



SCREENING CHAPTER 32 FINANCIAL CONTROL

**Country Session: The Republic of TURKEY
30 June 2006**



CONTENT

I- Public Internal Financial Control and External Audit

II- Decentralised Implementation System in Turkey

III- Protection of EU Financial Interests



SCREENING CHAPTER 32 FINANCIAL CONTROL

AGENDA ITEM I: PUBLIC INTERNAL FINANCIAL CONTROL AND EXTERNAL AUDIT

**Country Session: The Republic of TURKEY
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PUBLIC INTERNAL FINANCIAL CONTROL



CONTENT

- A. Legal Framework
- B. Public Internal Financial Control (PIFC) System
- C. Strengthening Administrative Capacity



A. LEGAL FRAMEWORK

1. Related Provisions of the Constitution
2. Public Financial Management and Control Law No.5018



1. Related Provisions of the Constitution

SUBJECT	ARTICLE NO
Preparation, implementation and control of the central government budget	130 and 161
Debate on budget in the Parliament	162
Provisions stating that budget appropriations may only be increased by law	163
Procedures and principles concerning Final Account Law	164
Audit by the Turkish Court of Accounts	160



2. Public Financial Management and Control Law No. 5018

- Public Financial Management and Control Law No. 5018 was adopted on 10 December 2003.
- Amendments made by Law No. 5436 dated 22 December 2005.
- 21 pieces of secondary and tertiary legislation have been put into force.
- The implementation of the new PIFC system started on 1 January 2006.



2. Public Financial Management and Control Law No. 5018 (cont'd)

PFMC Law regulates;

- structure and functioning of public financial management,
- preparation and implementation of public administration budgets,
- financial control,
- accounting of all financial transactions,
- reporting of all financial transactions,
- accountability and responsiveness towards the Parliament and other stakeholders



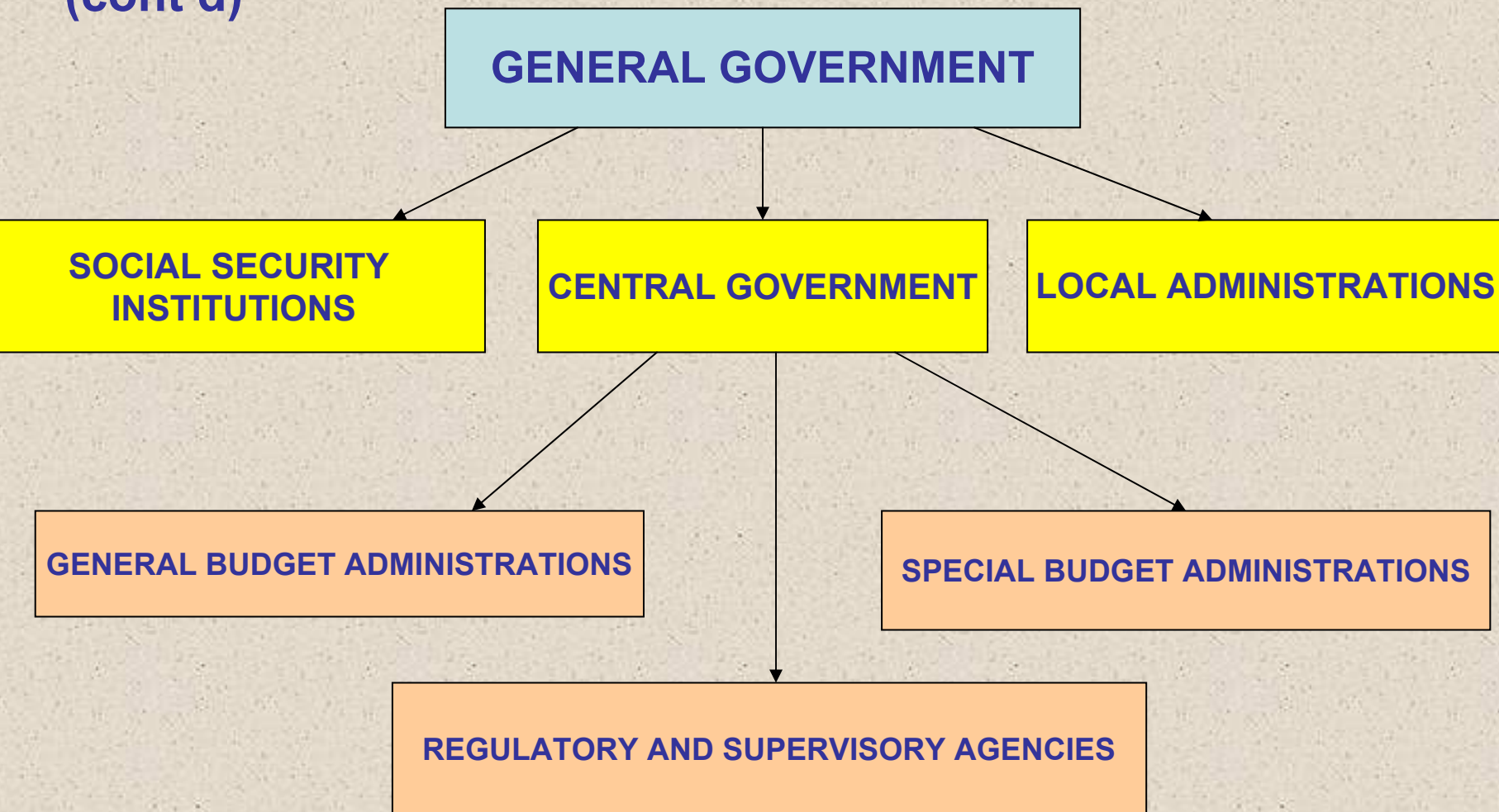
2. Public Financial Management and Control Law No. 5018 (cont'd)

The PIFC system aims to ensure the harmonisation with international standards and EU practices, effective, economic and efficient collection and utilization of public resources in line with policies and objectives of the government, as well as accountability and fiscal transparency.

