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Summary

Main Developments since last year

There have been few changes since last year. The draft law on the Turkish Court of Accounts (TCA), which has been in parliament for four years, has not advanced, despite the mismatch between the current law and the requirements that the Law on Public Financial Management and Control (PFMC Law) places on the TCA. However, there seems to be greater acceptance of the need for a new law for the TCA as well as for deepening the professional co-operation between the TCA and the Turkish Grand National Assembly (TGNA). The statements made by the speakers from the TGNA during the Symposium on “Parliamentary Oversight and External Audit in the New Public Financial Management System” (April 2009) were welcome in this regard and represented progress in the further development of the role of the Turkish Court of Accounts in promoting sound financial management of the public administration, which constitutes the main *raison d’être* of a supreme audit institution.

The TCA’s General Assembly made an advance in this direction by deciding that its mandate scope would include the Defence Industry Support Fund and the Social Security Funds; audits were launched on both funds for the first time.

Main Characteristics (strengths and weaknesses)

The TCA is a constitutional authority responsible for auditing, on behalf of the TGNA, the revenue, expenditure and property of government offices financed by the central government budget, social security institutions, and local administrations.

The TCA is a collegiate supreme audit institution (SAI) equipped with judicial power and not subject to administrative or political supervision. The Turkish SAI is independent of the classic three branches of government, namely, the executive, legislature and judiciary. The TCA has complete discretion in deciding what accounts and subjects to examine and how and when to examine them; it also decides whether it is necessary to report the matter in question to the TGNA. The TCA plans its work in accordance with the proposals of the auditors. In the performance of its work the TCA can communicate directly with ministries, boards, government offices, accountants and other responsible officials. The TCA is also entitled to have access to and examine any ledgers, records and supporting documents that are needed for its work. Operating costs are financed by a budget that is specific to the TCA. The institution’s financial independence goes further than this, however, as the TCA prepares its own budget and submits it to the TGNA without intervention from the executive. The President of the TCA authorises expenditure from its approved budget.

The current Audit Law gives to the TCA the mandate to conduct *compliance audits* and *performance audits*. Likewise, it gives the mandate to conduct – under certain conditions – “*partial examinations*”. Since 2003 the TCA has been authorised to carry out *audits upon the request of parliament*.

With the *Public Financial Management and Control (PFMC) Law 5018*, which was put into full effect as from 1 January 2007, public financial management and control has been rearranged considerably. This law extended the audit area of the TCA, strengthened the obligation of the TCA to submit reports to the TGNA, made it compulsory for the TCA to conduct and report audits on the basis of up-to-date guides that are compatible with international standards and cover modern audit approaches, and obliged the TCA to issue an opinion on the information included in the accountability reports of each institution and of the summary *General Accountability Report*. The TCA should also prepare an *External Audit General Evaluation Report*, taking into account audit reports and replies of auditees to these reports for presentation to the TGNA. The TCA should continue to issue the *General Conformity Statement* – on the draft Consolidated Financial Statements by the Ministry of Finance – however, the PFMC Law extends the scope by requiring that this opinion also reflect the results of the TCA audit reports, the administration’s accountability reports and the General Accountability Report.

The current Audit Law is not aligned with the requirements of the PFMC Law, which creates uncertainty over the TCA’s mandate and scope. The executive is modernising financial management

more rapidly than the TCA, which will face a lag in auditing the executive when its mandate is finally brought into line with the PFMC requirements.

Although the TCA is adequately staffed in numerical terms, staff competences are aligned with the TCA's current audit approach. A major staff development programme will be needed to adapt capacities to new demands.

On 15 and 16 April 2009 the TGNA organised, in collaboration with the TCA and with the support of the World Bank, an international symposium on "Parliamentary Oversight and External Audit in the New Public Financial Management System". The organisation of this symposium shows the promising intention of the TGNA to pass the new audit law and make the transition to a more modern SAI.

