1. Basic Information

1.1 Title: Strengthening Audit Capacity of the Board of Treasury Controllers with respect to pre-accession funds.

1.2 Sector: Financial Control

1.3 Location: The Board of Treasury Controllers – Ankara

1.5 Duration: 12 months

2. Objectives

2.1 Overall Objective(s):

Strengthening the DIS established in Turkey by increasing the audit capacity of the Board of Treasury Controllers.

2.2 Project purpose:

Strengthening the audit capacity of Treasury Controllers in order to carry out audit of pre-accession funds properly.

2.3 Accession Partnership (AP) and NPAA priority

The EU Regulation aligns Turkey to the other candidate countries implying that as far as possible the Decentralised Implementation System in Turkey (DIS-Turkey) will follow the DIS-Phare. In order to manage EC assistance in the pre-accession phase, Turkey has installed the necessary institutions to implement the DIS.

Section 28.2 of NPAA under the heading “Strengthening administrative capacity in order to prevent the irregularities and corruption which may negatively affect pre-accession aid” reads as follows:

“Strengthening administrative capacity in order to prevent the irregularities and corruption, which may negatively affect the pre-accession aid, is fulfilled with the mechanisms established under the Decentralized Implementation System relevant to the utilization of pre-accession aid. Within this framework, necessary regulations regarding the new Decentralized Implementation System that enables utilization of the pre-accession aid through projects in line with the Accession Partnership Document and the National Program’s priorities were established with Prime Minister’s Circular No.2001/41 dated July 18 2001. Afterwards, the Memorandum of Understanding for the establishment
of the Central Finance and Contracts Unit (CFCU) and the Memorandum of Understanding for the establishment of National Fund were signed in February 14 2002 between Turkish Government and European Commission. The approval of the said Memoranda of Understanding was endorsed with Law No.4802 in January 30 2003 and they were approved in February 24 2003 by the Council of Ministers. Based on these Memoranda of Understanding the Turkish Government established the Central Finance and Contracts Unit and the National Fund within the framework of Decentralized Implementation System. According to these Memoranda of Understanding (MoU’s) it is foreseen that procedures under these MoU’s will be audited by the Court of Accounts, Treasury Controllers or another auditor to be determined by the Commission. The Internal Audit Manual to be used in the audit of the National Fund and the Central Finance and Contracts Unit is prepared by European Commission experts and the Undersecretariat of Treasury and it was approved by National Authorising Officer (NAO). In addition, necessary measures to strengthen the administrative capacity of the Board of Treasury Controllers (training and consultancy) will be taken to ensure audit of pre-accession aid in line with EU standards. Turkey has been granted accreditation by the Commission services for the DIS of Turkey on 8 October 2003.

2.4 Contribution to National Development Plan (and/or Structural Funds Development Plan/SDP)

Not applicable.

2.5 Cross Border Impact

Not applicable.

3. Description

3.1 Background and justification:

The National Program for Adoption of the Acquis (NPAA) for 2003 was adopted by the Council of Ministers. The NAO, the NAC and the PAO were nominated and operation manuals for NF and CFCU, and audit manual have been prepared. The Board of Treasury Controllers has been nominated under the Memorandum of Understanding establishing the National Fund as internal auditor of National Fund and CFCU.

The Board of Treasury Controllers is aimed to provide an appraisal of the National Fund and CFCU procedures and systems operated for the achievement of the following objectives:

- Effectiveness, economy and efficiency of operations,
- Reliability of financial data and reports,
- Compliance with European Union and national regulations,
- Proper protection of financial interests of the European Union and the Turkish State Budget,
- Fulfilment and continuing maintenance of EU criteria within DIS (written procedures, segregation of duties, payment procedures, accounting procedures, computer security, internal audit, identification and updating of the audit trail, etc…).
The quality of the Internal Audit being itself a component of the criteria in the accreditation process to EDIS (long term target), the Internal Audit should evolve toward performing audits in accordance with the latest version Standards for the Professional Practice of Internal Auditing of the Institute of Internal Audit (IIA Standards).

