PROJECT FICHE
“Alignment of the Turkish Public Internal Financial Control System”

Project number: TR 0302.04
Twinning number: TR03-FI-01

1. Basic Information

1.1. Title: Alignment of the Turkish Public Internal Financial Control System with International Standards and EU’s Practices

1.2. Location: Ministry of Finance - Ankara

1.3. Sector: Financial Control

2. Objectives

2.1. Overall objective

Establishment of a revamped public internal financial control system including internal audit in Turkey in compliance with international standards and EU’s practices.

2.2. Specific objectives

Within the framework of the draft Public Financial Management and Financial Control Law (the PFMFC), the project will focus on public internal financial control systems including operationally independent internal audit. The upgrading of these functions in the Turkish public administration and gaining practical experience specifically on a pilot basis are deemed necessary to prepare a sound and solid basis for effective implementation of the law across all income and spending departments in the Turkish Administration.

The specific objective under this project is therefore the implementation of the PFMFC Law. The project will focus on ten spending agencies including the Ministry of Finance of Turkey, five of which will be designated for pilot projects in selected ministries, to gain experience with the implementation process.

2.3. Project purpose

The purpose of this Project is to assist the Government of Turkey in establishing public internal financial control (PIFC) systems based upon international standards and EU practices in this area, and the PFMFC bill.

The Project expected results are as described below:

   a) Further improvement of the financial control chapter of the Bill on PFMFC in line with International standards on PIFC and EU’s practices.

   b) establishment of the Public Internal Financial Control Harmonisation Unit (the PIFCHU), the Internal Audit Coordination Committee (the IACC), pilot financial control and internal audit units.

   c) preparation of secondary legislation, templates for financial control and internal audit manuals, internal audit charter and code of conduct. In addition, development of standards for ex ante control as well as internal audit, with main focus on financial, systems based and performance audits. Finally, introduction of the new concepts of functional independence for the internal auditor and of the risk assessment and management policies, both for financial control and internal audit activities.
d) preparation of model training programmes and materials for the financial control staff including ex ante controllers, internal auditor, accountants and financial service unit staff, and training of a pre-determined number of the control staff and financial management accordingly. The project should aim at developing training modules, programmes for training trainers and establishing pilot projects for training. A special training should be delivered to the PIFCH and the IACC’s staff.

e) IT support provided

By developing and implementing an IT strategy, including the introduction of computer-assisted audit techniques, and the development of a chapter on computer assisted audit techniques, and IT system audits within the internal auditors’ audit manuals. The signature of IT supply contract could be considered if the conditionality on adoption of law on PFMFC together with the results planned above under this project are met and the technical specifications are prepared parallel to the twinning.

2.4. Revised Accession Partnership and NPAA priority

This project proposal is linked to the priority areas for Turkey’s membership preparation, as underlined in the Revised Accession Partnership (the RAP) and the National Programme for the Adoption of the Acquis (NPAA). Both documents recognize the importance of strengthening the financial control functions of Turkish administration.

Revised Accession Partnership

Short term priorities under the heading of “Ability to Assume the Obligations of Membership ” of the RAP clearly indicate that “Turkey should adopt legislation on public internal financial control in accordance with EU practice and internationally agreed control and audit standards and ensure its effective implementation, and strengthen the administrative capacity for the treatment of irregularities and cases of suspected fraud affecting pre-accession assistance, including the effective communication of irregularities to the Commission”.

Medium term priorities of the same heading indicate that “Turkey should adopt new legislation to reform the external audit function in accordance with INTOSAI rules, to ensure the independence of the Court of Accounts, to abolish the ex ante control functions of the Turkish Court of Accounts, and to develop the mechanisms of systems-based and performance audit; and prepare for the designation of an operationally independent anti-fraud co-ordinate service responsible for the co-ordination of all legislative, administrative and operational aspects of the protection of the Communities’ financial interests.”