Without prejudice to the provisions of international agreements, the utilization and control of European Union funds and domestic and foreign resources allocated to public administrations shall be subject to the provisions of Law No. 5018.



2. Public Financial Management and Control Law No. 5018 (cont'd)





B. PIFC SYSTEM

1. Managerial Accountability/Responsibility
2. Financial Management and Control
3. Internal Audit
4. Central Harmonisation Units



1. Managerial Accountability/Responsibility

Law No. 5018 takes managerial accountability/responsibility principle as a basis.

Managers are to;

- establish financial management and control system,
- set up internal audit system,
- assign duties, authorities and responsibilities clearly,
- monitor execution and take necessary measures,
- report the results

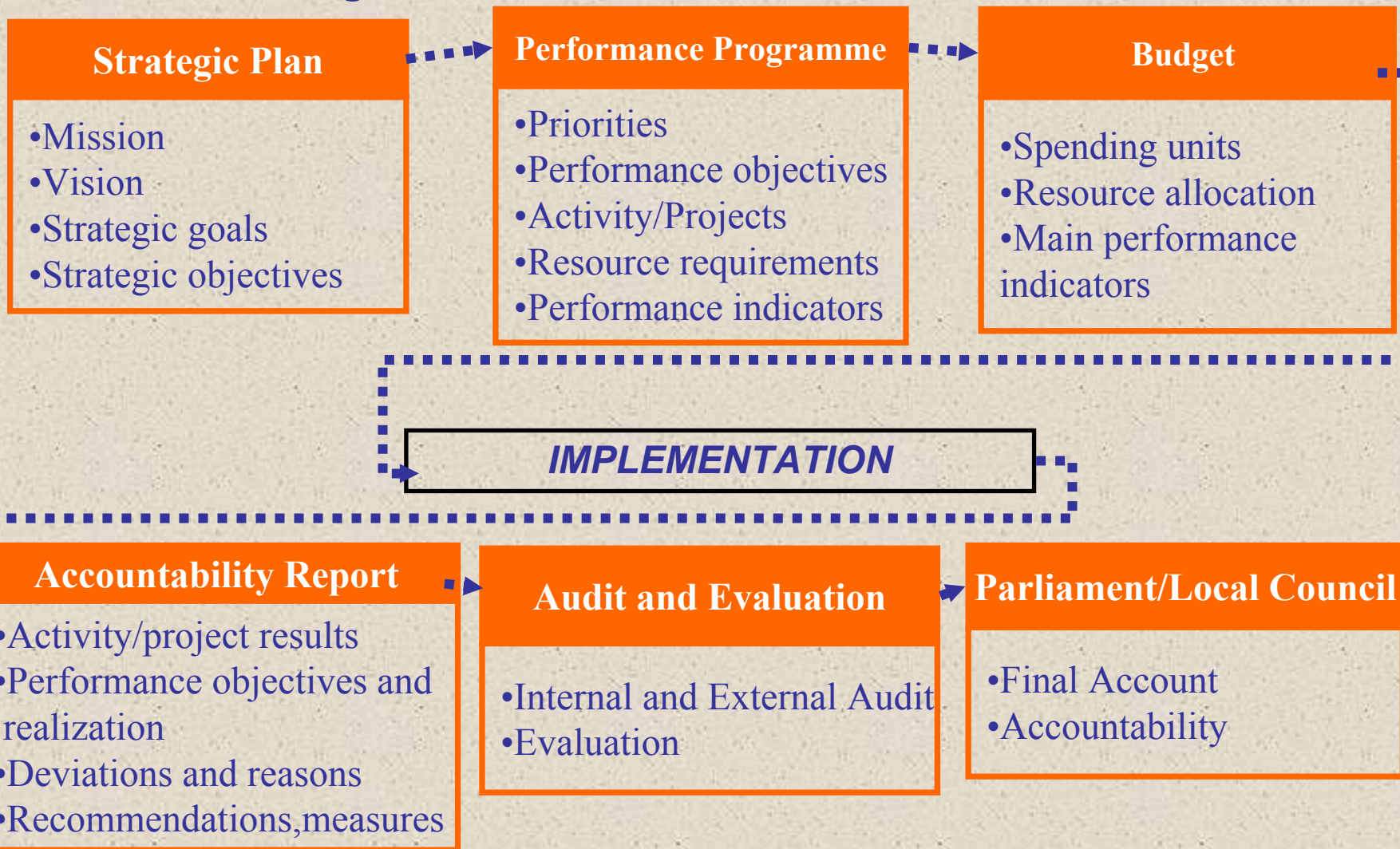
in line with managerial accountability, segregation of duties and sound financial management principles.



