

**8TH FIVE-YEAR
DEVELOPMENT
PLAN**

**REPORT DRAWN UP BY
SPECIAL AD HOC COMMITTEE ON
RESTRUCTURING OF PUBLIC
FISCAL MANAGEMENT
AND FISCAL TRANSPARENCY**

MARCH
2000

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CONTENTS

PREFACE	1
1. INTRODUCTION AND PRIMARY TARGETS(BASIC CONCLUSIONS OF THE STUDY AND SUGGESTIONS)	1
2. RECENT CHANGES IN GLOBAL PUBLIC FISCAL MANAGEMENT CONCEPT ..	16
3. DEVELOPMENTS WHICH HAVE INDICATED THE NEED TO RESTRUCTURE PUBLIC FISCAL MANAGEMENT IN TURKEY	21
3.1. CURRENT BUDGETING SYSTEM AND BASIC PROBLEMS	21
3.1.1 SCOPE OF BUDGET	21
3.1.1.1 CURRENT SCOPE OF BUDGET	22
3.1.1.2 PUBLIC EXPENDITURE AREAS NOT COVERED BY THE BUDGET	23
3.1.1.3 MAIN FACTORS WHICH LEAD TO EXCLUSION FROM BUDGET	35
3.1.1.4 BASIC PROBLEMS CAUSED BY A NARROW BUDGETARY SCOPE	36
3.1.2 STRUCTURE OF BUDGET	38
3.1.2.1 PREPARATION OF BUDGET	40
3.1.2.1.1 Budget Preparation Process	41
3.1.2.1.2 Fundamental Problems Encountered in the Budget Preparation Process ...	45
3.1.2.1.3 Reasons For Inefficiency of Plan-Program-Budget System	46
3.1.2.2 IMPLEMENTATION OF BUDGET	47
3.1.2.2.1 Primary Actions	47
3.1.2.2.2 Organization	48
3.1.2.2.3 Implementation of Budget	49
3.1.2.2.4 Fundamental Problems Encountered During the Budget Implementation Process	51
3.1.2.3 ACCOUNTING, REPORTING AND CODE STRUCTURE OF BUDGET SYSTEM	56
3.1.2.3.1 Accounting Systems	56
3.1.2.3.2 Budget's Accounting and Reporting Structure	62
3.1.2.3.3 Basic Problems Encountered in the Process of Accounting and Reporting of the Budget	63
3.1.2.3.4 Code Structure of Budget	66
3.1.2.3.5 Fundamental Problems Encountered in the existing budget encoding system	66
3.2. FISCAL TRANSPARENCY	67
3.2.1 PRESENT SITUATION	67
3.2.2 PROBLEMS	69
3.3. EFFICIENCY OF THE PARLIAMENT IN THE BUDGETING PROCESS	70
3.3.1 DIRECT EFFICIENCY	71
3.3.1.1 PRESENT MECHANISM	71
3.3.1.1.1 TBMM Plan and Budget Committee	71
3.3.1.1.2 Other Committees	72

3.3.1.1.3 TBMM's Plenary Session	74
3.3.1.2 PROBLEMS	75
3.3.2 <i>INDIRECT EFFECTIVENESS</i>	77
3.3.2.1 EXISTING PROCESS	77
3.3.2.1.1 Court of Accounts	77
3.3.2.2 PROBLEMS	79
3.4. EFFECTIVENESS OF THE AUDIT SYSTEM AND PROBLEMS	79
3.5. EXISTING INSTITUTIONAL STRUCTURE AND PROBLEMS	88
4. PROPOSALS FOR RESTRUCTURING THE PUBLIC FISCAL MANAGEMENT AND ENSURING FISCAL TRANSPARENCY	90
4.1. A NEW BUDGET SYSTEM	90
4.1.1 PREPARATION OF THE BUDGET	90
4.1.2 IMPLEMENTATION OF THE BUDGET	97
4.1.3 THE ACCOUNTING, REPORTING AND CODE STRUCTURE OF BUDGET IMPLEMENTATION	100
4.2. ASSURANCE OF TRANSPARENCY	105
4.3. INCREASING THE EFFECTIVENESS OF PARLIAMENT DURING THE BUDGET PROCESS	107
4.3.1. <i>DIRECT INCREASE IN EFFECTIVENESS</i>	107
4.3.2. <i>INCREASING ITS INDIRECT EFFICIENCY</i>	109
4.4 INCREASING EFFECTIVENESS OF THE AUDITING SYSTEM AND ENSURING PERFORMANCE AUDITS	110
4.5 INSTITUTIONAL RESTRUCTURING	113
BIBLIOGRAPHY	117

1. INTRODUCTION AND PRIMARY TARGETS (BASIC CONCLUSIONS OF THE STUDY AND SUGGESTIONS)

Efforts to restructure the public sector is one of the most important items on the agenda of all countries notwithstanding their development levels. In this context, increased efficiency in spending of funds, decreasing budget deficits and the public sector's borrowing requirements, ensuring transparency in the public sector and accountability for formulating and management of policies are considered as vital approaches.

Although this study is mainly focussed on budget, topics discussed and suggestions developed also extend to other public spending areas interrelated with budget. Emerging as a political text and showing how roles are delegated regarding allocation and utilisation of funds under specific conditions budgets are legal documents which have an extremely important task as to bring the political decision-making process under financial control.

During 80s the principle of unity and generality of the budget was ignored, budgets lost their flexibility, contribution made by the budgeting process to efficiency of services provided during the process of preparation and application of budgets declined and complex and lengthy fund allocation and expending procedures combined to decrease efficiency of public finance and forced it to focus only on daily policies. "Public Financial Management Project", launched in 1995 as a World Bank project and a certain aspect of 2000 – 2002 stability program were designed to eliminate these drawbacks. As a result of our failure to carry out required corrections by means of timely initiatives taken within the country and to overcome chauvinism within public agencies and their departments problems have accumulated and it has prepared a fertile ground for interventions by international finance institutions to put our home back into order. This phenomenon is also mentioned tacitly in various reports about Turkey drawn up by international organisations.