The duties of the Treasury Controllers are generally related with the public financial institutions that have direct contact with Undersecretariat of Treasury such as state owned enterprises, municipal authorities, some funds and revolving funds. Treasury Controllers also perform some private sector financial audits especially on the leasing firms, factoring firms and foreign exchange offices. Treasury Controllers are defined as independent auditors by the World Bank for auditing of the World Bank financed projects. For these audits, Treasury Controllers perform an audit based on the international audit standards. It is primary goal of the Board of Treasury Controllers to apply these audit standards to all of the audits performed.

Some members of the Board have already had six months in-class training provided by Deloitte and Touche and two mounts in-class and one month on-the job training provided by Institute of Chartered Accountants of Scotland (ICAS) on international accounting and auditing standards. Those training programs were financed through the World Bank Loans.

Even though Treasury Controllers has necessary qualifications to perform their audits in international audit standards they need extra training to be able to perform their responsibility with respect to audit of pre-accession funds in line with EU audit perspectives.

3.2.1. Identification of Project.

This project has two components:

Component 1: First component will develop a computerised audit system for the Treasury Controllers and they will use it to audit EU funds on behalf of Turkish Government according to Memorandum of Understandings. Training regarding operation of newly developed software will be delivered.

Component 2: This component will be carried out in two sub-components. Under first sub-component technical specification of hardware and software will be prepared. Upon this preparation supply tender will be launched. Second sub-component will be initiated after the result of supply tender. Under this second sub-component audit procedures and manuals of Treasury Controllers will be reviewed and improved if necessary and in class training will be provided to Treasury Controllers. Following in class training on the job training will be provided to Treasury Controllers in their audit functions. Experts will supervise Treasury Controllers during their audit performance of pre-accession funds and provide advice for audit reports which are acceptable in EU standards. During this on the job training newly developed software also be used.

The aim of this component is to enable the Board of Treasury Controllers have a sustainable ability for auditing EU funds under the standards of internal auditing and requirement of the European Commission. Currently two audit teams have been organized and immediate training needs have been provided from EU Funds. This project will
provide a training programme complementary to this one. The subjects of the training program may be:

- EU regulations on procurement and payments,
- On-the-job training at National Fund and CFCU.
- Practical Application of the audit manuals prepared for National Fund and CFCU.
- To analyse and compare DIS and EDIS in selected EU and candidate countries in terms of institutional set-up, applied methods, and cost-effectiveness.
- To assess their applicability/suitability in the context of National Fund and CFCU.

3.3. Results

Component 1:

a. Fully operational computerised audit system.

b. Appropriate financial audit software developed, installed and tested for the use of Treasury Controllers.

c. Trained Treasury Controllers regarding the implementation of newly developed software.

d. Shortened audit time and standard criteria for each audit case.

Component 2:

a. Established full-fledged internal control function in National Fund and CFCU.

b. Established administrative and budgetary framework for internal financial control of externally financed programmes, with a specific emphasis of the internal financial control and audit functions of the Treasury in the context of EU funded programmes.

c. Developed training curricula for the Board of Treasury Controllers. Training should lead to internationally acceptable audit certificates.

d. Delivered training programme.

e. Increased quality of audit reports.

f. Final assignment report.

3.4 Activities (including Means)

Component 1: A technical assistance team will provide the below stated activities. With this component it is aimed to have computer based audit program in order to shorten the time spent during the audit work and to ensure the audit work being carried out effectively and efficiently. Without sufficient audit IT supplies, it will be very difficult to apply the audit software. To strengthen the audit capacity of the Board, it is necessary to provide necessary IT equipment.

1. Designing audit software.

2. Preparation and delivery of the training for the implementation of newly developed software.

3. Preparation and delivery of a suitable training for staff in the basic operation of the equipment.

4. Launch supply tender for audit software and equipment, and training once software and equipment in place including training in Computer Assisted Audit Techniques and piloting the audit approach.
5. Revision of audit manual to adapt IT audit methodologies and approaches and develop training materials based on the manual for dissemination,

Experts should be able to cover the activities described above.