2. Financial Management and Control

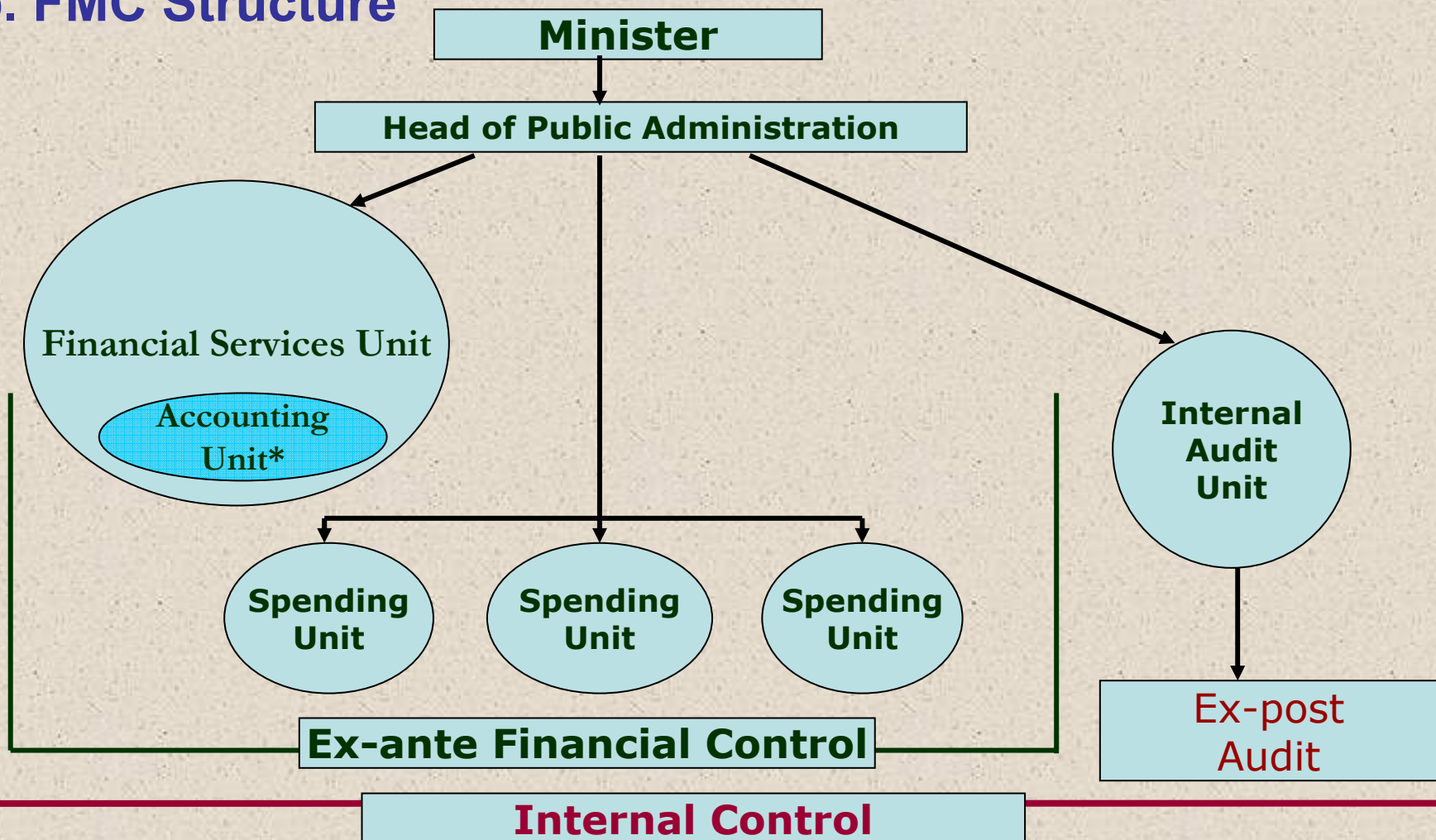
- a. Financial Management and Control Process
- b. Financial Management and Control Structure
- c. Internal Control
- d. Internal Control Responsibility
- e. Segregation of Duties Principle
- f. Ex-ante Financial Control
- g. Internal Control Assurance Declaration
- h. Accountability Reports
- i. Accounting System
- j. Financial Statistics

a. Financial Management and Control Process





b. FMC Structure



*Accounting services within general budget administrations are carried out by the Ministry of Finance



c. Internal Control

The objective of internal control is to ensure:

- Effective, economic and efficient management of public revenues, expenditures, assets and liabilities,
- Proper functioning of public administrations in line with laws and other legislation,
- Prevention of irregularity and fraud in all financial decisions and transactions,
- Regular, timely and reliable reporting and acquisition of information for decision making and monitoring,
- Prevention of the misuse and waste, as well as safeguard assets against losses.



d. Internal Control Responsibility

- **Heads of public administrations:** To establish, improve and supervise the system
- **Financial services unit:** To carry out works regarding establishment, improvement and supervision of the system, to make recommendations to head of public administration and perform ex-ante financial control
- **Authorizing officers:** To implement internal control and ex-ante financial control and to monitor the process control
- **Realization officers:** To perform process control
- **Accounting officers:** To check payments, to keep accounting records in line with defined standards and to ensure transparency of accounting transactions and reports



e. Segregation of Duties

The duty of the authorizing officer and accounting officer cannot be carried out by the same person.