National Programme for the Adoption of the “Acquis”

Turkey is in the process of revising the existing NPAA in response to the Revised Accession Partnership. The most recent NPAA confirms under Chapter 4.29 that in order to improve the financial control system, all necessary legal amendments have to be completed and strategies to deal with problems that may arise at the implementation stage should be identified. The fragmented nature of the current financial control system will be transformed into independent units performing to the same standards and using modern auditing methods.

Additionally 2002 Strategy Paper states that under the heading of 5.1. Strengthening the Pre-accession Strategy, “From 2003 greater responsibility will be passed to the Turkish authorities for the implementation of these programmes. In addition, under the heading of 5.2. Additional Financial support it is stated that in order to facilitate the full devolution of implementation, Turkey will need to take further measures to ensure sound financial management and control.

Regular Report 2002 chapter 4.28 also stresses that functionally independent internal audit units, responsible for carrying out the audit of their respective institutions of the assessment of the financial management and control systems thereof, should be introduced to all budget centres (line ministries and public agencies.) Their internal audit procedures should focus on system based and performance
audit functions, in line with international standards. There needs to be clear separation of audit duties between budget centres, Ministry of Finance and the TCA.

Further more under chapter 28 Overall Assessment subheadings, it is stated “Turkey should focus further efforts on enacting the Law on Public Financial Management and Financial Control and subsequently ensuring its effective implementation, and on reinforcing the legislative framework and administrative capacity to protect the communities' financial interests.’

2.5. Contribution to National Development Plan

Turkey has now begun preparation of its first national development Plan. This is likely to be ready by the end of 2003.

2.6. Cross Border Impact

Not applicable

3. Description

3.1. Background and Justification

The European Council at its December 1999 meeting in Helsinki endorsed Turkey as a candidate state destined to join the Union on the basis of the same criteria as applied to the other candidate countries provided that Turkey abide by the political and economic criteria and the obligations of a member state. Turkey’s status as a candidate country to the EU requires harmonization of legislation with the EU Acquis including in the field of Financial Control and Financial and Budgetary Provisions both as short and medium-term priority. To that aim, Turkey indicated in its National Programme for the Adoption of the Acquis that the process for harmonization in Financial Control and Financial and Budgetary Provisions would start in the short term and would be finalized in the medium term.

The NPAA was adopted by the Council of Ministers on 19 March 2001 and the Decree # 2001/2129 on the Implementation, Coordination and Monitoring of the aforementioned Programme entered into force on 24 March 2001. According to the Decree, public bodies and institutions are charged with carrying out the required administrative changes and the in-service training of the personnel towards the adoption and implementation of the EU Acquis and determine the financing needs for the adoption and the required administrative changes in terms of budget and EU resources.

In the light of NPAA Chapter 4.29 Financial Control and Budgetary Provisions the Government has identified the inadequacies and weaknesses in the present financial management and control systems, has prepared a policy paper on the issue and has drafted a comprehensive Act on public internal financial control in accordance with EU practice which is mentioned in the Regular Report 2002.

The comprehensive Act (the Law on Public Financial Management and Financial Control) submitted to Parliament providing changes to the current system in line with a number of concerns expressed in 2001 and 2002 Regular Reports.

The said draft law introduces a new public financial control system in Turkey. It provides for a new internal financial audit system to be established; the ex-ante financial control power will be delegated to line agencies. In addition, an Internal Audit Coordination Committee (the IACC) will be set up to determine the internal financial audit standards and to coordinate internal auditors. Finally, an Public Financial Control Harmonisation Unit (the PIFCHU) within the General Directorate of Budget and Financial Control of the Ministry of Finance will be established responsible for developing guidelines, standards and methods for financial management and financial control system.

3.2. Linked Activities

a) Programmatic Financial and Public Sector Adjustment Loan-II: The Turkish Government implements a World Bank assisted Project “Programmatic Financial and Public Sector Adjustment Loan-II (PFPSAL) in the amount of $1.35 Billion. The project aims to revamp the
existing Turkish Financial Management and Control Systems. The Project includes provisions for solving the problems of the Turkish financial control system, and also contains a specific reference to the Acquis compliance in this reform process.