Component 2: A technical assistance team will deliver the below stated activities.

Sub component 1
1. Assist the Board of Treasury Controllers to develop an IT strategy, identifying cost effective hardware and software options to meet its needs.
2. Preparation of technical specifications for IT equipment and software for the tender dossiers for development and implementation of computerised audit system.

Sub component 2

1. Revision of existing audit procedures of EU funds.
2. Analysis of the existing administrative structures with regard audit procedures of Treasury Controllers.
3. Preparation of recommendations regarding the new procedures to increase the efficient implementation of DIS.
4. Preparation of training programme (including in class training and hands on support to Treasury Controllers audit function)
5. Delivering in class training, providing hands on supervision and recommendation during the audit function of Treasury Controllers to increase the quality of audit and audit reports.
6. Preparation of final assignment report

Training of the Treasury Controllers will be aimed at official certification, which is legally required to qualify as an auditor in the public administration. By the completion of the project, all the members of the Board of Treasury Controllers are planned to obtain at least one Certified Internal Auditor (CIA)).

An immediate training request for CIA has been submitted to the EU Representative in Turkey for a certain number of Treasury Controllers. It is the aim of the Board of Treasury Controllers to make every Treasury Controllers possessed at least a CIA.

Technical specifications of supply contract will be determined by an expert/expert team at the beginning of assignment.

The training needs will be determined by two technical assistants. They will also be responsible for implementation of the training program. In the phase of on job training 3 experts will be assisting Treasury Controllers.

3.5 Linked Activities:

A project fiche has been prepared by Ministry of Finance on internal audit and financial control and approved for the 2003 financial program. An immediate training request for CIA has been provided from EU funds for limited number of Treasury Controllers.
3.6 Lessons learned:


These reports indicated:

“Effective financial accountability requires extensive modernization of Turkey’s public audit system. The objectives are two fold:

(i) clarify institutional responsibilities, promote improvements in audit quality in line with international standards and support the shift from ex ante controls to ex post monitoring in harmony with the efforts to improve operational performance,
(ii) expand the scope of Turkish Court of Auditor (TCA) audits to cover the entire general government including local administrations, autonomous agencies, social security institutions, remaining Extra Budgetary Funds (EBFs), and revolving funds. The first objective will be achieved through enactment of the new law on Public Financial Management and Internal Control (the PFMIC). This law will be the cornerstone for modernization of both public accounting and public audit functions in line with international best practice and EU directives.”

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

The Board of Treasury Controllers is the main audit body of the Undersecretariat of Treasury. The Board is headed by a chairman. The main office of the Board is located in Ankara in the Undersecretariat’s building, besides the main office there are offices both in Istanbul and Izmir.

The chairman of the Board of Treasury Controllers and all Treasury Controllers are appointed through a joint decree, signed by the President of Turkey, the Prime Minister and the State Minister responsible for economy and treasury.

The duties of the Treasury Controllers are generally related with the public financial institutions that have direct contact with Undersecretariat of Treasury such as state owned enterprises, municipal authorities, some funds and revolving funds. Treasury Controllers also perform some private sector financial audits especially on the leasing firms, factoring firms and foreign exchange offices. Treasury Controllers are accepted as independent auditors by the World Bank for auditing of the World Bank financed projects and by the International Monetary Fund for the audit of short-term Treasury Debt dominated in foreign currency (with a maturity of less than one year). For these audits, Treasury Controllers perform an audit based on the international audit standards. It is primary goal of the Board of Treasury Controllers to apply these audit standards to all of the audits performed.
After the duties are performed, Treasury Controllers prepare a report and submit it Undersecretary of Treasury by means of the Board.