Those performing ex-ante financial control in the financial services unit cannot be involved in the financial transaction process.



f. Ex-ante Financial Control

Ex-ante financial control is performed by financial services unit and spending units.

It covers the control of compliance of all kinds of financial decisions and transactions regarding revenues, expenditures, assets and liabilities of administrations with legislation and the principles of sound financial management.

Financial decisions and transactions subject to ex-ante financial control are determined on the basis of risks.

Ex-ante financial control is of a consultative and preventive nature. Inappropriate financial decisions and transactions are reported to the head of public administration as well as internal and external auditors.



g. Internal Control Assurance Declaration

- Prepared by:
 - heads of public administrations
 - authorizing officers
 - heads of financial services units
- Attached to accountability reports.
- Addresses the assurance of the public administrations on:
 - proper utilization of allocated resources in line with the defined objectives and the principles of sound financial management,
 - integrity of the internal control system with regard to providing sufficient assurance on legality and regularity of transactions,
 - accuracy of information.



h. Accountability Reports

By spending unit: prepared by each authorizing officer and submitted to the head of public administration.

By public administration: prepared by head of public administration taking the accountability reports of the spending units into consideration, made public and submitted to related administrations.

Accountability reports cover:

- General Information,
- Purpose and Objectives,
- Information and Assessments on Activities,
- Assessment of Administrative Capability and Capacity,
- Recommendations and Measures.



h. Accountability Reports (cont'd)

ADMINISTRATION	TYPE OF REPORT	AUTHORITY TO BE SUBMITTED	DATE
Public Administrations within the scope of the Central Government Social Security Institutions	Accountability Report of Public Administration	Ministry of Finance Court of Accounts Public opinion	April
Local Administrations	Accountability Report of Public Administration	Ministry of Interior Court of Accounts Public opinion	March- April
Ministry of Interior	General Accountability Report of Local Administrations	Ministry of Finance Court of Accounts Public opinion	15 June
Ministry of Finance	General Accountability Report	Court of Accounts Public opinion	30 June
Court of Accounts	External Audit General Evaluation Report Accountability Reports General Evaluation Report	Parliament	13 September



i. Accounting System

State Accounting Standards Board, established within the Ministry of Finance, consists of representatives from;

- Presidency of Turkish Court of Accounts,
- Ministry of Finance,
- Undersecretariat of State Planning Organization,
- Undersecretariat of Treasury,
- Higher Education Council,
- Ministry of Interior,
- Social Security Institution.

State Accounting Standards Board sets accounting and reporting standards in line with the international standards in public administrations within the scope of general government.



i. Accounting System (cont'd)

By-law on General Government Accounting;

- ensures unity in public accounting,
- is accountability and fiscal transparency oriented,
- makes it enable to provide information to the parliament, administrators and other stakeholders,
- serves as a basis for the production of data, financial reports and statistics,
- is parallel to ESA 95 and GFS Manual 2001,
- is accrual based.



i. Accounting System (cont'd)

Accounting Officer Certificate

The accounting officers have to be certificated.

The Certificate is awarded to accounting officers upon completion of a training programme provided by the Ministry of Finance.



j. Financial Statistics

- Ministry of Finance prepares financial statistics of public administrations within the scope of central government and issues on a monthly basis.
- Ministry of Finance compiles financial statistics of public administrations within the scope of general government and issues on a quarterly basis.
- Annual financial statistics are evaluated by the Turkish Court of Accounts according to preparation, publication, accuracy and compliance to standards in March of the following year, the report is submitted to the Parliament as well as to the Ministry of Finance.



3. Internal Audit

- a. Purpose of Internal Audit
- b. Functional Independence and Objectivity of Internal Auditors
- c. Certification and Proficiency of Internal Auditors



a. Purpose of Internal Audit

To improve and add value to the activities of public administration by assessing whether the public resources are managed in conformity with the principles of economy, effectiveness and efficiency and to provide guidance.

Internal audit;

- provides independent and objective assurance and consultancy.
- is performed with a systematic, regular and disciplined approach in accordance with generally accepted standards.
- comprises financial, compliance, system, performance and IT audit.
- is carried out by internal auditors.



b. Functional Independence and Objectivity of Internal Auditors

Internal Auditor;

- is appointed by the Minister in ministries and related administrations upon the recommendation of the heads of public administrations, and in other administrations by the heads of public administrations, among the certificated auditors. Dismissal is subject to the same procedure.
- cannot be appointed to any other position without his/her own will.
- is directly attached to the head of public administration.
- is independent in planning, execution and reporting of individual audit activity.
- submits reports directly to the head of public administration.
- cannot be assigned to any other duty.