Recommendations for Reform

- The new draft law of the TCA has been tabled in parliament since 2005, which is not an acceptable situation, as it paralyses the external audit *modus operandi* and the necessary reorientation towards external audit that matches the good practice of SAIs in the EU. Due to the differences in their spirit and basic design (the current Audit Law 832 and the PFMC Law), it will be necessary to undertake a serious analysis at both technical and political levels and to reach a consensus on a new audit law, which should then be passed as soon as possible.
- A crucial aspect to safeguard in the new audit law is an article indicating that the TCA audit "should be performed in line with generally accepted international auditing standards". This provision was included in the draft Audit Law of 2005.
- Poorly co-ordinated reform measures diminish their effectiveness. It will be important to ensure good co-ordination between the various actors involved in the reform, in which the TCA with its mandate, as defined in the PFMC Law, plays a pivotal role, in order to address reform implementation problems in a timely manner. It will be of utmost importance to pursue the initiated reform process within the TCA and in co-operation with stakeholders.
- The present court model with judicial powers of the Turkish Court of Accounts implies a high degree of "rule of law" safeguarding to ensure a fair and impartial "trial" of the auditee. This is certainly the case in the TCA *modus operandi*. There are nevertheless many other aspects of modern audit quality that are not well ensured by this approach. The Audit Quality Management model endorsed by the EU SAIs in December 2005 should therefore be considered.
- The transition is challenging: from the current basic set-up (court model, collective decision-making, with a judicial function) to the PFMC concept, which is derived from the Anglo-Saxon office model. The latter is mainly a "standard-driven audit", as opposed to the current "law-driven audit" of the TCA. Both concepts are different but, as international practice has shown, they are not incompatible. The transfer of principles from one concept to the other has to be managed carefully and the transition is challenging. Discussions are needed at both technical and political levels in order to reach a consensus on the new TCA law.
- The magnitude of change and the need for new systems to be put in place should not be underestimated. This will take time and will be best carried out by applying a phased approach over a number of years. An internal, medium-term action plan for developmental needs is required to supplement the present Strategic Plan 2009-2013, followed by the preparation of annual operational work plans. These measures are indispensable for the success of the change management and have not been taken yet.

1. Introduction to the Turkish Court of Accounts

Although we have previously discussed the Turkish Court of Accounts (TCA) in the context of the assessments of Public Expenditure Management (PEM) and Public Internal Financial Control (PIFC) , this is the second Sigma assessment focusing directly on the TCA. Since it has some specificities that may be difficult to understand (although largely inspired by the French *Cour des comptes*), we provide an introduction to main terms and structures.

1.1 Terminology

Turkish terminology for TCA activities is specific.

- Accountant / Accounting Officer: a person working in the positions of the Ministry of Finance as Head of Budget Office, Accounting Director, Revenue Accountancy Office Director, County Revenue Director, Accountancy Office Director, Tax Office Director, Tax Director, Military Treasurer, State Accounting Expert, and those who had occupied such positions for at least five years and their assistants as well as those whose cadre title is Accountant or Assistant Accounting Officer (PFMC Law, art. 5);
- Accountable: those who are assigned duties and vested with authority for the acquisition and utilisation of public resources of all kinds are accountable vis-à-vis the authorised bodies (PFMC Law, art. 8);
- Authorising Officer: person responsible for collecting revenues and receivables; making payments to payees; receiving, keeping and sending to the concerned authorities the deposits and values that can be expressed as money; keeping records of all other financial transactions as well as issuing reports thereon; and keeping accounting records in a regular, transparent and accessible way (PFMC Law, art. 61);
- Trial: a document with audit findings as a basis for arguing a judicial case;
- Writ: a legal document with the conclusions from a trial, which either acquits officials from responsibility or holds them responsible for their financial management.

1.2 Basic Characteristics

The TCA is a constitutional authority responsible for auditing on behalf of the Turkish Grand National Assembly (TGNA) the revenue, expenditure and property of government offices financed by the central government budget, social security institutions, and local administrations.

The TCA is a collegiate supreme audit institution (SAI) equipped with judicial power and not subject to administrative or political supervision. The TCA is independent of the classic three branches of government, namely the executive, legislature and judiciary. The TCA has complete discretion in deciding what accounts and subjects to examine and how and when to examine them; it also decides whether it is necessary to report the matter in question to the TGNA. The TCA plans its work in accordance with the proposals of the auditors. In the performance of its work the TCA can communicate directly with ministries, boards, government offices, accountants and other responsible officials. The TCA is also entitled to have access to and examine any ledgers, records and supporting documents that are needed for its work.

Operating costs are financed by a budget that is specific to the TCA. The institution's financial independence goes further than this, however, as the TCA prepares its own budget and submits it to the TGNA without intervention from the executive. The President of the TCA authorises expenditure from its approved budget.

1.3 Structure and Staffing

At the end of 2008 the TCA employed 1247 staff. There are two types of staff – professional staff, which include the president, members and auditors (currently 745, of whom 57 are the president, heads of chambers and members, and the remaining 688 are auditors, organised in 19 audit groups, two of which conduct performance audit), and support staff, currently 502.

