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**Country Paper by Turkish Court of Accounts (TCA)**

**Sub-theme 3: Importance of specifying the boundaries and targets of external and internal public financial control in improving public financial management**

**CONTRIBUTIONS OF THE TURKISH COURT OF ACCOUNTS  
TO THE RESTRUCTURING OF PUBLIC FINANCIAL MANAGEMENT**

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**INTRODUCTION**

As a result of globalization and technological advancements in communication, the world is changing with a speed that has never happened in any period of history. Important developments and novelties are witnessed in every field of social life. In parallel with those processes in economic, social and cultural areas, there is also a pressure for change in state government. This pressure stems from both the internal factors created by social expectations and the external factors created by global and regional developments. In this context, state governments are reshaped, and the successful practices of private sector, more effective organization models and strategic regimes are finding their way into the state governments.

The classical understanding of state is being replaced by a management mentality that is citizen-oriented and open to continuous innovation. Today, implementing the fundamental values of democratic government such as transparency, right to information, participation, and accountability is among the priority goals of every state.

Similarly, the OECD lists the components of public reform as follows:

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- Devolution of authority and flexibility;
- Performance-based control and accountability;
- Market-based competition;
- Citizen-oriented public service;
- Improving human resources management;
- Optimal use of information technologies;
- Improving the quality of legal arrangements;
- Developing the strong monitoring from the center;
- Adopting the management mentality of the private sector.

#### **REFORM PROCESS IN TURKEY**

Depending upon the recent developments of global scale, the pursuit of restructuring in public administration has also gained speed in our country. Significant changes have been made in Turkish public administration particularly with the impact of EU membership process; and practices such as privatization, deregulation, localization, establishment of regulatory authorities, transparency, and participation, which are perceived as the fundamental elements of modern public administration, have come to the forefront.

An extensive reform has been undertaken in public financial management, which is considered to be one of the most important components of public administration; and the following developments were achieved with this reform:

- a) Performance-based budgeting has been introduced. Public administrations are now setting strategic targets and they are planning the activities they need to carry out for accomplishing those targets. Those plans are taken into account while allocating budget resources; and every public administration has to explain to what extent it accomplished its targets and the reasons for failure, if any, at the end of year. Performance-based budgeting

process starts with a 5-year strategic plan and ends with annual performance programs and activity reports that are prepared at the end of every year.

b) Internal control systems have been established in public agencies to provide support to senior management. The main purpose of internal control is stated as the effective, economic and efficient use of public sources and the provision of timely and reliable information to decision-making bodies. Internal audit units, which have been established within the agencies but which will be working independently, are also a part of internal control.

c) The concepts of transparency and accountability have been included in our legislation. In line with this, it has become mandatory to timely inform the public with the purpose of ensuring audit in the acquisition and utilization of all kinds of public sources. In addition, the public officers included in those processes are held responsible for the acquisition, utilization, accounting and reporting of sources in an effective, economic, efficient and legal manner as well as for taking necessary measures to prevent their misuse.

Accountability stands out as a reporting activity. The audits of the Turkish Court of Accounts (TCA) inquire into the accuracy and reliability of the reported information and provide assurance to the Parliament in that respect. From this aspect, TCA audits serve for the proper fulfillment of accountability (Kaya, 2000:19).

### **CHANGING ROLE OF TCA**

Since independent external audit is also a part of public financial management system, any change that occurs in the public financial management of a country has an inevitable impact on the structure and functioning of the Supreme Audit Institution in that country. Auditing the modern management practices with conventional methods would not only fail to yield the results expected from audit, it also poses the risk of slowing down the implementation of novelties. Therefore, the procedures and principles of audit should also be

updated continuously by taking public expectations and changing conditions into consideration.

In Turkey, TCA is the only body that has the characteristics of a Supreme Audit Institution, and the broadness of its audit area is an important element with respect to reaping the benefits expected from external audit. TCA performs audits on behalf of the Parliament, and every area that is subject to TCA audit also means an area where the sovereignty of the Parliament is ensured.