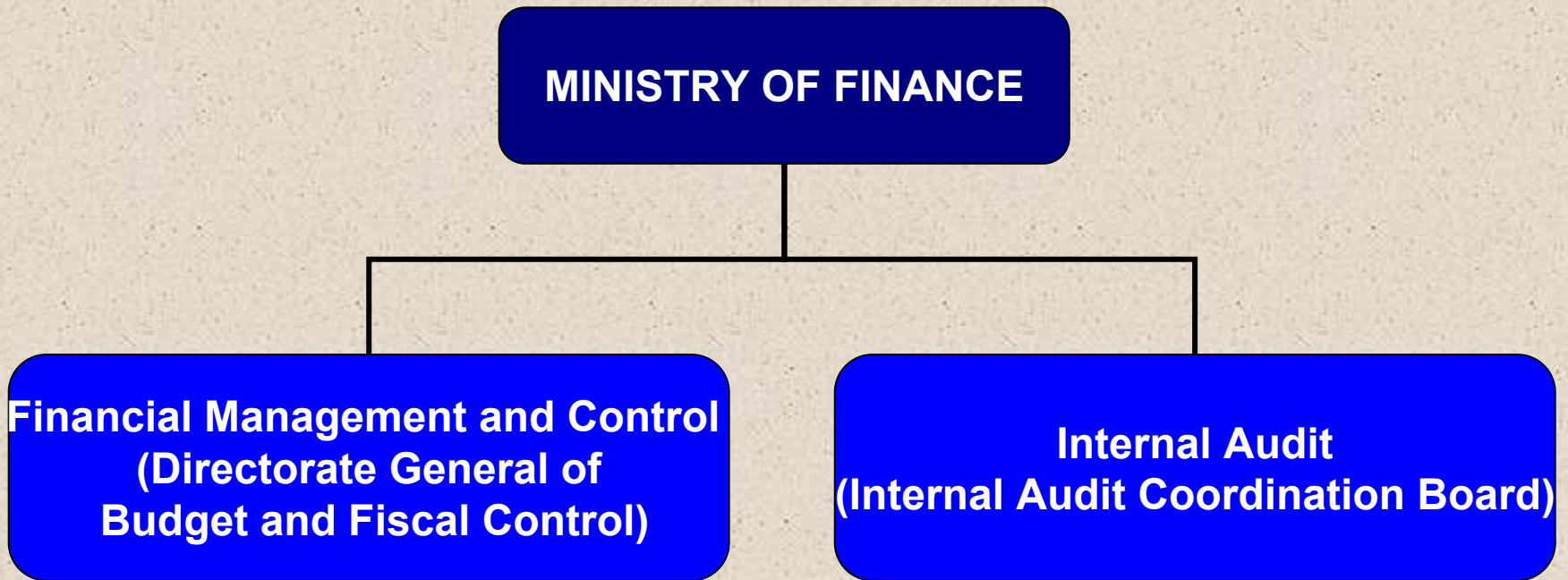


c. Certification and Proficiency of Internal Auditors

- Having a higher education diploma
- Administrative or audit experience
- Public Internal Auditor Certificate is awarded upon a series of exams
- Certificates are graded every three years according to trainings attended and performance points acquired
- A higher degree certificate is awarded to those who hold an internationally recognised certificate
- A minimum of a hundred hours of professional training in every three years is required
- Maintaining and improving level of skills and knowledge required by the duty



4. Central Harmonisation Units





a. Financial Management and Control Central Harmonisation Unit

- defines, monitors and develops the standards and methodology,
- determines the financial decisions and transactions subject to obligatory ex-ante financial control as well as their control procedures and principles,
- ensures coordination among administrations, disseminates the best practices and guidance
- monitors the functioning of the systems by receiving reports and information from administrations,
- supports training programmes.



b. Internal Audit Central Harmonisation Unit

The functions of Internal Audit Central Harmonisation Unit are carried out by Internal Audit Coordination Board. The Board is an inter-ministerial body having 7 members.

Members of the Board are nominated by;

- Minister of Finance (3 members including the president)
- Prime Minister (1 member)
- Minister of Interior (1 member)
- Minister responsible for State Planning Organisation (1 member)
- Minister responsible for Treasury (1 member)

and appointed by the Council of Ministers.

One of the members proposed by the Minister of Finance has to be an academician.



b. Internal Audit Central Harmonisation Unit (cont'd)

- determines audit and reporting standards and code of ethics
- prepares and develops audit guidelines
- develops risk assessment methods
- proposes to perform specific audits in risky areas
- organises training programmes for internal auditors
- helps overcome disagreements between internal auditors and the head of public administration
- evaluates and consolidates administrations' internal audit reports, submits them as an annual report to Minister of Finance and makes public
- develops a quality assurance and improvement programme and evaluates the implementation



C. STRENGTHENING ADMINISTRATIVE CAPACITY

1. Activities Carried Out with the Support of EU
2. Change Management for the New Public Financial Management and Control System
3. Establishment of New Units and Staffing
4. Training Activities in the Field of PIFC
5. IT Infrastructure



1. Activities Carried Out with the Support of EU

- a. Pre-Accession Financial Cooperation Projects
- b. MATRA/PSO- “Strengthening the Budget Planning and Preparation Process” Project
- c. Cooperation with SIGMA



a. Pre-Accession Financial Cooperation Projects

i. “Alignment of the Turkish Internal Financial Control System with International Standards and EU Practices” Project

Beneficiary: General Directorate of Budget and Fiscal Control, Ministry of Finance

Twinning Partner: Ministry of Economy, Finance and Industry; Republic of France

Purpose: To assist the Government of Turkey in establishing an efficient and effective public internal financial control (PIFC) system based upon international standards and EU practices.