The TCA President and members are elected by the TGNA (general plenary), while auditors are appointed by the TCA President after passing a competitive examination. The TCA is structured as a collegiate SAI, comprised of individual officials and collegiums (boards). In addition to the above-mentioned support staff and auditors, TCA officials are grouped in the following administrative groups:

- *President of TCA*, who is the highest officer responsible for its overall functioning. He chairs the meetings of the General Assembly;
- *Secretary General*, assisted by three deputies, who is responsible for the internal administration of the TCA;
- *Members of the Court of Accounts*, who are, at the same time, members of the General Assembly; each member is affiliated to one of the eight chambers and also either to the Board of Appeal or Board of Chambers;
- *Prosecutor*, who, together with his deputies, acts in the name of the Treasury and gives his written opinion to relevant chambers on the audit findings stated in audit reports. The Prosecutor and assistant prosecutors are appointed by a joint decree, upon a proposal of the Ministry of Finance.

The TCA's collegiums/boards, with responsibilities in the core audit process, comprise four bodies:

- *Chambers*: the eight chambers are at the heart of the TCA judicial system. Each chamber consists of a chairman and six members, and operates as a court, trying the actions and accounts of responsible officials based on auditor reports. The chamber decides whether these officials are to be acquitted or held liable;
- *General Assembly*, consisting of the President of the TCA, chamber chairmen and members;
- *Board of Appeal*, which is an appeal instance for auditees against the decisions of the chambers;
- *Board of Chambers*, which determines the advisory opinion of the TCA on the financial regulations of government departments.

2. Baseline Questions

2.1 Does the SAI have clear authority to satisfactorily audit all public and statutory funds and resources, bodies and entities, including EU resources?

The TCA has the authority to audit all public and statutory funds and resources, with some of the major exemptions being:

- TRT (Television/Radio);
- Toki Collective Housing;
- Central Bank and other state banks;
- municipal enterprises;
- state economic enterprises (now performed by the Prime Ministry High Auditing Board)

Moreover, the TCA is authorised to audit the budget of the Ministry of Defence only in part. The TCA's General Assembly decided in June 2008 that the audit of the Defence Industry Support Fund¹ was within the TCA's audit mandate, and thus an audit was also initiated last year. The TCA may read the transactions for the procurement of military goods, but the TCA lacks the possibility to perform on-the-spot-audits (i.e. physical property audits). It is the Inspection Service within the Ministry of Defence that may look into the underlying supporting documents and perform on-the-spot controls. However, the Inspection Service only reports to the Minister of Defence. The statutory mandate is to perform annual compliance audit by examining 100% of all transactions, i.e. vouchers, supporting documents, journals, ledgers and financial statements. The total number of accounts to be audited by the TCA is huge. The Ministry of Finance (MoF) has addressed this issue in recent years. At the beginning of 2000 the accounts numbered 8,500; in recent years the number was reduced to fewer than 6,900 accounts, and further consolidations will probably be made later this year.

In general, only central government institutions and larger accounts -- in terms of monetary value, approximately 85% of the central government accounts -- are audited annually. The accounts of other institutions with small budgets are audited at longer intervals. However, no methodology has been developed to ensure that all accounts within the audit mandate are audited regularly. In 2008, the General Assembly of the TCA approved the plan to also audit the Social Security Funds for the first time, in addition to the above-mentioned Defence Industry Support Fund.

The TCA has the discretion to choose the accounts to be audited. It is not required to make public which accounts have not been covered by annual compliance audit reports or writs. The compliance reports are not presented to the TGNA, as they are within the competence of the judicial branch of the TCA, which carries out its tasks independently, i.e. without any involvement from the TGNA.

In accordance with the Memorandum of Understanding with the European Court of Auditors, the TCA has conducted financial and systems audits on EU funds every year since 2003.

The current situation is unsatisfactory and not in line with the INTOSAI Lima Declaration. The audit mandate of the TCA should be enhanced to include all public financial operations, regardless of whether – and how – they are reflected in the national budget. The exclusion of parts of public expenditure management from the national budget should not result in these parts being exempt from audit by the SAI. In addition, all institutions within the audit mandate should be considered both in an annual work plan and in a more strategic perspective (three to five years) so as to ensure that all accounts are regularly audited.

2.2 Does the type of audit work carried out cover the full range of regularity and performance audit set out in INTOSAI auditing standards (1.0.38-1.0.44)?