Under this Project, Turkey has been financing its structural reforms on public financial management and trained some staff on international accounting and auditing standards.

The Projects sets a deadline for adoption of the draft Law on Financial Management and Control by the Turkish National Assembly. The approach adopted in this Project is generally consistent with the EU’s approach on PIFC system.

b) IMF Stand-By Arrangements 2002-2004- Letter of Intent, January 18, 2002: The Turkish Government submitted a letter of intent to the IMF for a new SBA of 16 billion US $ dated 18.01.2002 to implement its economic reform program which was approved by the IMF on 05.02.2002. In the letter, Turkey provided commitments “to strengthen the legal framework for fiscal policy, submit to Parliament a law on Financial Management and Control consistent with best international practices. The law will cover budgeting, accounting, transparency, and internal and external control”.

The IMF loan supports the project assisted by the World Bank.

c) Support to the DIS System in Turkey

The EC has provided technical assistance to Turkey to set up a decentralised EU fund management system. Under this project, EU experts drafted manuals of procedures of the National Fund (the NF) and the Central Financing and Contracting Unit (the CFCU), and audit manual of the Board of Treasury Controllers, and provided training to the management and control staff of the NF and CFCU.

d) Strengthening the external audit capacity of the Turkish Court of Accounts

A peer review and twinning project to strengthen the Turkish Court of Accounts (the TCA) are planned so that the TCA may fully assume its role in line with international standards and EU practices. The projects aims at upgrading the legal framework, operational, management and organisational capacity of the TCA in line with International Audit Standards and EU Practices

3.3. Results

a) The legal framework improved.

The expected result of the project is that the bill will be fully in line with these standards and practices. If the bill is enacted before or during the implementation period of the project, then, the law will be reviewed in accordance with the said standards and practices; and amendment will be drafted to improve if necessary.

b) The relevant institutions established

The PIFCHU, the IACC, pilot internal audit units, ex-ante financial control and financial service units will be established in five pilot units. These entities will have their own management charters and manuals in line with EU practices.

c) Secondary legislations, template charters and manuals, risk assessment and control systems, competency statements and certification requirements and quality control standards on PIFC prepared

Following the adoption of the law, Turkey will need secondary legislations, charters, manual for financial control systems including functionally independent audit units as well as for the PIFCHU and the IACC. Therefore;
i) Secondary legislations prepared in accordance with the bill/law improved via result (a),

ii) The control and audit template charters and manuals developed in line international standards and EC practices on PIFC and audit and they are consistent with the secondary legislation. The template charters and manuals must also consider characteristics of different sectors of the economy such as public finance, financial services including public debt management, industry, trade, civil works, local governments so that they may easily be adopted to each individual audit and control units of the spending agencies within each sector. On the other hand, the internal audit manuals must cover separate chapters on financial, systems-based and performance audits as well as quality assurance systems and risk assessment methodologies.

The new concepts of functional independence for the internal auditor and of the risk assessment and management policies, both for financial control and internal audit activities introduced into the legislations as well as charters and manuals.

iii) quality control systems, job descriptions and competency statements for all grades of internal audit staff established in accordance with the changes in legal framework and adopted new audit procedures.

iv) Internal auditing and ex ante control standards, code of ethics, certification requirement for financial control staff, specifically internal auditors and financial controllers prepared.

v) Management charters and manuals in line with EU practices for the PIFCHU and the IACC prepared.

d) Training prepared and delivered

i) Model training programmes and materials prepared for the financial control staff including ex ante controllers, internal auditors, accountants and financial service unit staff.

ii) Financial control and internal audit staff to be nominated by at least of ten spending agencies/line ministries especially in financial management and the economy area such as the Ministries of Finance, Interior, Public Works, Energy, and Undersecretariat of Treasury, Customs, State Planning Organization, Banking Regulatory and Supervisory Board, Capital Market Board trained on PIFC system and audits including financial, system based, performance, including IT systems in accordance with manuals and the training materials to be developed by the Project.