Duration: 18 months

Total budget: 3 Million €

Components: Twinning and Supply



i. “Alignment of the Turkish Internal Financial Control System with International Standards and EU Practices” Project (cont’d)

- Analysis of primary legislation regarding the PIFC system and legal framework
- Establishment of PIFC structures within the Ministry of Finance and Pilot Agencies
- Preparation of PIFC Secondary Legislation, Charters and Manuals
- Development and Delivery of Full PIFC Training Programmes
- Assistance in Developing an IT Strategy to Enable Computer-Assisted Audit Techniques (CAATs)



i. “Alignment of the Turkish Internal Financial Control System with International Standards and EU Practices” Project (cont’d)

Current situation:

- 30 activities (28 seminars, 2 study visits) and 5 Steering Committee Meetings have been completed.
- 300 personnel of the pilot and beneficiary institutions and central harmonisation units are being trained.
- Gap analysis for IT infrastructure of internal audit has been completed.



ii. Capacity Building for the Compilation of Accounting Data in All Institutions and Agencies within General Government Sector in the Context of e-Government

Beneficiary: General Directorate of Public Accounts, Ministry of Finance

Twinning partner: Italian Ministry of Finance and Economy

Purpose: To support the Ministry of Finance in the fields of accrual based government accounting and reporting in order to prepare timely, accurate, reliable, consistent and analytically classified financial reports in compliance with international standards.

Duration: 2 years

Current Situation: Twinning contract is being prepared.



b. MATRA/PSO- “Strengthening the Budget Planning and Preparation Process” Project

Beneficiary: General Directorate of Budget and Fiscal Control, Ministry of Finance

Counterpart: Dutch Ministry of Finance

Purpose: To strengthen the legal and institutional structure of DG Budget and Fiscal Control regarding budget preparation and planning process in order to increase the efficiency of budget policy and ensure compliance with EU Acquis

Duration: 2 years (started in 2004, extended until 2007)

Current Situation: An international conference was held, 190 personnel were trained in 7 seminars and workshops. A new training programme has been prepared for the heads of financial services units.



c. Cooperation with SIGMA

- Since 2004, 10 working meetings have been held with SIGMA experts in the framework of SIGMA Programme.
- In the context of these meetings, the report titled “Turkey: Public Expenditure Management System Assessment Report June 2005” was prepared by SIGMA.
- Evaluation and recommendations of SIGMA are taken into consideration in the preparation of the legislation on public financial management and control and guiding the implementation.



2. Change Management for the New Public Financial Management and Control System

- With the Prime Ministry Circular issued in April 2005; change management teams in administrations and a Steering Committee were established in order to manage the change process and ensure ownership, with the coordination of the Ministry of Finance.
- Secondary legislation has been drafted with participatory methods.
- Information about the new system has been published in internet for the public opinion.
- Custom information services were provided to administrations and call-centres have been established in order to answer urgent information requests.



3. Establishment of New Units and Staffing

- Strategy development units have been established in each administration in order to carry out the functions of financial services unit.
- 1200 expert cadres have been created for financial services units. 400 experts have already been placed through a proficiency exam. Training of these personnel has started.
- 1200 internal auditor cadres have been created. Preliminary Draft Cadre Allocation Decree has been prepared and submitted to the Prime Ministry. Internal auditors will be appointed upon issuing of the Decree.



4. Training Activities in the Field of PIFC

- Training activities have been carried out since 2004 to inform public administrations and raise their awareness on the new system.
- Training activities have been carried out both in Ankara and in provinces for;
 - heads of public administrations,
 - authorising officers,
 - financial services units' personnel,
 - accounting officers,
 - realising officers,
 - prospective internal auditors.



4. Training Activities in the Field of PIFC (cont'd)

Subject	Type	Beneficiary administrations	No. of participants
Public internal financial control system	Conference, symposium, seminar, training of trainers, practical training	General government	2137
Internal audit	Training of trainers	Pilot institutions	45
Performance based budgeting	Conference, seminar, training of trainers	Central government, local administrations, pilot institutions	1010
Government accounting system	Training of trainers, practical training, certification training	Central government, local administrations, social security institutions	6408
PIFC System and accounting	Seminar	Local administrations	5123

5. IT Infrastructure



Web-based say2000i system established by the Ministry of Finance, is used in 1619 accounting offices in general and special budget administrations. Thanks to say2000i, 73890 units are being served country-wide.

Budget preparation, implementation and final accounts transactions are being carried out with the web-based e-budget system established by the Ministry of Finance. This system is used by 7200 personnel in 150 administrations within the central government.

Consequently, transparent, fast, reliable and good quality monitoring of the budget and accounting transactions has now become possible.