A medium-term approach for structuring of funding and spending must be considered as a priority. How and by which units funds are to be collected, how load distribution is to be made, how and by which expending methods these funds will be distributed among sectors and how all these works are to be supervised in line with specified targets and strategies should be planned and related strategies must be developed. Five-year development plans should no more be used as letter of intents which set forth targets, but never complied with and must be given a structure functioning more efficiently during the "plan – program – budgeting" process and a mechanism, which controls this process, during all of its phases must be established. In this context, the focal point should be to establish a relation between policy formulation, planning and budgeting.

A majority of OECD countries use a multi-year budgeting system built on a medium-term approach or a budgeting system based on projections for the following two years succeeding the budget year. The basic approach here is to display preferences and future expenditures of the government, which is the dominant actor in the economy, in a concrete manner. An economic environment dominated by uncertainties and uncoordinated political interventions is one of the major obstacles hindering competition and price mechanism, the fundamental mechanism of the system. One of the topics discussed in a seminar titled "Second Generation of Reforms",

organised by the IMF late in October, was the government's role in economy and problems in distribution of data or obtaining data at high costs, one of the reasons which legalise the government's intervention to economy.¹

In this context, the American example serves as one of the most specific statement of this phenomenon. A budget code passed by the Congress made it obligatory to include tax expenditures in the budget and a Performance Code enacted in 1993 provided that an analysis of tax spending should be performed during preparation of the government's comprehensive performance plan. In estimating public revenues and expenditures for the following year and four succeeding years in the U.S. budget, drawn up according to this requirement, tax expenditures are also included in these projections as two sub-titles. One of these sub-titles is tax expenditures to be made for a specific sector (defence, education, energy, etc.) while the second shows the amount of taxes to be waived in favour of that sector (tax expenditure). The basic objective of these calculations, which extend to estimation of tax expenditures on a sectoral basis, is to outline the government's effects on the economy as detailed as possible.

Under the following title a prioritized summary of recommendations developed by each sub-committee according to problems identified as a result of the Committee's efforts.

BASIC TARGETS (CONCLUSIONS OF THE STUDY AND SUGGESTIONS)

A detailed description of the existing situation and proposals developed in that context are outlined in parts three and four of this report. In this section, suggestions formulated according to basic problems are subjected to a prioritization and summarised under a title allocated to each sub-committee.

TRANSITION TO MEDIUM-TERM SPENDING SYSTEM (INCLUDING A NEW BUDGETING SYSTEM AND IMPROVEMENT OF THE EXISTING SYSTEM)

Suggestions dealing with a new budgeting system (medium-term spending system approach) are discussed under three sub-titles namely Preparation of Budget, Implementation of Budget and Accounting, Reporting and Code Structure of Budget Implementation. Under the first title i.e. preparation of budget an attempt is made to develop basic suggestions reflecting a new approach for the budget system. The other two sub-sections include recommendations designed to ensure a more efficient functioning of the existing system as a result of an evaluation of the existing drawbacks of the budget system.

PREPARATION OF BUDGET

A public decision-making process, based on a medium-term spending program and targeting to establish a relation between plans and budgets and programs, should be identified as the primary goal and the budget system (such as a plan-program budget system or an output-result based budget system) must be built on it. In line with the approach developed in the sub-

¹ For more information refer to Tanzi (1999)

committee report 1, proposals about a budget system based on a medium-term spending program have been divided into four main sections. They are (a) description of economic and financial structure, (b) a budget policy statement, (c) preparation of sector / agency plans and budgets and (d) approval by the parliament of budgets.

The relationship, which must be established between policy-making, planning and budgeting, can only be set up by a well-designed medium-term spending system with clearly defined mechanisms.

Description of Economic and Financial Structure (Update Report):

The process for identifying the following year's budget and budget figures for the succeeding two years shall start with taking of a full picture of the economic and financial structure. Commonly known as the first part of the strategic phase this step is basically designed to develop a macro-economic framework which includes income and expenditure projections for the following three years.

Fundamental suggestions developed in order for the description of the economic and financial structure to bring about expected benefits are as follows:

- ❑ Institutional and functional responsibilities of central organizations should be clearly defined by a framework law such as Financial Responsibility Law.
- ❑ Updating should result from a fully technical effort undertaken by central units free of political influences.
- ❑ Each updating shall endeavour to reflect new events which have occurred after the last one. These may include unforeseen changes in the economic structure and cost increases caused by new legal arrangements put into effect.
- ❑ Risks relating to the economic and financial structure should be distinctly defined and different growth scenarios must be built on these definitions. In this context, special financial risks (those attempting to remain outside public spending area) should be clearly identified and analysed in a comprehensive manner.
- ❑ Data and assumptions shall be verified by a constitutional organization.

Determination by the Council of Ministers of the Budget Policy and Budgetary Figures (Budget Policy Statement):

The Council of Ministers should announce its priorities regarding financial structures of budgets, to be drawn up for the following 3-year period, ahead of their implementation.

This statement of will is essential for the government to declare public revenues and expenditures for the following three years and targets it intends to achieve to departments and other sections of the society. The budget policy statement would enable public agencies to use contents of this statement as a starting point in developing their own budgets while the private

sector gets a better idea on the public sector's budgetary figures and operating areas for the next three years.

Primary suggestions developed to ensure that the budget policy statement, the most critical political phase of the budget preparation process, are as follows:

- ❑ The Updating Report and the Government Program, the government's primary document in the political competition process, should be consolidated in order to define priorities of financial policies.
- ❑ With this document the Council of Ministers should define the financial strategy by using figures and targets. Key policies relating to the financial system (expenditures, revenues, borrowing, etc.) should be set forth in this document together with numerical targets reflecting results of these policies.
- ❑ After outlining the financial strategy the Council of Ministers must declare its short-, medium- and long-term economic and financial goals and intentions (including budget priorities).
- ❑ After total public expenditures for the following period are set forth by the financial strategy, the parliament's approval shall be sought for such amount.