As a result of the financial management reform in Turkey, the organizational law of TCA has also been changed, and its audit tasks and authorities have been synchronized with the new system. Those changes can be summarized as follows:

- a) The concepts of transparency and accountability mean that the activities of those governing the state are open to public audit. In this context, TCA mediates for public audit by announcing to the public the impartial reports it prepares as a result of its audits. In addition, the audits focusing on compliance with laws result in the application of financial sanctions to those inflicting public loss.
- b) TCA undertakes an important task in the performance-based budgeting system. It provides reliable information to the Parliament on the outcomes of the activities of public institutions with its performance audits; thus it has a key role in the monitoring of this system by the Parliament, which can be considered as the budget owner.
- c) Internal control system is another matter taken into account in external audits. With this respect, initially the internal control system is examined in the risk assessment process undertaken while planning the audits, and the areas where this system operates effectively are assessed as low-risk areas. When necessary, the audit reports include the defects of the

internal control system and the problems caused by this; and both the managers of the audited entity and the public are informed.

TCA has to perform two main tasks in order to be able to effectively fulfill the activities expected from it. The first one of those tasks is related to the internal functioning of TCA, and it can be summarized as increasing the audit capacity and quality and setting an example for other public entities in the field of good governance. The second task is related to public financial management in general. In this respect, TCA is responsible for auditing the financial management practices and submitting timely and reliable reports to the Parliament about the progress of the new arrangements that are sought to be implemented.

The summary information above will be followed by more detailed information below on how TCA performs those tasks in the aftermath of the new understanding in public financial management.

#### **AUDIT AREA AND AUDIT FORM OF TCA**

According to the TCA Law no.6085, TCA shall audit the following institutions and agencies (6085/4):

- a) Public administrations within the scope of the central government budget and social security institutions, local governments, joint stock companies established by special laws and with more than 50% of its capital directly or indirectly owned by the public sector and other public administrations (with the exception of professional organizations having a public status);
- b) Provided that the public share is no less than 50%, all types of administrations, organizations, institutions, associations, enterprises and companies affiliated to, or founded by the administrations listed in point (a), or those of which the above mentioned administrations are directly or indirectly partners;

- c) All types of domestic and foreign borrowing, lending, repayments, utilization of foreign grants received, giving grants, Treasury guarantees, Treasury receivables, cash management and other matters related to these, all transfers of resources and their utilization and the utilization of domestic and foreign resources and funds, including European Union funds;
- d) All public accounts, including private accounts, funds, resources and activities regardless of whether these are in the public administrations budget.

TCA shall also audit the accounts and transactions of international institutions and organizations within the framework of the principles set out in the relevant treaty or agreement.

TCA audit shall be carried out with the purposes of submitting reliable and sufficient information to the Turkish Grand National Assembly and the public concerning the activity results of public administrations, as required by the power of the purse; executing public financial management in line with laws, and safeguarding the public resources; evaluating the performance of public administrations; establishing and extending accountability and fiscal transparency (6085/34).

External audit, which is regulated by the Law No. 5018 on Public Financial Management and Control, shall be composed of performance audit and regularity audit, which includes financial audit and compliance audit in accordance with international audit standards.

Law No. 5018 defines financial audit, compliance audit and performance audit to be performed by TCA as follows:

The external audit is performed in accordance with the generally accepted international audit standards by carrying out the following: a) On the basis of public administrations' accounts and relevant documents, to perform financial audit on the reliability

and accuracy of financial statements, and to determine whether the financial transactions related to revenues, expenditures and assets of public administrations comply with the laws and other legal arrangements; b) To determine whether the public resources are used in an effective, economic and efficient way, to measure the activity results and to evaluate them as to their performance (5018/68).

Audits are composed of audit planning, preparation and implementation of the audit program, reporting of results and recommendations, submission of reports to the Turkish Grand National Assembly and forwarding them to the relevant public administrations and following up of reports.

The matters related to the audit process shall be governed by by-laws, standards and guidelines that are prepared by considering laws and benefiting from generally accepted international auditing standards.

As a result of the compliance audit of TCA, a judicial report is prepared and final judgment is given on the accounts and transactions of those responsible. The outputs of financial audit and performance audit are the audit reports. Those reports are submitted to the Turkish Grand National Assembly after they are discussed in TCA's authorized boards.

#### **COMPETENCIES OF TCA**

In performing its duties, TCA shall be competent to correspond directly with public administrations and officials; to see required documents, books and records through its assigned personnel; to have these brought over to any location it deems appropriate, with the exception of assets; to call on relevant officials of all grades and categories in order to receive oral information; and to request representatives from public administrations.

TCA may request all kinds of information and documents related to its audit works from public administrations and other real and legal persons including banks. It shall be

competent to examine, on the spot and at any stage of operation and incidence, all related records, goods, properties, practices, transactions and services of those public administrations and institutions within its audit scope, by its assigned personnel or expert witnesses.