Audit Law 832 provides the TCA with judicial powers. The discharge of accountability lies with the responsible individual, i.e. the accountant. However, in the PFMC Law “public loss” resulting from the misuse of resources will still be an individual responsibility, although a broader circle is drawn to find the negligent party. The top management of an institution is accountable for the institution's internal control systems. This means that the head of the institution is responsible for the design and operation of internal control systems; the authorising officer would also have a heavy responsibility in that regard, and the accountant would be responsible for the accountancy aspects.

The TCA conducts compliance audits, which are discharged in a two-phase process: The *first phase is the audit of accounts*, while the *second phase is the “trial”* of these audited accounts in a TCA chamber. A special prosecutor, who is not part of the chamber, represents the Treasury and is responsible for protecting the public interest and for arguing a judicial case. It is, however, up to the chamber to make a decision on its own. At the “trial”, the accountable is either discharged from responsibility or penalised. The end-product of the “trial” is a legal document called a *writ*, which either acquits officials or holds them responsible for their financial management. The writs are not reported to the TGNA, only to the accountable and to the ministry concerned.

¹ <http://www.ssm.gov.tr/EN/savunmasanayiimiz/Pages/Tarihce.aspx>

If penalised, the accountable can appeal to the TCA Board of Appeal as the last resort. In addition, a case may be reported to the appropriate authorities for possible pursuit under the Penal Code. The same right of appeal is given to the prosecutor if the case does not evolve as he/she considers appropriate. The TCA Board of Appeal may decide to invite concerned parties or one of the parties for a hearing or to ask for clarification. The same also applies upon a written request from the accountable person to the Board of Appeal.

The jurisdictional authority of the TCA belongs to its duties, as is mentioned in the INTOSAI auditing standards (1.0.36 - 1.0.37). However, as this is not the object of the baseline questions, it will not be discussed further in this assessment report.

The current TCA audit is comprised of a *compliance audit based on a transactions and balance accounts document*. The accounts (including supporting material) are sent to the TCA and stored in their central archives for a period of ten years. For the most part the auditors carry out their work in their office. This work occupies approximately 90% of the audit resources.

The attestation of financial accountability of the government and of accountable entities (1.0.39 lit. a to b, INTOSAI auditing standards) is prepared by the TCA group for the General Conformity Statement (GCS). The GCS report is the only mandatory annual report of the TCA -- equivalent to an audit opinion on a budget execution report -- and is sent to the TGNA. It is an assessment of all of the final accounts of the state budget, but with a somewhat limited scope, as social security institutions and local administrations are not included. This assessment is basically a check on whether the Ministry of Finance Consolidated Financial Statement (CFS) properly represents the underlying accounts in line ministries.

With the GCS, the TCA assures the TGNA that the figures and disclosures shown in the *Draft Final Accounts Law* fairly present the actual financial results of the budgetary implementation.

The GCS group consists of some eight audit staff, about 1% of the TCA auditors. This figure reflects the weakness of the formal exercise performed by the TCA. Given the relevance and importance of the GCS, a more substantial review of the contents of the *Draft Final Accounts* should be made, which would require many more staff resources.

Pending adoption of a new audit law in line with the PFMC Law design, the TCA does not perform an annual attestation audit of the State Budget Execution (SBE), Social Security Funds, regulatory and supervisory bodies, or other major institutions. Such an audit is nevertheless indicated in the PFMC Law (article 68a), and a natural consequence of that provision should be the adherence of the TCA to internationally recognised auditing standards. It is often said that the TCA's failure to carry out this attestation audit is based on the rationale that the Constitution and the PFMC Law do not provide the necessary legal foundation to set aside the current Audit Law 832. The PFMC Law is seen as an organic budget law, i.e. a type of framework law for the PFMC, but without all of the characteristics of an organic budget law, as it does not have priority over Audit Law 832 from a judicial point of view (cf. IMF ROSC 2006, p.14). If it had been intended to give the PFMC Law this priority, then it should have been enacted on a higher level of the legal structure.

The other kinds of regularity audits mentioned in the INTOSAI auditing standards (1.0.39) are not or only partially conducted by the TCA. A financial audit manual was drafted to help the institution comply with these standards during the twinning project that ended in May 2007. One audit was carried out in 2008 with the aim of testing the draft financial audit manual. This was a quite substantial audit, which covered the general directorate and 20 regional offices of one institution.

Since 1996 the TCA has been authorised to carry out *performance auditing*, evaluating to what extent the public administration has used its resources efficiently, effectively and economically. The first performance audit group was established in 1999 and the second performance audit group in 2007.

Today some 5% of the TCA's audit resources are used for performance audit. The results of these audits are reported to the Planning and Budget Commission (PBC) of the TGNA, but so far they have not provoked any reaction from parliament.