Preparation of Sector / Agency Plans and Budgets:

Once the economic and financial structure has been defined the Council of Ministers shall set ceilings for budgets of sectors / agencies with the financial strategy acting as the determinant. In this context, the agencies shall draw up their sectoral plans and budgets for the following year and the two succeeding years. It is evident that any increase in predictability of these sectoral ceilings set forth the following years would boost the expected positive effects of a medium-term expenditure system on budget results.

The following main suggestions have been developed to ensure that sector / agency plans and budgets work efficiently under a medium-term expenditure program:

(a) Sector / Agency Responsibility Framework Must be Defined Clearly.

- ❑ Political responsibility and management responsibility should be carefully separated from each other during the process of production of goods and services by the respective agency.
- ❑ The Minister, who has assumed political responsibility, shall delegate the power, which had been conferred on him by the Budget, to the agency concerned in order to ensure spending of funds he has received in order to provide scheduled services (or to achieve output and result targets), but hold the agency accountable for how the power he has delegated has actually been exercised, both during and after performance thereof.
- ❑ The Minister and the head of the agency shall conclude a performance contract before budget implementation.

- (b) A Reconciliation Must be Achieved in Respect of Sectoral Objectives and Policies and It Shall Be Reviewed Continuously.
- ❑ During the review of a specific sector the first question should be the government is actually responsible of policies it is pursuing in that sector as a whole, or, whether some of the policies or operations being pursued could be transferred to the private sector or civil organisations (non-governmental organisations, voluntary organisations, etc.).
 - ❑ The agency's objectives and priorities should be reviewed periodically and exercises should be continued in this regard. These works shall be particularly undertaken for the budget of the following year when implementation of the new year's budget started.
- (c) Central Organisations Should be Involved mainly in Arrangement and Supervision Phases of the Budget Preparation and Implementation Phase.
- (d) The sector's Funding Structure Should be Fully Outlined During the Budget Preparation Process.
- (e) The agency's Budget Shall Reflect All of Its Operations.
- (f) Mechanisms Shall be Developed Which Will Facilitate (Flexible) Re-allocation of Funds When Priorities are Changed.
- (g) In Order to Increase Efficiency of Fund Utilisation Roles and Responsibilities of Individuals Providing Services Regarding Funds They Spend as Well as Employment of Such Individuals (Appointment For a Specific Period, Identification of Performance Criteria, etc.) Should be Modified.

IMPLEMENTATION OF BUDGET

Mechanisms, which will ensure efficiency in budget implementation are defined as roles and responsibilities and delegation of powers, financial discipline, accrual-based accounting and reporting, commitment module, cash planning and data flow systems.

Roles, Responsibilities and Delegation of Powers

- ❑ Roles and responsibilities of persons entrusted with the task of implementing the budget should be explicitly defined. In order for such defined roles and responsibilities serve the desired purpose during the process of efficient use of funds, accountability must also be defined. Accountability is one of the fundamental mechanisms which ensure that any individual or institution expending public funds use such funds in a correct and efficient manner.
- ❑ During the process of spending public funds powers shall be delegated to sub-units and individuals responsible for budget implementation to the extent practicable.

- ❑ Disbursing officer, who is the highest executive of an agency, rather than accrual officer, should assume primary responsibility for expenditures from that agency's budget and ensuring that any expenditure has resulted from an actual need.
- ❑ During implementation of the budget local units, which are directly effected by results of public services, shall join decision-making-process.
- ❑ During the process of budget implementation, new roles (finance departments, regional revenue offices, tax departments, etc.) emerge from one day to another. Lack of proper definition of such roles and responsibilities within the system as a whole leads to inefficiency and bureaucracy. Such actions should be avoided to the extent practicable and the system shall be designed with simpler and less contradicting interventions.

Financial Discipline

- ❑ Various reasons such as a reducing contribution made by the budgetary process to efficiency of services provided during preparation and implementation of the budget, extremely complex and lengthy fund allocation and spending procedures, inadequacy of existing regulations to meet current requirements and lack of confidence on the part of agencies in budgets they have drawn up weaken the financial discipline expected from the budget.
- ❑ Procurement procedures shall be designed by using uniform methods particularly in order to achieve financial discipline and control and flexibilities which may be permitted should be clear and applicable to all agencies which meet specified requirements.
- ❑ During the process of procurement of goods or services under the budget an efficient and effective management of public funds should not be compromised as a result of lengthy and recurring controls and procedures under both financial regulations and administrative arrangements (such as official communiques on saving of funds).

Commitment Module

- ❑ In the present systems commitments are not traceable. A commitment module in which assume or even provisional commitments are to be recorded under an accounting discipline and tied to allocations in the budget. In this context, the stand-by agreement signed with the IMF provides for transition to a commitment-based accounting and reporting for agencies subject to consolidated budget in 2001.
- ❑ Actions such as recruitment of new personnel and allocation of permanent positions taken by the public sector constitute steps which would create a commitment on the part of the government in the future. A comprehensive cost calculation shall be performed in respect of such actions creating commitments and their results shall be monitored under a commitment module.

Cash Planning and Information Flow Systems

- The detailed spending program procedure is aimed at enabling each agency to determine how budgetary allocations are to be used during the year (within the existing cash projections). Detailed spending programs must be drawn up with alternatives allowing for a certain degree of flexibility depending on nature of each agency's operations.
- During implementation of the budget the system functions with a large number of accountant's offices and budget departments due to non-utilization of automation and information systems. Therefore, an analysis shall be undertaken to see to what extent such departments are critical and efficient and the total number of budget departments and accountant's offices shall be reduced.