iii) The PIFCHU and the IACC’s staff trained in accordance with the legislation, policies developed, their charters, manuals, and EU practices in the area.

by the end of the project: at least

- 60 ex ante financial controllers,
- 60 internal auditors (at least two from each spending agencies, and 6 from the Ministry of finance, remaining from the rest trained on financial, system based and performance audit),
- 60 accountants,
- 60 other financial service staff,
- 20 financial managers,
- all staff of the PIFCHU and the IACC

will have been trained on the relevant areas, and

at least one conference and two seminars will have been organized to introduce the reform process to the Turkish People and the bureaucracy.

e) IT support provided (subject to Point 12-Conditionality)
An IT strategy, including the introduction of computer-assisted audit techniques, and the development of a chapter on computer assisted audit techniques, and IT system audits within the internal auditors’ audit manual developed in line with International standards. Equipment delivered and in use for the auditors trained and equipping the PIFCHU and the IACC, audit units and financial control units within the pilot spending agencies to fulfil their duties properly.

3.4. Activities

Under the twinning, the Ministry of Finance will work jointly with a Member State counterpart in order to fulfil the objectives of the project and to implement the related activities.

The Member State and Turkey shall be responsible for the respective experts and tasks assigned to each party. The lead Member State in the twinning covenants and provider of the PAA will co-ordinate inputs to the project according to the covenant.

The Ministry of Finance of Turkey will co-ordinate activities with the leading spending agencies such as the Ministries of Interior, Public Works, Energy, and Undersecretaries of Treasury, Customs, State Planning Organisation, Banking Regulatory and Supervisory Board, Capital Market Board and Turkish Court of Accounts. To ensure a smooth and effective coordination in implementing the project activities, the Ministry of Finance will designate a coordinator in each spending agency (similar to senior programming officers in pre-accession assistance) who is the target beneficiary of this project in coordination with the CFCU and close consultation with the spending agencies. This will be a precondition for approving the twinning covenant.

The activities under the Twinning Covenant will be the following:

a) legal framework.

This activity is aimed at facilitating that the bill/law (if enacted) on PFMFC is improved in accordance with international standards and EU practices on PIFC and internal audit and also in the lights of recent discussions on the bill/law.

This activity involves:

ii) reviewing the PIFC chapter of the PFMFC bill, and commenting on it in accordance with international standards and EU practices on PIFC and also in the lights of recent discussions on the bill.

iii) preparing all appropriate amendments to the bill on the basis of the comments.

b) Establishing relevant control and audit bodies

The ICHU, the IACC, and pilot internal audit units, ex-ante financial control and financial service units will be established in five pilot spending agencies and the MoF. These entities will have their own management charters and manuals in line with EU practices.

c) Secondary Legislations, Template charters and Manuals on PIFC

Following the adoption of the law, Turkey will need secondary legislations, charters, manual for financial control systems including functionally independent audit units as well as for the PIFCHU and the IACC. To accomplish these objectives, Twinning will ensure following activities:

ii) prepares secondary legislation to ensure effective implementation of the law

iii) develop separate control and audit template charters and manuals in line international standards and EC practices on PIFC and audit:

- ensure that the template charters and manuals reflect characteristics of different sectors of the economy- at least, public finance, financial services including public debt management, trade, industry, civil works, local governments so that they may easily adopted to each individual audit and control units of the spending agencies within each sector.
- ensure that internal audit manuals cover separate chapters on financial, systems-based and performance audits, including IT system audits as well as quality assurance systems and risk assessment methodologies.

iv) prepare internal audit and ex ante control standards, code of ethics, certification requirement for financial control staff, specifically internal auditors and financial controllers.

v) introduce the new concepts of functional independence for the internal auditor and of the risk assessment and management policies, both for financial control and internal audit activities.

vi) prepare quality control systems, job descriptions and competency statements for all grades of internal audit staff established in accordance with the change in legal framework and adopted new audit procedures.