TCA may also audit the accounts, transactions, activities and assets of public administrations as of the pertaining year or years irrespective of their account or activity period; as well as based on sector, program, project and topic. If deemed necessary in the course of audits, experts from outside TCA may be appointed (6085/6).

Previously, many institutions and agencies were left out of TCA audit in accordance with the provisions in their own organizational laws. With the TCA Law No.6085, those provisions of other laws that granted exception or exemption from TCA audit have been repealed. The audit activities have been reorganized, and it has become possible to move from an audit focused on generating judicial reports to an audit focused on reporting to inform the Turkish Grand National Assembly and the public.

### **REPORTS OF TCA**

The reports of TCA are prepared by taking as basis the audit reports that are prepared by the headships of audit groups or auditors as a result of audits and examinations. Those reports are external audit general evaluation report, accountability general evaluation report, financial statistics evaluation report, statement of general conformity and the other reports apart from these.

#### **External Audit General Evaluation Report**

According to the law, audit reports prepared by the headships of audit groups as a result of regularity and performance audit of public administrations shall be consolidated in respect of administrations, and a copy shall be sent to the relevant public administration by



the Presidency of TCA. Heads of public administrations shall respond to audit reports within thirty days as of the date of receiving the reports.

The external audit general evaluation report, which includes audit reports on which TCA chambers have stated their opinions and other financial matters that TCA has deemed appropriate to be addressed, shall be prepared; and the opinion of the Board of Report Evaluation shall be taken. The external audit general evaluation report and audit reports on which the Board has given opinion, along with the Statement of General Conformity, shall be submitted to the Turkish Grand National Assembly by the President of TCA.

#### **Accountability General Evaluation Report**

According to the law, accountability reports sent by public administrations, the local governments' general accountability reports prepared by the Ministry of Interior, and the General Accountability Reports prepared by the Ministry of Finance shall be evaluated by headships of audit groups via considering audit results.

The accountability general evaluation report prepared on the basis of relevant evaluation reports prepared by headships of audit groups, upon taking the opinion of the Board of Report Evaluation, shall be submitted to the Turkish Grand National Assembly by the President of TCA, together with general accountability report, local governments general accountability report and administration accountability reports except those of local governments; and one copy shall be sent to the Ministry of Finance. One copy of TCA evaluation on the local governments accountability report shall be forwarded to the Ministry of Internal Affairs and to the councils of relevant local administrations as well (6085/39).

#### **Financial Statistics Evaluation Report**

Annual financial statistics published by the Ministry of Finance shall be evaluated by headships of audit groups in terms of preparation, publication, accuracy, reliability and conformity to the predetermined standards in March of the following year.

The evaluation report prepared with this purpose, upon taking the opinion of the Board of Report Evaluation, shall be submitted to the Turkish Grand National Assembly and sent to the Ministry of Finance by the President of TCA. The Minister of Finance shall take the necessary measures in accordance with the assessments stated in this report (6085/40).

### **Statement of General Conformity**

The submission of the statement of general conformity is a task given to TCA by the Constitution. It is one of the most important tools of the audit mandate of the Parliament on budget.

TCA shall submit the statement of general conformity to be prepared for public administrations within the scope of central government to the Turkish Grand National Assembly within at latest seventy-five days as of the submission date of the draft Final Account Law.

In addition, since 1996 TCA prepares, in the attachment of the Statement of General Conformity, a "Budget Implementation Results Report", which encompasses detailed data on incomes and expenditures after the budget implementation of that year and indicates the deviations between the estimates and realizations, and a "Treasury Transactions Report", which covers the significant financial audit findings. This practice, which started in 1997, is carried on, and "Foreign Debt Monitoring Report" is submitted to the Turkish Grand National Assembly (SPO, 2000:96).

### **Reports on the Audit of State Economic Enterprises**

State economic enterprises, which were audited by the Prime Ministry Supreme Audit Board previously, have been included in the audit area of TCA with the TCA Law No.6085.

According to the law, the annual audit reports prepared by the headships of audit groups at the end of the audit on state economic enterprises and the replies of organizations and ministries to those shall be submitted to the Turkish Grand National Assembly by the President of TCA until the end of the year following the end of relevant year.

In this context, the general report encompassing the results of the annual activities of audited organizations shall be announced every year to inform the public (6085/43).

#### **Announcement of the Reports to the Public**

The reports of Turkish Court of Accounts, except for the cases forbidden to be announced by laws, shall be announced to the public by the President of TCA or deputy president assigned by him within fifteen days as of the submission of reports to the Turkish Grand National Assembly and related public administrations.