ACCOUNTING, REPORTING AND CODE STRUCTURE OF BUDGETING PROCEDURE

- Accounting and reporting targets of the public accounting system should be identified. Before embarking upon an effort designed to improve the accounting system, to whom, according to which requirements and how such system is to be reported must be identified. Preparation of management-oriented, understandable and standard financial reports such as balance sheet, cash flow statement, results statement and budget implementation results should be clearly defined as a goal in reporting.
- Unity of accounting methods in the public sector should be achieved. Agencies excluded from the budget should not be allowed to establish their own special accounting systems. Consolidation of accounts must be carried out throughout the public sector.
- As part of the improvement in the government's accounting system the accounting method to be used shall be redefined. In a short-term improvement an accrual method, which is capable of producing all data an efficient finance management may require and which allows an easier transition. The long-term goal of the public accounting system should be identified as an accrual-based accounting method which records all public transactions carried out at the place and time of such transaction and has a high reporting flexibility.
- Public sector accounting standards must be determined and made public. Should there be any change in issued standards the revised ones shall be immediately made public. In order to establish reliability of accounting and reporting, identification and implementation of standards should be supported by a legal ground. Neither the accounting method nor the accounting standards should permit manipulations and creative methods (!).

- The budgeting system and the accounting system should be harmonised. The account plan, developed in that context, should be in harmony with the budget code structure and flexible enough to permit budget code revisions.
- Roles and responsibilities about reporting should be clearly defined.
- Accounting of budget implementation and reporting on local and central levels are usually carried out manually which has an adverse effect on accuracy and speed of information. Timely generation of data should be a standard practice to be employed by all accounting units. The system shall be accessible by all agencies needing of information.
- Standards required for coding shall be developed in accordance with international standards and experience accumulated by countries with good implementation examples. In this context, the functional classification, which shows relation between services and costs and could not be implemented since 1974, when it was scheduled to become operational, must be revitalised as the first priority.
- Budget classification data shall be capable of being used as the most reliable input for national income calculations and the budget coding shall be designed to serve this purpose.

FINANCIAL TRANSPARENCY

Financial transparency means disclosing the government's structure and functions, financial policy plans, public sector accounts and financial targets to general public. Presentation to public of a full information set about the public finance management's structure, functions, plans and targets and consequently increasing efficiency in the public sector through a systematic evaluation of these data is the cornerstone of financial transparency.

Financial transparency is an important tool in accomplishing fundamental budgetary results including achievement of financial discipline and ensuring distribution of resources according to strategic priorities and their efficient use. It is not possible to assert that the Turkish public finance management system functions in an efficient and responsible manner due to reasons such as the failure to make a clear distinction of roles and responsibilities, extension of the budget's scope only to a section of public spending domain, inadequate accounting, reporting and coding systems and lack of standards. Thus, efforts aimed at ensuring transparency should be considered as the top priority among steps to be taken in the public finance system over the short-haul.²

Ensuring transparency in the government's budgets, which are expected to be the purpose for allocating public funds, and other related financial regulations seems to be a vital prerequisite

² Hurcan, Kızıltas, Yılmaz (1999)

to reach an efficient government (one with a high management capability) and to achieve macro-economic stability.³

Within the framework outlined above suggestions developed within the systematic structure set forth in IMF's good practices regulation can be summarised as follows:

- Extension of the budget's scope. If there are political and legal difficulties in achieving this goal, then all agencies, using public funds, should be required to prepare uniform financial statements and gathering information about the public sector as a whole through consolidation of these reports.
- Budget projections shall be prepared and presented in a manner allowing definition of responsibilities and performance of analyses.
- The government's actions shall be reported on a gross base in order to obtain a more precise data on realization of items.
- Reports shall be comprehensive and reliable and show deviations in the preceding period.
- Data and accounting standards, used in annual budget and result accounts, shall be made public.
- Making a commitment on regular publication of financial data and reports.
- Initiation of preparation of reports regarding tax expenditures and liabilities likely to occur thereby allowing performance of financial risk-bearing analyses.
- Ensuring that arrangements governing expenditures e.g. the Public Tenders Law are applied to the whole public sector thereby procedures applied to utilization of public funds are standardised.
- Complex financial laws and regulations currently in force shall be simplified and all legal arrangements in the country, including developments in this field, are discussed by the public by using technological facilities (e.g. displaying bills on the internet).

INCREASING THE PARLIAMENT'S EFFECTIVENESS IN THE BUDGETING PROCESS

Proposals designed to increase the parliament's effectiveness in the budgeting process have been discussed by making a dual distinction between boosting the parliament's direct and indirect influence. Direct effectiveness of the parliament refers to influence exerted by all the committees, particularly Plan and Budget Committee and the general assembly of the parliament whereas indirect influence means implementation of the budget and assessment of implementation results by the Court of Accounts which functions as an auditing body on behalf of the parliament.

³ Dedeoglu, Emil, Erdem, (1999)

INCREASING DIRECT EFFECTIVENESS OF THE PARLIAMENT

- Excluding a substantial part of operations financed by budgetary revenues from the scope of the budget eliminates the possibility of evaluating and controlling macro-economic effects of such operations and thus leaves areas in which wide powers are exercised with no accountability to the parliament and thus to public. Therefore, the budget shall be restructured to be give a scope reflecting all public operations and accountability to public should be ensured.
- Fundamental roles assumed by the parliament in the budget process are preparation of the budget and ratification of the Final Account Code, which is the primary tool that will ensure effectiveness of the parliament. However, this tool is not effectively used in practice and thus the parliament inactivates the most important tool available to it by its own will. Therefore, the Final Account Code process, which will require the government to account for its operations during the past one year, must be revitalized.
- The parliament can be informed on public funds and their utilisation only if the government issues a comprehensive government balance sheet, reflecting all public revenues and expenditures, and financial statements supplementing the balance sheet in a timely manner. This balance sheet, together with the consolidated budget, should encompass all the areas which can be tied to the plan. Such arrangements, which will help to reinforce the parliament's supervisory role, must be reviewed in order to ensure transparency and accountability in the public sector.
- General items of the budget should be discussed and agreed upon by the Plan and Budget Committee and special committees of the parliament should be responsible for evaluating sections of the budget relating to specific agencies.
- Since allocation of supplementary funds required to finance spending exceeding limits specified in the budget, which cannot be made public due to legal constraints, injure confidence in budgets endorsed by the parliament this procedure should only be employed under exceptional circumstances. Similarly, endorsement of a complementary budget law during the financial year must be avoided and limited to emergency situations.
- Mechanisms should be developed to increase efficiency of the Committee for Auditing TBMM Accounts, which is the internal auditing body of the parliament.
- Works undertaken by KIT (state-owned enterprises) Committee should be reviewed in order to ensure effectiveness in supervision of KITs.