vii) prepare management charters and manuals in line with EU practices for the PIFCHU and the IACC.

d) Training

This activity will:

i) prepare model training programmes and materials developed for the financial control staff including ex ante controllers, internal auditors, accountants and financial service unit staff.

ii) provide direct training to financial control staff to be nominated by at least of ten spending agencies/line ministries especially in financial management and economy area such as the Ministries of Finance, Interior, Public Works, Energy, and Undersecretariat of Treasury, Customs, State Planning Organisation, Banking Regulatory and Supervisory Board, Capital Market Board trained on PIFC system and audits in accordance with manuals and the training materials to be developed by the Project. The training of the internal auditors will focus on financial audit, system based audit and performance audit, including IT system audit and brief information on international accounting standards.

iii) training the PIFCHU and the IACC’s staff in accordance with the legislation, policies developed, their charters, manuals, and EU practices in the area.

iv) undertake pilot audits for the auditors trained.

iv) organise study tours for staff trained from the non-pilot spending agencies and the Ministry of Finance hosted by the partner on its approach of internal audits. One trainee from each of five of non-pilot spending agencies and three from the Ministry of Finance will participate to study tours hosted by the partner on its approach of internal audits and PIFC. Each of the participants of the study tour will be from either of financial controllers or auditors trained, or exceptionally head or financial managers of the each pilot spending agencies including the Ministry of Finance, and those involved in internship will be excluded from this specific activity.

v) provide internships for five auditors trained from the pilot spending agencies and three from the Ministry of Finance each for a period of three months in selected EU Member States, hosted by the partner on its approach of internal audits

vi) organize conference and/or seminars to introduce the new system to the public and/or public officials.

Through this activity:

- 60 ex ante financial controllers,
- 60 internal auditors (at least two from each spending agencies, and 6 from the Ministry of finance, remaining from the rest trained on financial, system based and performance audit),
- 60 accountants,
- 60 other financial service staff,
- 20 financial managers,
- all staff of the PIFCHU and the IACC
will be trained on relevant area, and
- at least one conference and two seminars will be organized to introduce the reform to the
bureaucracy and public.

e) IT support provided (subject to Point 12-Conditionality)

The Ministry of Finance is to let a separate contract for the purchase of IT equipment and the delivery
and development of the required software in accordance with the EC procurement rules.

This activity of the project will:

i) assist the Ministry of Finance and the pilot spending agencies, and the PIFCHU and the IACC to
develop an IT strategy including the introduction of computer-assisted audit techniques, and the
development of a chapter on computer assisted audit techniques within the internal auditors’
audit manual developed in line with International standards, identifying cost effective hardware
and software options to meet its needs, and a suitable training package for staff about the basic
operation of the equipment.

ii) Assist the CFCU in preparing tender dossier including technical specifications of IT equipment
and software, testing and accepting them in accordance with the DIS system and EC’s
procurement guidelines (PRAG),

iii) Provide to the trainees, audit units and financial control units within the pilot spending
agencies, the PIFCHU and the IACC IT equipments and software including Computer Assisted
Audit Techniques, and train once equipment is in place including training in Computer Assisted
Audit Techniques and piloting the audit approach.

iv) develop an IT strategy, including the introduction of computer-assisted audit techniques, and a
chapter on IT audit methodologies and approaches and IT system audits within the audit
manuals on financial, performance, system based, and develop training materials based on the
manual for dissemination,

3.5. Anticipated inputs (Twinning and Training Package):

i) Pre-accession adviser for 18 months.

The 18 months Pre-Accession Adviser (the senior PAA) would co-ordinate the execution of project
activities towards the results indicated. His/her working language will be English; knowledge of Turkish
would be an advantage. A second Pre-accession advisor (the junior PAA) would co-ordinate
specifically either financial control component or internal audit part of the project. He/she will start after
the senior PAA, at implementation stage of the relevant component.