5. Detailed Budget

<table>
<thead>
<tr>
<th>Summary Budget (all figures in EURO)</th>
<th>EU Support</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contracts</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>0</td>
</tr>
<tr>
<td>IT Supply</td>
<td>360,000</td>
</tr>
<tr>
<td>Total project fiche Cost</td>
<td>360,000</td>
</tr>
</tbody>
</table>

6. Implementation Arrangements

6.1 Implementing Agency

The Central Financing and Contracting Unit (CFCU) will be implementing Agency and will be responsible for all procedural aspects of the tendering contracting and payments of the project activities.

The implementation of this project requires the full commitment and participation of the senior management of the beneficiary institution. In addition, the senior management must be whole-heartedly involved in the development and implementation of the policies and institutional change required to achieve the project results.

6.2 Contracts

<table>
<thead>
<tr>
<th>Projects/Sub Projects</th>
<th>Year 1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Contracts</td>
<td>Amount (Euro)</td>
</tr>
<tr>
<td>Technical Assistants Group for strengthening the audit capacity of BoTC</td>
<td>1</td>
<td>440,000</td>
</tr>
<tr>
<td>Investment</td>
<td>1</td>
<td>480,000</td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td><strong>920,000</strong></td>
</tr>
</tbody>
</table>

7. Implementation Schedule

7.1 Start of tendering/call for proposals

TORs and/or project specifications will be ready at the end of May 2004.
7.2 Start of project activity

Expected date of commencement of first contract is November 2004.

7.3 Project completion

Expected date of last payment under last contract is November 2006.

<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>Technical Assistance</td>
<td>4Q/04</td>
<td>3Q/05</td>
<td>3Q/06</td>
</tr>
<tr>
<td>Supply contract</td>
<td>2Q/05</td>
<td>3Q/05</td>
<td>1Q/06</td>
</tr>
</tbody>
</table>

8. Equal Opportunity

Equal participation by men and women in the project will be assured. There will be no bias in relation to gender, ethnic origin, religious or political affiliation.

9. Environment

Not Applicable

10. Rates of return

Not Applicable

11. Investment criteria

11.1 Catalytic effect

The present investment will considerably accelerate the progresses, which will be achieved by Treasury Controllers, in auditing EU Funds.

It will have a catalytic effect on a faster and more efficient audit function.

11.2 Compliance with state aids provisions

Not Applicable

11.3 Contribution to NDP or Structural Funds Development Plan/SPD

Not Applicable

12. Conditionality and sequencing
ANNEXES TO PROJECT FICHE

1. Logframe
2. Detailed implementation chart
3. Contracting and disbursement schedule, by quarter, for full duration of project
Log frame

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR Project Fiche</th>
<th>Programme name and number</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening Audit Capacity of the Board of Treasury Controllers with respect to pre-accession funds.</td>
<td>Contracting period expires November 2006</td>
<td>Disbursement period expires November 2007</td>
</tr>
<tr>
<td>Total budget : 920.0000</td>
<td>Phare budget: 800.000</td>
<td></td>
</tr>
</tbody>
</table>

**Overall objective**
Strengthening the DIS established in Turkey by increasing the audit capacity of the Board of Treasury Controllers.

**Objectively verifiable indicators**
- Increased number of audit reports in EU standards.
- Increased number of the auditors who have internationally accepted certificates.

**Sources of Verification**
- Audit reports of Treasury Controllers.
- Regular Reports
- Certifications
- Annual activity reports

**Project purpose**
Strengthening the audit capacity of Treasury Controllers to carry out audit of pre-accession funds properly.

**Objectively verifiable indicators**
- Increased number of audit reports in EU standards
- Established audit software
- Increased number of auditors who have internationally accepted certificates.
- Shortened audit period

**Sources of Verification**
- Audit reports of Treasury Controllers.
- Regular Reports
- Press releases
- Annual activity reports
- Evaluation reports of the international organizations or audit firms.