INCREASING INDIRECT EFFECTIVENESS OF PARLIAMENT

- Precedence of judicial functions of the Court of Accounts over its other duties should not constitute a barrier for performing the audit required to be undertaken on behalf of the parliament. Like any other country the ultimate objective of the audit performed by the Court of Accounts is to undertake an audit on behalf of the parliament and to report

its findings to the latter. This is the result of a constitutional and legal requirement. Pursuant to Articles 160 and 164 of the Constitution and Articles 25, 28, 32, 47, 55, 81, 87, 88 and Supplementary Article 10 of the Law on the Court of Accounts there are a large number of reports which the Court of Accounts is required to submit to the parliament in addition to General Compliance Statements. In practice, however, the Court of Accounts is unable to carry out these legal tasks excluding General Compliance Statements and reports, which are drawn up under exceptional conditions, but never submitted to the legislative body, by reason of external factors. On the other hand, the Parliament neither makes a concrete demand in that regard.

- General Compliance Statements, generated by the Court of Accounts, transform audits performed on behalf of the parliament into a superficial control which, in turn, has an adverse effect on flow of information about spending of public funds to the parliament. Thus, General Compliance Statements, should be drawn up as comprehensive reports including detailed data, comments and analyses rather than superficial documents containing only a comparison of administrative accounts of accountant's offices, ministry's final accounts and the Treasury's general account.
- The Court of Accounts is required to submit to the parliament asset accounts of agencies and institutions subject to general and annexed budget as well as reports about other public entities every year. Final asset accounts of ministries, for which respective ministers are directly responsible under Article 105 of the General Accounting Code no. 1050, cannot be drawn up since 1927 and the Ministry of Finance has taken no initiative in this regard. Nor the parliament has made any request although it is a statutory requirement. All these combine to hinder efforts to prepare a report in respect of government assets. Therefore, mechanisms which would revitalize the process for preparation of these reports should be developed by the Court of Accounts, the Ministry of Finance, ministries concerned and the parliament.
- In order for the audit conducted by the Court of Accounts on behalf of the parliament to be effective and yield desired results the parliament's regulations should define:
 - * rules and procedures to be followed by the Plan and Budget Committee to discuss reports to be submitted pursuant to the Law on the Court of Accounts;
 - * format and content of the final report to be produced by the committee;
 - * the follow-up procedure relating to issues to be set forth in those reports;
 - * rules and procedures for discussing by the plenary session of the parliament of reports subject to a parliamentary review in accordance with the Law on Court of Accounts.

A new independent committee, such as the "Court of Accounts Committee", which was created in the past, must be set up in order to ensure that budget implementation results in the preceding period are audited more efficiently during the Plan and Budget Committee's deliberations on final accounts. Should any such committee be created

the reports in question should be taken up by the new committee and procedures and rules for this process must be set forth in the parliament's regulations.

- The Court of Account's actions including visaing of allocation of funds and permanent positions and recording and registration of contracts and agreements relating to expenditures which are carried out in connection with implementation of the budget should be regularly reported to the Parliament.
- In internal audit of Presidential Palace's, Parliament's and Court of Accounts' accounts, performed by the Committee on Auditing of TBMM Accounts should be complemented by an auditing process to be carried out by the Court of Accounts on behalf of the Parliament.

INCREASING EFFECTIVENESS OF THE AUDIT SYSTEM AND TRANSITION TO PERFORMANCE AUDIT

Fundamental factors, which are key to increased efficiency of audits, are classified under five categories as follows:

- Independence of audit units, bodies and agencies and auditing personnel, which is the prerequisite for an effective audit.
- Annulment of regulations and elimination of actual conditions restricting audits.
- Ensuring and reinforcing coordination, cooperation and dialogue between audit units, bodies and institutions.
- Compliance with international standards in order to enable audits to bring about expected benefits and to produce high-quality products.
- Employment of an adequate number of qualified audit personnel and training them during their career in parallel with requirements and developments in the auditing profession based on the assumption that auditors are the most precious asset of the audit process.

Main suggestions developed in order to increase effectiveness of the audit system and transition to performance audit, based on factors outlined above, are as follows:

- Initiation of Efforts Designed to Improve Local Auditing Standards Based on International Norms and Good Practice Examples:
 - A framework law, encompassing the local auditing system, must be put into effect. It should include principles governing fundamental objectives of the audit process, roles and responsibilities of auditors, appointment, dismissal retirement and guarantees of auditors, preparation of audit programs, reporting of audit results, establishment of an internal auditing system and audit relationships and creation of a "National Audit Committee".