Each of the PAAs should have:

- Good knowledge of laws and regulations of PIFC and Internal audit structures of an EU Member
State at least,
- Good knowledge and understanding of the workings of public administration in a Ministry of
Finance or Economy or equivalent institution,
- At least ten years of experience in auditing in both the EU and third countries,
- Ability to deliver reports on complex issues under pressure and within tight deadlines,
- Ability to communicate effectively in writing and orally in English,
- Excellent personnel and team management skills,
- Preferably experienced with training and/or twinning type of project covering preparation of
programmes and projects in a Phare country,
- Preferable knowledge on and contacts within ECA and other European and overseas audit institutions

ii) Short-Term Experts should be specialists able to cover the activities described below in co-operation with the PAA. Their working language will be English; knowledge of Turkish would be an advantage.

The assistance by STE would focus on support to the PAA and particularly in the following areas: examining PIFC and audit laws and regulations; preparing draft audit manuals in accordance with International PIFC and Auditing Standards, and EU good practices; issuing consultations; delivering specialised training; contributing to enhancing the organisational capacity and structure of PIFC and audit units to be established within spending agencies.

Short Term Experts should have a background similar to that of the PAA. Particularly, and at least, five years minimum of general practical experience on standards, principles and practices on PIFC and audit of which 3 years minimum in the area where STEs would assist the PAA in preparing charters for PIFC units, internal auditors and coordination units for harmonisation, ex ante control and audit manuals on financial, system based and performance Audits, including IT systems. In addition:

Internships for five auditors trained from the pilot spending agencies and three from the Ministry of Finance each for a period of three months to selected EU Member States.

Internees should have at least five years of audit experience and at least an official C level English score or equivalent.

Study tours for one staff trained from five of non-plot spending agencies and three from the MoF hosted by the partner on its approach of internal audits and PIFC. Each of the participants of the study tour will be from either of financial controllers trained or auditors trained, or exceptionally one head or financial manager of the each pilot spending agencies and those involved in internship will be excluded from this specific activity.

3.6. Lessons Learned


These reports indicated:

“Financial Accountability. Modernization of Turkey’s system of public financial accountability in line with international standards is an urgent PEM priority. As detailed in the August 2001 CFAA, some of the basic building blocks appear to be in place: an established legal framework; reliable, albeit fragmented, accounting processes; regular reporting of financial results; an apparently independent Supreme Audit Institution, the Turkish Court of Accounts (TCA), which reports to Parliament; a relatively open system of accountability and plenty of skilled personnel. However, deeper analysis reveals significant problems and lack of systemic coherence. Complex institutional relationships, multiple sources of public funds, heavy emphasis on ex ante controls and inadequate reporting to the legislature reduce transparency and weaken financial management. The accounting law which governs public sector accounting dates from 1927, and procurement legislation has not kept up with evolving international standards. Similar to the budget, the audit system is fragmented with many bodies besides the TCA carrying out activities analogous to external inspection and audit”.

In addition to the findings and recommendations set out in the EC Regular Reports of 2001 and 2002, the recommendations laid down in these WB’s reports have been used as guidelines to set the objectives, results, activities and conditionality for this project.
4. Institutional Framework

- Involved institutions:

**Ministry of Finance:**

Under Article 2 of the Decree No. 178 on the Organizational Structure and Duties of the Ministry of Finance, the Ministry of Finance is responsible for the preparation, implementation, follow-up, and steering of the State's budget, and pursuant to Article 10, the General Directorate of Budget and Fiscal Control are vested with the following duties: coordinating the budget preparation activities, analysing the budget proposals prepared by the administrations and ensuring that they conform to the development plans and programmes, consolidating the proposals and issuing the draft budget acts together with their reasoning.

Under Article 55 of the Public Financial Management and Financial Control Law, the Directorate General of Budget and Fiscal Control of the Ministry of Finance is responsible for establishing the standards and methods for financial management and ex-ante control systems within the framework of its duties and powers. The IACC is responsible for establishing the standards and methods of internal audit.