For performance audit reports, there is an unofficial dialogue between the TCA and the auditees about the realisation of the audit recommendations. The TCA has not implemented a system for the follow-up of audit findings and recommendations with the responsible executive institutions.

The audit work carried out by the TCA covers regularity and performance audit only partially, for the following reasons:

- **The TCA has the ambition, in line with Audit Law 832, to undertake compliance audits annually, covering 100% of the auditees and 100% of the transactions; compliance audits cover transactions and final balance accounts, and are mainly based on accounting materials submitted to the TCA; regularity audits embrace compliance audits but not financial audits, as defined and required in the PFMC Law, which would require different audit methods, such as systems audits carried out in a systematic, risk-based and cost-effective way;**
- **The PFMC Law (para. 68) specifies that external audit is to be performed in line with generally accepted international audit standards; the new draft audit law of 2005 also proposed to include this requirement. In practice, the TCA does not apply generally accepted international audit standards, and Audit Law 832 does not require the TCA to audit according to those standards.**

It is of utmost importance to pursue the initiated reform process of the TCA, as there will otherwise continue to be a mismatch between the executive's implementation of the PFMC Law and its requirements for external audit in comparison with the actual external audit carried out by the TCA.

2.3 *Does the SAI have the necessary operational and functional independence required to fulfil its tasks?*

The relevant benchmark today is the INTOSAI Mexico Declaration (ISSAI 10). It assesses an SAI's independence according to the following principles: (1) Legal Framework and its de facto Application; (2) Independence of SAI Heads and Members; (3) Broad Mandate – Discretion in Discharge; (4) Access to Information; (5) Right and Obligation to Report; (6) SAI to Decide on Content, Timing and Publishing; (7) Effective Follow-up on SAI recommendations; and (8) Financial, Managerial and Administrative Autonomy and appropriate Human Resources as well as Financial Resources.

The TCA set-up (in accordance with Audit Law 832) matches the baselines for the above principles fairly well.

- Principle (1): The present interpretation of the Audit Law (AL 832) demonstrates the independence that the TCA de facto enjoys.
- Principle (2): TCA members are elected by the TGNA and are guaranteed the maintenance of their appointment up to retirement age (65 years). They have the same status as judges in the judicial courts and can only be dismissed in accordance with very strict procedures established in the TCA. The TCA President's term of office is seven years, with the possibility of re-election by the TGNA; if not re-elected, the President is guaranteed a post as a TCA member. Personnel of the TCA are not allowed to have any other employment, with or without payment, than in the TCA.
- Principle (3): The TCA has a rather broad mandate and almost full discretion in its discharge.
- Principle (4): The TCA has the necessary access to information within its audit mandate and the exemptions are mentioned in chapter 2.1. The consequences are severe for the responsible auditees if they fail to present the required information.
- Principle (5): The TCA has the right and obligation to report. The whole reporting of the audit and the writs are not sent to the TGNA, as they are part of the judicial rights delegated by the

TGNA to the TCA. According to an amendment to the Audit Law (annex 10, 1996), the TCA President is to submit performance audit reports to the TGNA.

- Principle (6): The TCA decides independently on the content, timing and publishing of reports - with the mandatory exemption of the TCA General Conformity Statement.
- Principle (7): The TCA has a follow-up instrument for actions on audit findings and recommendations. However, the TGNA has no follow-up routine regarding the executive's action on TCA audit findings and recommendations.
- Principle (8): The TCA has a reasonable level of administrative autonomy on financial, managerial and administrative issues guaranteed by the present Audit Law. TCA human resources as well as financial resources are well taken care of, and the TCA appropriation request is to be dealt with by the TGNA without interference from the executive.

The TCA currently has the independence required to fulfil its tasks. It meets most of the requirements of the Mexico Declaration of INTOSAI, which represents the highest standards of independence today. However, independence does not mean isolation; the TCA does not sufficiently engage in dialogue and co-operation with stakeholders and even auditees. It is always the SAI's responsibility to safeguard and defend its legally guaranteed independence.

2.4 Are the SAI's annual and other reports prepared in a fair, factual and timely manner?

The only report submitted to the TGNA every year is the General Conformity Statement (GCS). The TGNA Planning and Budget Committee (PBC) deals (in the year 0) with the draft Final Accounts Act (year -1) together with the draft Budget Act (year +1). The TCA's GCS provides an independent assurance of the Ministry of Finance's Final Consolidated Financial Accounts. The PBC then hands over its proposals on the draft final accounts to the TGNA for debate and approval in plenary session. The GCS report is provided to the TGNA annually by 13 September at the latest.