- National auditing standards – including professional ethics – reflecting global developments and meeting national needs and requirements should be developed as soon as possible by also taking into consideration that we are in the process of full integration into the European Union. In addition to these, auditing standards giving due consideration to the public sector’s needs should be established.
- Following establishment of auditing standards (including ethical norms) independent auditors from the private sector should be entrusted with the task of performing specific auditing works on behalf of government’s auditing units, agencies and institutions on condition that their works and products are subject to quality control mechanisms.
- Use of High Professional Standards in Audits and Production of Services and Products of High Quality:
 - Auditing units, bodies and agencies should base their auditing functions on strategic plans taking priority and risk areas into consideration and perform their work in accordance with annual programs.
 - Auditing units, bodies and agencies must publicly issue annual operating reports specifying scheduled and completed works and the level of realization of such works as well as results created by their audits.
- Development and Strengthening of Independence:
 - The auditing framework law to be put into effect must include provisions required to guarantee independence of auditing units, bodies and agencies and auditors in accordance with international standards.
- Elimination of Regulations and Actual Practices Restricting Audits:
 - Spending of public funds through foundations, associations, companies and enterprises should be discontinued in order to ensure that public funds, to be returned back to the public sector’s standard finance management regime, are subject to standard audits.
 - The practice of exempting central units of public institutions and agencies, which are close to senior management, from auditing should be ended and no area must be left unaudited.
- Wide-scale Application and Strengthening of Modern Audit Procedures:
 - It goes without saying that establishment of performance managements and performance measurement procedures in the public sector is an important issue which also requires a change in the approach to performance auditing. However, initiation of performance audit should not be attached to completion of these tasks. Therefore, performance audits should be launched as soon as practicable in

a manner to contribute to creation of performance managements and measurement procedures.

- A level of quality, accepted by the current auditing industry, should be set as a target in performance auditing.

INSTITUTIONAL RESTRUCTURING

Institutional reforms should be based on the following fundamental criteria:

- Physical and social resources and their use should be re-designed according to a concept based on an efficient planning of distribution of services and resources between central and local public finance management units.
- Political and administrative roles and responsibilities should be defined in detail in a framework law. In this context, powers and reporting obligations of individuals and agencies who are involved in the process starting from citizens to the lowest unit providing services should be identified clearly.
- Mechanisms, which will trigger a close cooperation between institutions responsible for ensuring coordination regarding financial management, shall be created and unnecessary divisions shall be eliminated.
- Efficient criteria shall be set for selection of individuals who will be responsible for performing tasks related to financial management. Selection of personnel, who will be employed by both financial management units of institutions and by institutions which will provide coordination regarding financial management, from among individuals with adequate knowledge and experience on providing services at optimum cost by using optimum methods.
- Public spending must be supported by a legal framework which will ensure that they are based on decisions and authorizations issued by the legislature to the extent practicable.
- Roles and responsibilities and institutions which are to assume such roles and responsibilities shall be organised so that services are procured rapidly and at optimum price.

Functional and institutional suggestions developed by reference to the above-mentioned criteria are as follows:

- Provincial units and non-governmental organizations should also be involved in the process of determination of services to be provided together with the central government.
- Roles assumed by provincial units in the process of provision of services must be strengthened and roles and responsibilities of senior executives of institutions shall be

redefined. These steps shall be supplemented by institutional arrangements aiming at reduction of red tape and encouraging participation in the decision-making process.

- Roles and responsibilities of entities, which are responsible for coordination and follow-up of financial management, pertaining to decision-making and implementation process of other agencies must be re-defined and these entities should be transformed into institutions laying down general policies and principles rather than day-to-day works.
- The current system, which has transformed the prime ministry from a high-level coordination unit into a poorly coordinated executive unit which contains more than 20 institutions, should be abandoned.
- A continuous evolution of institutional structures to keep abreast with transformation of economic, social, administrative and political systems is essential to avoid hindering of the progress. What should be taken into consideration here is to create structures which are stable enough to ensure institutionalization, but also conducive to modifications needed to keep up with advancements.
- New and radical policy changes in the public finance system must include new targets and strategies. A correct identification and determination of the existing system shall be made, but targets shall not be limited to improvement of the existing system. Planning concept should be the cornerstone of such a new approach.

2. RECENT CHANGES IN GLOBAL PUBLIC FISCAL MANAGEMENT CONCEPT

80s have witnessed significant changes and transformations both in economic and political fields. At the outset of this decade global conditions gave signs of fundamental changes in political economy and the last 20 years of the millenium were recorded in the history as a period when foundations for initial strategies and policies of a new millenium were laid. Substantial changes in communication technology, that occurred during this period, have made a determinant dynamic contribution to the pace and dimension of the transformation.

Structural changes in the global economy, which begun late in 70s and continued at a steadily accelerating pace in 80s, have led to more complex economic relationships. Economic and fiscal activities undertaken by the public sector during this transformation process have undoubtedly necessitated a more professional approach and efforts in contrast with the preceding period. In this context, acquisition by the public sector of the following three characteristics have been considered as an assurance for an efficient and effective public sector and many countries have developed reform programs built upon these objectives which are listed below:

- creation of an adequately-informed public decision-making process,
- a clear description and separation of both political and bureaucratic / technical responsibilities in generation of services,
- promotion of a fast, responsive and efficient system.¹

Budgetary reforms have shown us throughout the history that the budget has effects on outcome of the public sector's activities at three different levels which are²:

Level 1, Total fiscal discipline

Level 2, Distribution and use of resources depending on strategic priorities

Level 3, Efficiency and effectiveness in realisation of programs and provision of services.

What these three levels indicate is a reformulation of three public functions including:

- control of public resources,
- planning of distribution of resources in the following period, and
- management of resources

which have guided a reform period which continued for more than one hundred years.

