonging of the partners is low (Yildiz, Cengiz, & Bulut, 2017).

In line with the support of these ideas, at the same time, in order to fill the audit gap formed by the abolition of audit boards in agricultural sales cooperatives and unions, with the regulation made in 2013, these cooperatives were obliged to have independent audits. With the amendment made in Article 5 of Law No. 4572 on Agricultural Sales Cooperatives and Unions, Agricultural Sales Cooperatives Unions determined by the Ministry of Trade by taking into account the number of partners and turnover have independent audits performed in accordance with the relevant provisions of the Turkish Commercial Code number. It is mandatory.

The requirements of the Agricultural Sales Cooperatives Unions to be subject to independent auditing, which were announced in the Official Gazette dated 14.06.2013, were later published in the Official Gazette dated 17.01.2015 and numbered 29239. The Communiqué on the Amendment of the Communiqué has been amended and expanded in scope. The Communiqué on the Amendment of the Communiqué has been amended and expanded in scope. The amendment to Article 4, paragraph 1 of the Communiqué, sets the conditions for being subject to audit. Accordingly, unions providing at least three of the following four conditions for two successive accounting periods shall be subject to independent audit within the framework of TCC numbered 6102 as of the following accounting period (Sirkuler, Istanbul, 20.01.2015 Issue: 2015/018 Ref: 4/018).

a) Total assets: Forty million or more Turkish Lira, (50 million TL in the first communiqué).

b) Annual net sales proceeds: Fifty million or more Turkish Liras, (75 million TL in the first communiqué).

c) The number of partners of affiliated cooperatives: Three thousand and more.

d) Number of employees: One hundred and fifty or more (The first communiqué was 250).

According to paragraph 2 added to article 4 of the Communiqué, unions that are not subject to independent audit in accordance with the conditions specified above may perform independent auditing upon request. The unions carrying out such audits shall be exempted from the supervision provided for in the fifth paragraph of Article 397 of the Law no.

The selection of the independent audit firm is left to the general assembly, according to the TCC. However, the Board of Directors concludes the contract with the independent audit firm. The audit firm chosen does not have to accept this requirement. According to the Law, the auditor shall be appointed through the court if the request is not accepted (Article 399/6 of the TCC). The doctrine suggests that the general assembly may determine more than one alternative (Aksoy & Aksoy, 2017).

Article 397, paragraph 5 of the Turkish Commercial Code No. 6102 provided a separate form of audit for

joint stock companies not covered by independent auditing, and for cooperatives under Law no. Although they are not subject to an independent audit, unions performing independent audit upon request will also be exempt from the audit set out in article 397 of the TCC (Sirkuler, Istanbul, 18.06.2013 Issue: 2013/142 Ref: 4/142).

The Communiqué also imposed on the independent auditors some additional duties arising from the legislation. Within the scope of these duties, as a result of the examinations performed by the auditors, they prepare the auditor reports. Auditors are obliged to inform the Board of Directors immediately in writing when they identify a matter that may have irreversible or impossible consequences for the union, partners, or creditors during their audit activities. This issue is also included in the audit report.

In spite of all these regulations, the inability to enter into force and to enter into force in accordance with Article 397, paragraph 5 of the Law no. 6102, and the abolition of audit boards in this process, in the general assemblies of cooperatives and unions; The release of the board of directors, the release or rejection of the financial statements and balance sheets have been found to cause significant problems for the agricultural sales cooperatives and unions which are not subject to independent audit in practice (<https://bit.ly/2TModNG>) 202018 11% 20 (003). In this process, the Ministry has taken steps to adopt a circular on issues related to the adoption or rejection of the balance sheet and activity reports in the cooperatives and unions in order to eliminate the grievances of the cooperatives until the entry into force of the regulation.

DISCUSSION, CONCLUSION RECOMMENDATIONS AND IMPLICATIONS

In non-profit cooperative enterprises, an audit is more important than other enterprises due to various reasons. Among these reasons; the fact that there is not much opportunity to employ professional managers in the cooperatives, the frequent changes of the boards of directors and the insufficiency of the management, audit and general management information of the members of these boards, the indifference and ignorance of the partners in the general assembly can be considered. These reasons lead to a large number of deviations from the plans in the cooperative enterprises while increasing the importance of supervision trying to correct these deviations.

It is important in terms of protecting partners and effective third parties in cooperatives. Determining whether the cooperative works according to economic rules and whether it is doing its job can be realized by an audit. Therefore, the competence of auditors and audit is important. The issue of an effective audit of cooperatives in Turkey, long a topic of discussion for many years.

Turkey in agricultural sales cooperatives and associations with significant agricultural industry enterprises to create solutions to control problems, with the regulation made in 2013, the auditing committees, which do not work efficiently and are subject to criticism, were abolished and the obligation to conduct independent audits, which would contribute to the reliability of these enterprises and protect the interests of the partners, was introduced. This obligation contributed to the increase in reliability and transparency for the cooperatives subject to independent auditing and caused various problems for the non-independent auditors. The fact that the necessary legal arrangements have not been made and the regulation has not been issued since 2013 has led to various problems in terms of grievance and supervision (who will conduct the audits and how the reports will be prepared) in agricultural sales cooperatives that are not subject to independent audit.

While independent supervision of cooperatives is important for the reliability of cooperatives, a current study of independent auditing in Turkey also reveals some of the problems that independent audits meet expectations. In this study, we examined the expectation gap in independent audit in comparison with the auditors of independent audit firms and the company managers who benefited from the Audit Service and found that there were gaps in some issues (Yildiz et al., 2017).

In terms of an effective independent audit of cooperatives and other enterprises, we can say that it is important to solve the problems related to independent auditing.

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