EXTERNAL AUDIT

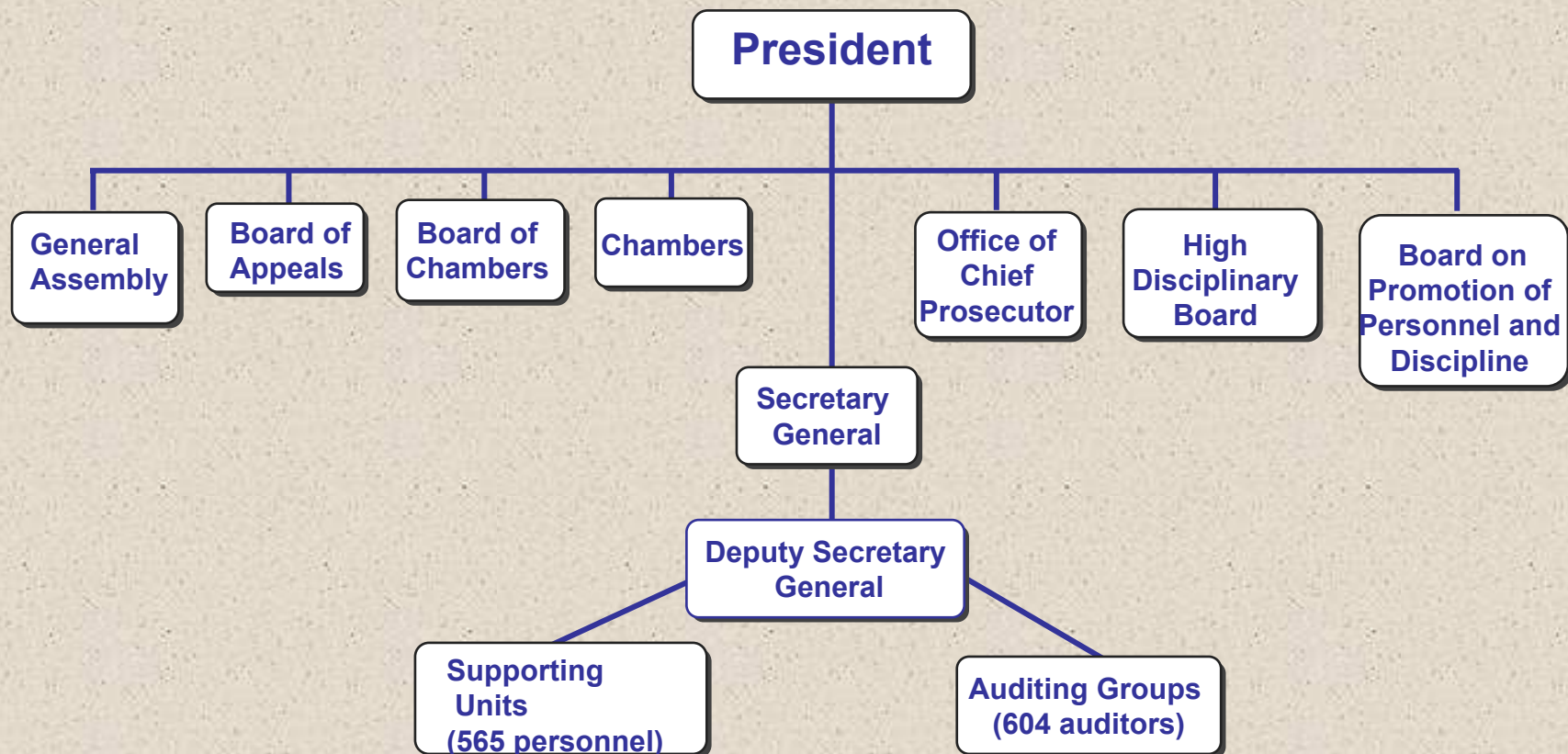


TURKISH COURT OF ACCOUNTS (TCA)

- Founded in 1862
- The judicial type model was adopted
- Focus is mainly on operation-based audit
- Audit reports are assessed within judicial process
(performance audit reports are submitted to the Parliament)
- Obligated to submit Statement of General Conformity to
the Parliament



ORGANIZATIONAL STRUCTURE





LEGAL FRAMEWORK

- The Constitution (Articles 160 and 164)
- Public Financial Management and Control (PFMC) Law No. 5018
- The TCA Law No. 832
- The draft TCA Law is under discussion in the Parliament



INDEPENDENCE

TCA is invested with the power to independently;

- Prepare and implement its own budget
- Decide on audit programmes

The president, members and auditors of TCA have legal safeguards

- President and members are elected by the Parliament
- Tenure of the president is seven years. Tenure of members and auditors continue until the age of 65
- President, members and auditors cannot be appointed to another position without consent



FUNCTIONS OF TCA

- 1- Audit Function: to audit revenues, expenditures and assets of the public administrations
- 2- Judicial Function: to take final decision on the compliance of accounts and transactions



EXTERNAL AUDIT IN THE CONSTITUTION AND PFMC LAW

- With the amendment made to the Constitution in 2005, the audit area was expanded so as to include the general government. Accordingly TCA has the authority to audit general budget administrations, special budget administrations, regulatory and supervisory agencies, social security institutions and local administrations.
- Article 68 of PFMC Law No. 5018 envisages that;
 - external audit is performed in line with the generally accepted international auditing standards
 - annual audit reports are submitted to the Parliament by TCA



STRENGTHENING THE AUDIT CAPACITY OF TCA

-Professional training programmes have been provided for the auditors on;

- financial management and control,
- accrual-based accounting,
- auditing techniques.

-The Twinning Project with National Audit Office of Britain on Strengthening the Audit Capacity of TCA is underway.