The three levels listed above show reflection of budgetary results on three different domains. Institutional arrangements, aimed at ensuring fiscal discipline, which is the first level, range from constitutional restrictions imposed in expenditures (Indonesia) by means of laws (Maastricht, New Zealand, Australia) to public commitments of the executive power. In distribution of resources according to strategic priorities, the next level, the basic responsibility of institutional mechanisms is to prioritize competitive demands on scarce resources within a fiscal discipline established. Since level two basically reflects the political establishment's choices it is

¹ Yilmaz (A) (1999): 66

² The World Bank (1998): 17 and Yilmaz (B) (1999): 5-6

considered as an area where formulating an appropriate solution is most difficult. Data supporting institutional arrangements are needed at this level. They are; (a) medium-term costs of existing government policies, (b) output and result data relating to each policy, (c) cost, output and result data for new policy suggestions. The third level, which defines efficiency and effectiveness of programs implemented or outputs depends on a variety of factors. Institutional arrangements at this level, that depend on organizational performance, may be summarised as follows: (a) resources and systems must provide adequate support together with responsibility, (b) objectives must be defined clearly, (c) tasks must be defined clearly, (d) authority (flexibility) must be granted in order to maintain tasks and objectives assumed, (e) accountability must be established in order to exercise authority³.

Distribution of resources, which emerge as a result of public policies, are basically determined as a result of a political process whereas the budgeting process from accounting to reporting assumes the most important role in ensuring fiscal discipline in this decision-making process. The more sophisticated a country's economic organization level is the higher the fiscal discipline expected from this process gets. The most important lesson to be drawn from good practice examples of countries is putting a framework law (fiscal accountability law), which defines the basic points of the process and shows powers and responsibilities, into force. This framework law aims at reinforcing institutional structures and ensuring efficiency targeted.

Changes which have recently occurred in the world will be briefly discussed under sub-committee headings by establishing an interrelation with sub-committees.

CONVERSION TO MEDIUM-TERM EXPENDITURE SYSTEM

Although a budget showing a government's projections and commitments for the following year cover a time span of one year a well-prepared budget should also consider economic activities relating to the budget, which extend beyond the budget year, and their consequences. These effects may include economic consequences which have originated from the preceding period and effected budgets of following years and outcomes of services anticipated to be provided during the current year or the following year. The possibility for a budget, isolated from other periods, to yield satisfactory results, particularly in the sense of generating policies, therefore seems unlikely. Thus, considering a budget together with the planning process and establishment of an interrelation between planning and budgeting becomes inevitable for a budgeting process which takes efficient, effective and strategic decisions.⁴

The annual budgeting process is placed within a framework in a medium-term expending system that spans more than one year. Budgetary projections are made for a period covering more than one year. This generally takes the form of projections for the size of next year's budget and forecasts for the following years.

The medium-term approach is essential in that it defines targets and prevents easier circumvention of budgetary controls in the event budgetary controls aim at a single year or the following year. A growing number of OECD countries are drawing up their budgets within a set

³ The World Bank, (1998): 17

⁴ Yılmaz (B): 20,

of a largely medium-term approach. Today, almost half of OECD countries are pursuing a multi-year budgeting method at different levels.

Some countries have embarked upon far-reaching reforms in their budgetary systems since the second half of 80s and either shifted to multi-year budgeting system as part of their efforts to restructure their fiscal structures or made new arrangements designed to increase efficiency of multi-year budgets (e.g. the U.K., Sweden, New Zealand, Australia). Similarly, some developing countries are trying to execute reform programs aimed at transition to medium-term expenditure system and a medium-term spending program at different stages and under varying names within the framework of their relations with the IMF and the World Bank (Ghana, South Africa, Malawi, Kenya, Tanzania and some eastern bloc countries going through a transition process).

The most important criticism brought against the multi-year budget program is that excessively optimistic assumptions are used in this process. Canada, Austria, the Netherlands and the U.S.A., experiencing this problems, have overcome it by making more cautious assumptions systematically.

INCREASED IMPORTANCE OF ACCRUAL-BASED ACCOUNTING SYSTEM (IMPROVEMENT OF ACCOUNTING AND REPORTING SYSTEM) AND FISCAL TRANSPARENCY

In the past when governments played a trivial role in national economies the need for management of the economy was considerably simple. Today, however, in a large part of developing countries governments have assumed great responsibilities in respect of reshaping, guidance and direct management of their economies. These developments spearhead significant changes in the need for information for an efficient management of national economies. Therefore, change in provision of information required for an efficient public fiscal management depending on developing conditions is a priority and a necessity. Due to intensified relations between countries creation of a system capable to respond to changes in the need for information has become essential.

Transition to an accrual-based accounting system brings about a very information transformation: creation of accounting entries and transactions based on same standards for both private sector and public sector. Application of this accounting system enables the government to see total expenditures it has incurred for outputs within a fiscal year and to make an assessment of assets it owns. Conversion to a medium-term expenditure system also brings about a shift from a budgeting process, which is traditionally based on cash management, to an accrual-based accounting structure based on management of expenditures.

One of the approaches developed during the discussion that centered on the fiscal crisis which hit East Asia in 1997 was problems encountered in generation of information which would provide a picture of developments occurring in the economy and the existing structure. In this context, lack of adequate transparency and openness on markets was shown as one of the reasons for the crisis. This approach, which has been the theme of multi-faceted debates, have led to a review of responsibilities of actors both in public and private sectors against the market. In this context, an analysis of the government, which is the largest actor in the economy and makes

substantial interventions to economic parameters because of its role in the political structure, has become the focal point. Thus, inadequate information on accounts and transactions of governments and failure to generate information according to generally-accepted standards has been defined as one of the fundamental factors which hamper an efficient functioning of market economy rules.

INCREASING EFFECTIVENESS OF THE PARLIAMENT DURING BUDGETARY PROCESS

Legal restrictions on budget deficits and government debts have recently become one of the key tools used by the legislature to control the government. The best example for legal restrictions imposed on budgets is Alignment Criteria for European Currency Union included as a global fiscal target in the Maastricht Treaty. According to fiscal rules of the Maastricht Treaty, deficit of the general budget cannot exceed 3 percent of the gross domestic product while the total government debts must be limited to 60 percent of the gross domestic product. The Maastricht criterion can be interpreted as a balanced budget on the basis of current expenditures. Many countries have set fiscal targets regarding budget reforms. Germany has aimed to bring the ratio of public spending to GDP back to its level prior to unification in addition to targets to achieve Maastricht criteria while the U.K. has set as its targets to fix the percentage of public spendings from 1995 to 1999 and then to achieve results complying with Maastricht criteria, to ensure a balanced budget and to build its public sector on leaner lines. Another approach developed in this context is setting targets based on national fiscal indicators. Such policies are particularly followed in countries which have reformed their public finance management system. New Zealand and Australia may serve as an example in this field. Parliaments mainly exercise their control on government by reference to such targets shaped by framework laws and seek responsibilities accordingly.