The TCA's performance audit reports are subject to contradiction by the auditees. The President of the TCA then refers the revised draft to the appropriate TCA Chamber and finally to the General Assembly of the TCA before making his final decision, tabling it in the PBC of the TGNA and publishing it.

The TCA's compliance audit provides reasonable guarantees of a fair, factual and timely audit examination: court model with investigating staff – the auditors; contradiction of the draft audit report; judicial examination, “trial” (independent members in chambers), and possibility to appeal (an appeal board with new members). All procedural steps have strict short deadlines, as provided in the legal framework. However, there is no procedure in place to ensure audit quality (in line with the EU Member State SAIs' recommendations of 2005). Such an audit quality system would be based on three main pillars: audit quality control (referred to as “hot reviews”, as they are performed before the audit decision is taken); audit quality assurance (referred to as “cold reviews”, as they are performed after the audit decision is taken); and finally, audit quality management (the processes supporting the core audit processes).

Some of the key outputs for the audit year 2008 were as follows:

- The TCA General Assembly took 114 decisions.
- The TCA Chambers submitted 2,406 reports, of which 1,293 (53%) were processed by the judicial function and concluded with writs. These reports covered 8,971 different subjects. Auditees had recovered 513.9 million YTL (approx. EUR 253 million) before the final decisions of the writs were made. Auditees were requested to recover 73.1 million YTL (EUR 33.4 million). A total of 24 cases were deemed to be possible criminal cases and were forwarded to the General Prosecutor for legal action.
- The Board of Appeal treated 1,304 files.

- According to the TCA General Conformity Statement 2007, the total amount of budget expenditures of the administrations within the scope of the central government in 2007 was 214,341 million YTL (EUR 10,348 million).

The executive is giving increasing importance to efficiency and effectiveness and is making its spending more transparent in its annual reports (called “accountability reports” in Turkey). This information is not analysed at all by the TCA, which argues that the law does not provide for it. The TCA sees its main objective as identifying “public loss” and recovering money lost, which is not how modern SAIs see their role in relation to the demands of society. The TCA should move towards promoting sound financial management, which cannot be achieved by simply testing transactions for compliance.

The TCA prepares its reports in a fair, factual and timely manner. Nevertheless, the TCA - although organised in a court model with judicial power – would benefit from having an audit quality management system. The EU Guidelines on Audit Quality are deemed to be applicable to all SAIs, both “court” and “office” models, and to all audits, i.e. both compliance and performance audits. The TCA should also start to evolve its role towards promoting sound financial management and ensuring efficiency and effectiveness in the use of public funds.

2.5 Is the work of the SAI effectively considered by parliament, e.g. by a designated committee that also reports on its own findings?

There is no formal discharge of the executive by parliament. However, the fact that the Planning and Budget Committee (PBC) of the TGNA approves the draft final accounts and the draft budget for the following year is regarded as an informal political discharge. In principle - but this has never happened to date – a definite refusal to approve the Consolidated Final Accounts would lead the TGNA to consider a motion of no confidence in the government.

In recent years the TCA’s reporting to the TGNA has comprised the following:

- Annual General Conformity Statement;
- Opinion on Treasury Transaction Report;
- performance audit reports.

According to Audit Law 832 (amendment of 1996, annex 10), the TCA President is to submit performance audit (evaluation) reports to the TGNA. “The evaluation reports and other reports stipulated by this law shall be debated in the PBC of the TGNA, and the committee shall submit the reports, together with its opinion, to the TGNA to be debated at a plenary session.”

It seems that these reports have not been put on the agenda of the TGNA or discussed in the PBC or any other parliamentary committee. Even the reports of the six audits that the TCA had conducted in 2008 at the request of the TGNA were not officially remarked by the TGNA, despite clear legal requirements in section 108 of the Audit Law, where it is stated that “the TGNA shall execute the provisions of this law”.

The reasons for the missing reactions of the TGNA on the reports of the TCA are not clear. According to information obtained from the PBC, the reason was that there was no legal basis for dealing with these reports. However, as parliament is free to decide on the subjects and times of its discussions, this explanation is not convincing.

According to several laws, the PBC should also arrange hearings related to the performance of the public administration. The overall low administrative capacity of the PBC may be a reason for the failure to discuss the TCA’s reports thoroughly, but it does not justify the complete lack of reaction to the reports.