**Results**

**Objectively verifiable indicators**

**Sources of Verification**

**Assumptions**
- Continued Governmental commitment to the Accession objectives
- Continued EU support to accession of Turkey
## Results

### Component 1:

a. Fully operational computerised audit system.
b. Appropriate financial audit software developed, installed and tested for the use of Treasury Controllers.
c. Trained Treasury Controllers regarding the implementation of newly developed software.
d. Shortened audit time and standard criteria for each audit case.

### Component 2:

a. Established full-fledged internal control function in National Fund and CFCU.
b. Established administrative and budgetary framework for internal financial control of externally financed programmes, with a specific emphasis of the internal financial control and audit functions of the Treasury in the context of EU funded programmes.
c. Developed training curricula for the Board of Treasury Controllers. Training should lead to internationally acceptable audit certificates.
d. Delivered training programme

<table>
<thead>
<tr>
<th>OVI</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>✔️</td>
<td>Final report of assignment</td>
</tr>
<tr>
<td>✔️</td>
<td>Regular reports</td>
</tr>
<tr>
<td>✔️</td>
<td>A fully operational audit software established</td>
</tr>
<tr>
<td>✔️</td>
<td>30 Treasury Controllers trained</td>
</tr>
<tr>
<td>✔️</td>
<td>Minimum 10 audit report reviewed and finalised</td>
</tr>
<tr>
<td>✔️</td>
<td>Audit activity reports.</td>
</tr>
<tr>
<td>✔️</td>
<td>Obtained certificates</td>
</tr>
<tr>
<td>✔️</td>
<td>Evaluation reports of the Board of Treasury Controllers.</td>
</tr>
</tbody>
</table>

- Duty changes may occur for trained Treasury Controllers
e. Increased quality of audit reports.
f. Final assignment report

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component 1</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Development of an audit software</td>
<td></td>
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<tr>
<td>2. Preparation and delivery of the training for the implementation of newly developed software.</td>
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<tr>
<td>3. Preparation and delivery of a suitable training for staff in the basic operation of the equipment</td>
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<tr>
<td>4. Launch supply tender for audit software and equipment, and training once software and equipment in place including training in Computer Assisted Audit Techniques and piloting the audit approach</td>
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<tr>
<td>5. Revision of audit manual to adapt IT audit methodologies and approaches and develop training materials based on the manual for dissemination,</td>
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</tbody>
</table>

Experts should be able to cover the activities described above. Working language will be English; knowledge of Turkish would be an advantage. Experts should have minimum three years experience in the IT strategy and audit software development.

- Supply Contract: There will be investment development and hardware purchase in the supply contract.
• **Component 2**

Sub component 1

3. Assist the Board of Treasury Controllers to develop an IT strategy, identifying cost effective hardware and software options to meet its needs,

4. Preparation of technical specifications for IT equipment and software for the tender dossiers for development and implementation of computerised audit system.

Sub component 2

1. Revision of existing audit procedures of EU funds.
2. Analysis of the existing administrative structures as regards audit procedures of Treasury Controllers.
3. Preparation of recommendations regarding the new procedures to increase the efficient implementation of DIS.
4. Preparation of training programme (including in class training and hands on support to Treasury Controllers audit function)
5. Delivering in class training, providing hands on supervision and recommendation during the audit function of Treasury Controllers to increase the quality of audit

**Component 2**

- Service Contract
  1. Expert to prepare technical specifications for hardware and software
  1. Expert to prepare technical specifications
  3. Experts for training: 2 exp. In class and on job training phases additional 1 exp. for on job training.
and audit reports.

6. Preparation of final assignment report

Preconditions

**Detailed Implementation Chart for the Project Annex 2**
**Strengthening Audit Capacity of the Board of Treasury Controllers with respect to pre-accession funds.**

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<tr>
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<td></td>
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<tr>
<td>Technical Assistance Contract</td>
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<tr>
<td>Supply Contract</td>
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<thead>
<tr>
<th></th>
<th>DESIGN</th>
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<th>IMPLEMENTATION</th>
<th>TENDERING</th>
<th>IMPLEMENTATION</th>
<th>TENDERING</th>
<th>IMPLEMENTATION</th>
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