Under Article 57 of the Public Financial Management and Financial Control Law, the officials to be appointed to the financial services units, ex-ante financial control offices and accounting offices in public administrations shall attend training programs relating to financial management and control provided by the Ministry of Finance and officials who successfully complete the training programs shall receive certificates.

An official to be appointed as an internal auditor to a public administration is required to attend the training program provided by the Ministry of Finance and coordinated by the IACC. The training program is designed to provide sufficient knowledge related to the budget, financial control, public tendering procedures, accounting, personnel legislation, and the European Union legislation in addition to the necessary professional training in audit. A candidate who successfully completes the program shall receive a certificate of qualification as internal auditor in accordance with international audit standards. The period and content of the training program for candidates as internal auditors, the procedures to be followed on completion of training, and the other requirements shall be set out in a regulation to be issued by the Ministry of Finance upon the recommendation of the IACC (Article 64).

**The Internal Audit Coordination Committee (the IACC)**

The Internal Audit Committee under the Ministry of Finance consists of seven members appointed by the Council of Ministers for a term of three years; one member is proposed by the Prime Minister, one by the Minister of the Interior, one by the Higher Education Council, and four by the Minister of Finance including an expert from outside the government service with appropriate auditing and financial management qualifications (Article 65).

The IACC is assisted by a secretariat provided by the Ministry of Finance. The working principles and procedures of the committee and other related matters are set out in a regulation to be issued by the Ministry of Finance on the basis of a proposal from the IACC (Article 65).

The IACC acts as an independent and objective organization to monitor the entire internal audit systems of public administrations.

**The Public Internal Financial Control Harmonisation Unit (the PIFCHU)**

According to this draft law, the General Directorate of Budget and Financial Control of the Ministry of Finance is responsible for establishing through an Financial Control Harmonisation Unit, standards and methods for financial management and ex-ante control system.

**Line ministries:**
After the enactment of the Public Financial Management and Financial Control Law, in line ministries and national budget spending centres, it is needed to:

- create internal audit units;
- build up an information network for financial management and financial control;
- ensure qualified staff in an adequate number for financial management, financial control and internal audit.

relevant laws:

- Public Financial Management and Financial Control Law,
- The Decree no 178 on the Organizational Structure and Duties of the Ministry of Finance.

Outlook of the existing PIFC system:

The current public financial management and control systems of Turkey may be characterized as follows:

- Although the accounting system is in transition, the prevalent accounting system is still basically cash accounting. The present system does not allow generating an analytical financial reporting system, thereby maintaining a sound Public Internal Financial Control (PIFC).
- The Ministry of Finance financial control responsibilities are extensive, whereas line ministry/agency involvement in financial management is very limited. Line ministries/agencies have no financial control and accountancy position; these functions are carried out by the head of the budget and finance offices of the Ministry of Finance.
- A number area of government expenditure still remains outside the scope of control and inspection/audit.
- Financial transactions are subject to procedural controls of the Ministry of Finance on transaction basis rather than on the risk basis.
- Accountants and accrual officers are financially responsible for the irregularities of transactions while officers who authorise such transactions are not.
- The total number of internal inspection/audit units is 129. In some cases, functions of these units overlap each other. This leads to multiple inspections on the same activities or, conversely, the exclusion of some areas from the scope of inspection/audit. A precise definition of the functions of these units is required.
- There is lack of clarity within the administration between financial management and control functions, functionally internal audit activities and external audit functions: both the Ministry of Finance and the Turkish Court of Accounts conduct extensive ex ante controls.
- The public internal audit profession in Turkey does not exist. However, inspection units dominate the Turkish control systems. These are responsible for primarily conducting administrative audits and investigation on staff, financial investigations on a transaction basis but not regular financial audits in accordance with international auditing standards. These are not functionally independent either.
- The Turkish Court of Accounts conducts its audit on the transaction basis (100%) instead of the systems-based audits in consistent with international auditing standards.
- There are restrictions on the Turkish Court of Accounts’ audit mandate regarding the Presidency, Parliament and the social security funds and autonomous bodies. The Turkish Court of Accounts does not regularly publish its reports.
- There is neither a general law on public financial control nor a coherent government approach relating to modern Public financial control.