During the international symposium, “Parliamentary Oversight and External Audit in the New Public Financial Management System”, which took place during this assessment mission, a member of the PBC indicated that the reports of the TCA were difficult to understand. This suggests that the TCA

should consider revising the presentation of its work results to the TGNA. Only information of importance should be submitted to the TGNA, as the members of parliament have to read a large volume of documents. If a report of the TCA is presented to them, they should know that this report is always of reasonable importance and use. Moreover, the information should be presented in a way that makes it easily and quickly understood, for instance by including an executive summary.

A promising development is nevertheless emerging to change the role of parliament and especially the role of the PCB. At the symposium referred to above, the internal draft parliamentary by-law of the PBC was mentioned as well as the intention to establish a sub-committee on the budget and another sub-committee on the final accounts. The aim is that the latter should review the draft Law on the Final Accounts, the reports prepared by the Committees on the Final Accounts, as well as the activity reports of the administration prepared in accordance with article 178 of the Constitution. It should also evaluate the institutions concerned, together with the GCS and other TCA reports. For the record, we were already informed during last year's assessment that this sub-committee was expected to become operational in 2008.

During the above-mentioned symposium it was also made clear that the supreme audit institution was to assist parliament in policy evaluation and that the TGNA therefore needed to debate the results of the executive, with the assistance of the TCA.

Although the TCA is organised as a court model with judicial functions and can execute the results of its audits on its own by fining the persons responsible for the violation of budget regulations, the TCA, like every SAI, depends on parliament to ensure that its work is taken into account by public authorities.

The TGNA is the master of the Turkish budget and decides on the budget plan and the budget settlement. The TCA has to assist the TGNA in its duties concerning the accounts and should take all possible measures to improve its service to the TGNA.

Contrary to what is often claimed, improvements need not be dependent on legal changes. Working methods can be improved in both the TGNA and the TCA. The TCA can improve its reports, keeping in mind that while these reports are technically oriented, they need to be easily understood in order to increase their impact. The new PFMC reform that has been operational since 2007 is not addressed in a meaningful and deliberate way by the TCA.

2.6 *Has the SAI adopted internationally and generally recognised auditing standards compatible with EU requirements, and how far have they been implemented?*

The TCA has prepared itself to adopt the INTOSAI auditing standards and to upgrade its capacity to implement these standards in the context of the new PFMC Law framework. This was carried out through a twinning project that ended in May 2007.

The INTOSAI auditing standards on *performance audit* are applied with the guidance explained in the performance audit manual endorsed by the TCAs General Assembly on 18 May 1999.

On average, since the mandate was given to the TCA to carry out performance audits, two or three performance audit reports have been published annually. Last year the TCA issued two performance audit reports. The topics of the audits, the planning, fieldwork (including evidence collection and analysis) and reporting met with international and EU auditing standards. The TCA's target is to carry out six performance audits per year.

With regard to *financial audit*, the reform process has nearly stalled. The financial audit manual has not yet been adopted, and only one audit is being carried out according to these guidelines. The aim of this audit is to test the financial audit manual and amend it as necessary.

A group of auditors work on *computer-assisted audit techniques* (CAAT). These techniques focus on an audit program assisted by computers, which enables the auditors to analyse a great number of similar cases, e.g. audit of the social security entities, but this program still needs further testing.

The department on *audit planning* compiles the annual work plan in a semi-centralised manner. It works with a database that includes the accounts and audits that have been produced. There is a dialogue between the department of audit planning and the 19 audit groups, which may make proposals. They work together on a draft annual work plan to be presented to the TCA President. The President sends his final draft to the General Assembly of the TCA for endorsement. This arrangement seems to work sufficiently well in the framework of the current audit mandate (where compliance audits constitute the lion's share of audit work). However, audit planning is not carried out by using a strategic approach, which would ensure that all accounts were regularly covered, for example over a three to five-year period. This would imply sampling, based on a method for audit where an analysis of risk of material errors is defined from an internal control perspective.

The TCA has prepared itself to adopt internationally and generally recognised auditing standards that are compatible with EU requirements. To meet internationally recognised auditing standards on performance audit, the TCA follows the performance audit manual. However, with regard to financial audit, the TCA should enhance the number of audits to ensure that the reform in this area does not completely stall. In this way the TCA would be more proactive and better prepared for the ambitious reform package - in line with the PFMC Law and its environment and in line with EU requirements - once the new TCA law is passed by parliament.