THE TWINNING PROJECT

- Project includes five main components:
 - Situational analysis and the preparation of the strategic development plan
 - Research and development of the legal framework
 - Strengthening the audit capacity
 - Developing the human resources capacity
 - Establishment of the IT Strategy



TCA DRAFT LAW

- Prepared in accordance with the INTOSAI auditing standards and EU practices
- Constitutional amendments and the principles specified in the Law No. 5018 are adopted
- Under discussion at the Plan and Budget Commission of the Parliament



BENCHMARK GUIDELINES OF THE DRAFT LAW

- Lima Declaration
- INTOSAI Auditing Standards
- European Implementation Guides
- Recommendations of EU to Candidate Countries' SAIs
- The Compare and Control List on SAIs prepared by SIGMA



NEW AUDITING AREA ACCORDING TO THE DRAFT TCA LAW

- Public administrations within the scope of general budget
 - Special budget administrations
 - Regulatory and supervisory agencies
 - Social security institutions
 - Local administrations
 - European Union funds
 - Public economic enterprises
- and all kinds of transfer and utilization of public resources



AUDITING TYPES IN THE DRAFT LAW

- Regularity Audit
 - Compliance Audit
 - Financial Audit
- Performance Audit

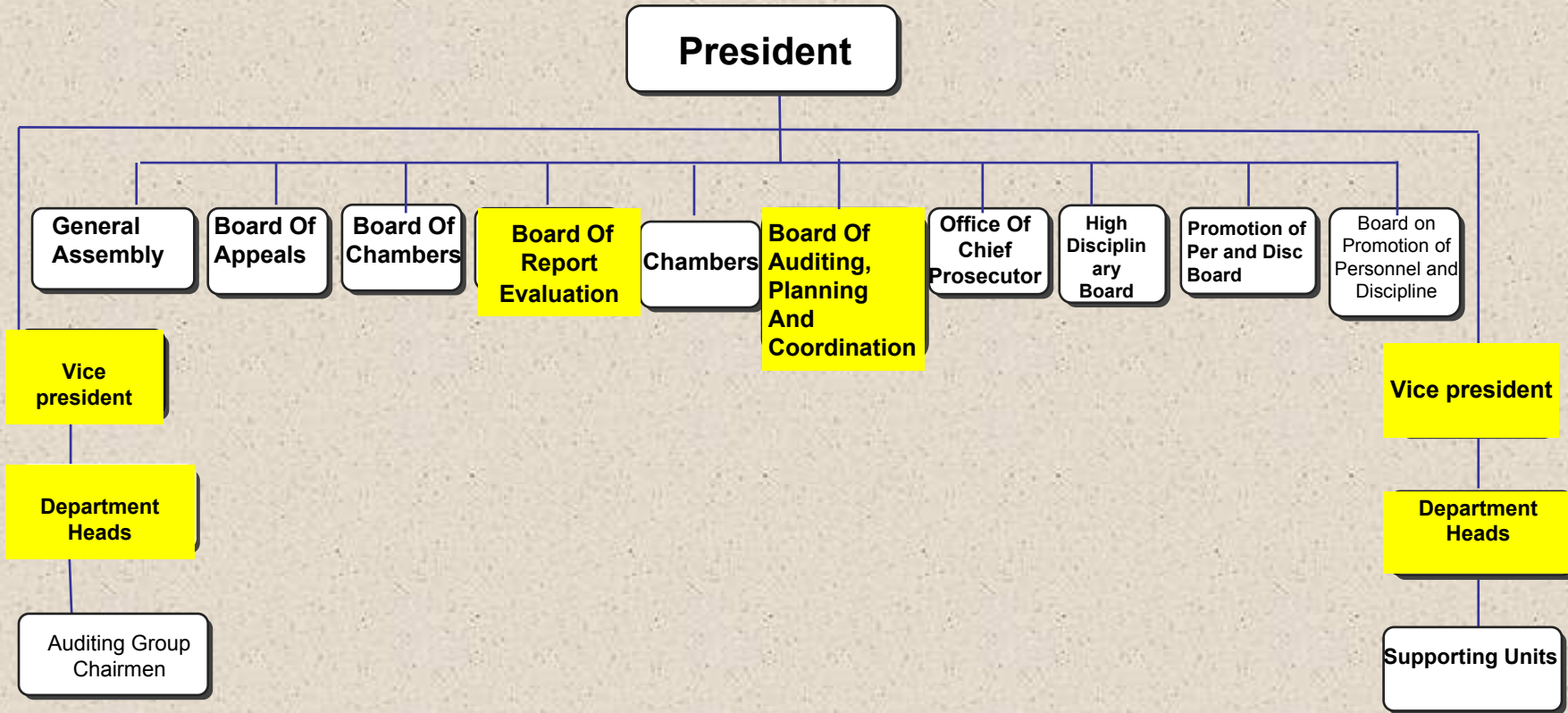


REPORTS TO BE PREPARED BY TCA

- Statement of General Conformity
- External Audit General Evaluation Report
 - Financial Audit Report
 - Performance Audit Report
- General Evaluation Report on Activity
- Evaluation Report on Financial Statistics
- Reports on Public Economic Enterprises



PROPOSED ORGANIZATIONAL STRUCTURE





TCA IN THE DRAFT LAW

TCA;

- has legal powers and tools in auditing all public funds, resources and activities (Art.4 and other provisions related to audit)
- has functional, institutional and financial independence (Art.3)
- performs regularity and performance audit (Art. 2, 36)
- prepare its annual activity report and audit reports with due care and on time, submits them to the Parliament and publicises (Art. 31, 34, 35, 36, 37, 44)
- recognizes generally accepted international accounting standards (Art. 2,35,36,37)
- has an organisational structure in order to effectively fulfil its audit mandate (Art. 11,22,28,31,32)



THANK YOU FOR YOUR ATTENTION