This Project, and in particular the institution building component assist Turkey in carrying out the necessary reforms, both on the legal and institutional sides. The main legal instrument, the bill on Public Financial Management and Financial Control Law should be further aligned further to make the project results fully applicable. The parallel amendments are planned to be proposed in the draft law on the TCA's law-832 via a twinning project considered to be financed by the EC in the 2003 programming. So in essence, these two amendments will be complementary to each other. On the institutional side, reform proposals will be made regarding the bill / law (if enacted earlier), secondary legislations, structural and operational matters, training of staff in accordance with international PIFC and audit standards and EU’s practices.
5. Budget

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In addition to 25% co-financing of investment, a Turkish contribution to the Twinning will be required which will cover provision of office equipment and space for the PAA, organizational costs of training (accommodation and catering in local training, rental fees as well as local and international travel of trainees) and other costs non eligible for funding as specified in the "Reference Manual on Twinning Projects.

6. Implementation Arrangements

6.1 Implementing Authority

The Central Financing and Contracting Unit (CFCU) will be implementing Agency and will be responsible for all procedural aspects of the tendering process, contracting matters and financial management (including payments) of the project activities in accordance with the EC Procurement Rules, namely PRAG.

Contact:
PAO: Ercan Nuri Tortop
Address: Central Finance and Contracts Unit
Tel.: 90 312 285 20 02
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6.2 Project Beneficiary

The twinning part will be implemented in the form of one Twinning Covenant between Turkey and member state/s.

There will be supply tender to support the Twinning, where The Ministry of Finance will let a separate contract for the purchase of IT equipment and the delivery of the required software in accordance with EC procurement rules.

Beneficiary institution for the Twinning Covenant and supply contract will be all the ministries directly involved in the Project. The Ministry of Finance will act as twinning partner and facilitate the coordination, and active participation of the Turkish spending agents involved in the Project.

Contact on the MoF side:

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Ahmet KESIK
Deputy Director General of Budget and Fiscal Control
6.3. Non-standard aspects

N/A

6.4. Contracts

1) A Twinning Covenant will be signed (€ 1,800,000).
2) A supply contract of €1,200,000 including the MoF’s contribution of €300,000 will be concluded to support the twinning part of the Project).

7. Implementing Schedule

The following implementation schedule is anticipated:

<table>
<thead>
<tr>
<th>Component</th>
<th>Start of Tendering</th>
<th>Start of Project Activity</th>
<th>Project Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning</td>
<td>18.06.2003</td>
<td>16.02.2004</td>
<td>15.08.2005</td>
</tr>
<tr>
<td>IT Supply</td>
<td>15.03.2004</td>
<td>16.08.2004</td>
<td>15.08.2005</td>
</tr>
</tbody>
</table>

8. Equal Opportunity

The selection of both trainers and trainees will be made on non-discriminatory criteria and participation of women in both positions be monitored and reported through the progress reports.

9. Environment

Not Applicable

10. Rates of return

Not Applicable

11. Investment criteria

Not Applicable

12. Conditionality and sequencing

To ensure a smooth and effective coordination in implementing the project activities, the Ministry of Finance will designate a coordinator in each of at least ten spending agencies (similar to senior programming officers in pre-accession assistance) who are the target beneficiary of this project in coordination with the CFCU and close consultation with the spending agencies. This will be a pre-condition for approving the twinning covenant.

Signature of the contract on the supply of IT equipment and software will be subject to adoption of the law as amended with the comment provided via this project on Public Financial Management and Financial Control by the Parliament.

ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format (compulsory)
2. Detailed implementation chart (compulsory)
3. Contracting and disbursement schedule by quarter for full duration of programme
4. List of relevant Laws and Regulations (specifically the Public Financial Management and Financial Control Law)
5. Reference to relevant Government Strategic plans and studies (e.g. Sigma study, policy paper)