2.7 Is the SAI appropriately aware of the requirements of the EU accession process?

The TCA is an active member of the network of candidate and potential candidate country SAIs supported by the European Court of Auditors. It is also an observer in the Contact Committee established among EU Member State SAIs, in application of the EU Treaty. The TCA is also a member of INTOSAI and two of its regional groups, the European Organisation of Supreme Audit Institutions (EUROSAI) and the Asian Organisation of Supreme Audit Institutions (ASOSAI). The TCA is a member of the Governing Board of EUROSAI for the period 2008-2014.

The TCA served for three successive terms (nine years) as an auditor for EUROSAI and for ASOSAI for two successive terms between 2000 and 2005.

The TCA is one of the founding members of the Economic Cooperation Organisation Supreme Audit Institutions (ECOSAI). The ECOSAI is a regional forum of the SAIs of the south and central Asian regions. The TCA President was the first President of ECOSAI's Governing Board.

Regarding the audit of EU funds, Turkey has chosen to place the Audit Authority (AA) for the Instrument for Pre-accession Assistance (IPA)² with the Treasury controllers, as they are deemed to be sufficiently independent functionally in relation to both the National Fund and the Implementing Agency. This solution has been frequently applied in many EU countries.

The basic set-up in Turkey for handling EU-related funds seems to be suitable. The TCA has a full mandate to audit EU-funded projects and also the Audit Authority. The TCA should continue its capacity-building for auditing EU pre-accession funds in its function of auditing the executive, notably the Undersecretariat of the Treasury for IPA funds but also the Ministry of Agriculture for the future IPARD funds.

3. Capacity to Further Develop the System

The TCA audit mandate has been expanded drastically with the new reform established through the PFMC Law and with the decision of the TCA General Assembly to audit the accounts of social security institutions. The TCA has embarked on an ambitious programme to meet this challenge, in particular through the twinning project that ended in 2007. During the duration of the project, some 50% of audit staff was trained in at least some of the various modules. In 2008 the training continued, and approximately 450 employees participated in some further training on modern audit tools and

² Council Regulation (EC) No. 1085/2006 dated 17 July 2006; for the implementation of this regulation, Commission Regulation (EC) No. 718/2007 was published on 12 June 2007.

techniques. Consequently, a platform has been created as a basis for audit in line with the new requirements of the PFMC Law, which requires external audit to be performed according to international and generally accepted auditing standards (article 68, PFMC Law).

In line with all budget-users implementing the requirements of the PFMC Law, the TCA elaborated a Strategic Plan for the period 2009-2013. The Strategic Plan has been designed on the assumption that there will be a new audit law in which TCA responsibilities will be exercised in accordance with the PFMC Law. The Strategic Plan also includes a SWOT analysis, in which mention is made, among several strengths, of the deep-rooted history (145 years) of constitutional and legal independence of the TCA and the sufficient safeguards granted to professional personnel. On the other hand, among several weaknesses are noted the resistance to change, the lack of experience with regard to modern audit approaches, the lack of motivation among the personnel, and the absence of a culture of collective study and teamwork.

The TCA has a representative participating in the bilateral project with the Dutch Government, through the MATRA programme, which is providing support to the TGNA in the implementation of the PFMC Law.

The current TCA President's term is coming to an end, and it is not clear whether the reform momentum will change in the coming years.

4. Summary and Next Steps

It is recognised by the parties concerned that such a major change takes time and that a new audit law is needed. The TCA has started to prepare itself for auditing according to INTOSAI auditing standards, which should contribute to raising awareness of the need for external audit of the executive in accordance with modern auditing standards and aimed at increasing effectiveness and efficiency in the execution of the budget.

Co-operation with parliament is the basis of modern auditing, and the TCA's relations with the TGNA have to be improved. The symposium on "Parliamentary Oversight and External Audit in the Public Financial Management System", held in April 2009, will hopefully accelerate this process. There is a mutual need for deepening professional co-operation between the TCA and stakeholders.

Reforming an audit system in the context of a changing public finance system is a continuous learning-by-doing process, which needs to be managed and carried forward proactively in order to address any implementation risk, assess results achieved, and take corrective measures in a timely manner. There still lies ahead a substantial period for further development, cultural change, training and operational experience. External audit is an important part of the PFMC reform, given its function as an assessor of the execution of the budget.

Recommendations for Assistance

As the complexity of the task and the risks of the reform are considerable, the TCA should consider obtaining some external support in the coming years, such as the advisory services of one or two senior long-term (although not necessarily resident) advisors with experience in audit paradigms and change management.

The PFMC Law mentions new types of audit reports and audit opinions that the TCA is required to deliver to parliament, the executive and auditees. The preparation of these reports will require the considerable attention and resources of the TCA in the coming years.