Procedures governing evaluation by the parliament of budgets are also changing with a view to strengthen the parliament's role in the budgeting process. In this context, the budget timetable has been modified, budget documents have become more complex and roles played by the budget commission and sectoral committees during deliberations on the budget have been defined more clearly, and consideration has been given to review by special committees of budgets of respective agencies while agencies have been encouraged to submit more comprehensive operating reports to the parliament.

PERCEPTION OF AUDITING AS A SEPARATE DISCIPLINE

Auditing is globally recognised as a separate professional area with its theory and practices. This profession is being performed in accordance with auditing standards and ethical rules laid down by professional organizations. Accordingly, auditing is perceived as a continuous and systematic activity performed according to strategic priorities and tied to annual programs by giving due consideration to risky and critical areas.

In countries where the auditing profession has flourished auditing standards were first established and improved by professional organizations and then individual auditing organizations and organisations created by higher auditing institutions have adopted standards peculiar to their

respective areas. For instance, the Certified Public Accountants Institute in the United States of America lays down “Generally Accepted Auditing Standards” while the Certified Accountants Institute in Canada publishes “Generally Accepted Auditing Standards”. An Executive Committee, set up by 6 major accounting organisations in the U.K. and Ireland, has developed auditing standards.

Independence is considered as the cornerstone and a sine qua non for all auditing operations. Although auditing procedures vary from one country to the other there is a consensus that the auditor and the auditing unit, body and institution must be independent in order to ensure “impartiality” of findings, results and recommendations of an audit. Independence includes being independent of the entity being audited and being far from any external intervention. Practical effectiveness and functionality of independence are considered as issues as significant as reinforcing and guaranteeing it by rules.

Auditing extends to verification of compliance of individual transactions relating to revenues and expenditures of public agencies and institutions with applicable laws and correctness of their fiscal statements as well as determining rationality of systems and mechanisms producing fiscal transactions and accounts and whether or not they function effectively and efficiently.

3. DEVELOPMENTS WHICH HAVE INDICATED THE NEED TO RESTRUCTURE PUBLIC FISCAL MANAGEMENT IN TURKEY

3.1 CURRENT BUDGETING SYSTEM AND BASIC PROBLEMS

Budget texts by which the legislature confers upon the government the authority to transfer funds from the national economy to the public sector and to distribute these funds among prioritized projects during the following period are also considered as the most important tool used for political control exerted by the legislature on the government. The parliament, which is answerable to people and elected and authorised by people, delegates the same responsibility to the government in accordance with certain rules. The institutional framework is very important in order to define the political responsibility and administrative responsibility and hierarchical structure. Marking the boundaries of the institutional framework is also significant in a state ruled by parliamentary democracy in that it shows delegation of powers during the process of generation of services and the control mechanism used during this process.

The budget system ensures that obligations, which occur during the political competition process, are fulfilled. A good budget system includes such objectives as ensuring macro economic stability, encouraging efficiency in distribution of resources and efficiency in generation of services as well as accountability. It also establishes mechanisms needed and achieves these targets. In Turkey, the budget has a considerably narrow scope and it records only a part of funds distributed by the government. In addition to this, budgets prove to be insufficient to accomplish targets listed above even within the existing scope.⁵

The existing budget system conveys negative results of its failure to restructure itself to accommodate economic and political transformations that have taken place since 1980 to practice in a visible manner. Pragmatic public fiscal policies pursued throughout this period have transformed the budgeting system to a more complex structure which does not generate information. Therefore, a substantial public expenditure, which is qualified as part of the budget or should be linked to the budget as it is funded from the budget, has started to emerge outside the budget system and efficiency of control on public resources have lost its effect on the budget.

3.1.1 SCOPE OF BUDGET

At present, our budget system does not embrace the government's activities as a whole and is far from realising budgetary results expected from it. Citizens are unable to question the parliament's performance by using the budget as a reference, the parliament cannot exert an adequate political control on the government's actions by means of the budget, the council of ministers cannot obtain a full set of information regarding service costs and performances of public agencies and there is no competition between public agencies based on a comparable service cost system and fund utilisation.

⁵ Atiyas, Sayin (1997): 21

3.1.1.1 CURRENT SCOPE OF BUDGET

As mentioned above the existing budget covers only a narrow portion of public activities and expenditures, qualified as public expenditures even though they are outside the budget, cannot be traced by establishing a relationship with the budget. Fields of expenditure remaining outside the budget will be discussed in the next section. Here, the existing budget scope will be outlined briefly.

*Figure 1.
Scope of Budget*

$$\text{GENERAL BUDGET} + \text{ANNEXED BUDGET} - \text{TREASURY SUBSIDIES} = \text{CONSOLIDATED BUDGET}$$

The budget that we name as the consolidated budget consists of agencies with general and annexed budgets. A brief look at the budget for 2000 shows that there are 45 agencies with general budget and 65 agencies with annexed budget. The common characteristics of these agencies included in the budget within the overall framework defined by the Public accounting Law no. 1050 is that all of them have been formed with a view to provide public services. In this context, agencies with annexed budget differ from agencies with general budget because of types of goods and services they generate. Article 115 of the Law No. 1050 defines annexed-budget agencies as entities which finance their expenditures by their own revenues and managed outside the general budget. Provision of Article 118 of the same law stipulates that accounts and transactions of annexed-budget agencies shall be subject to provisions of the Law No. 1050 without prejudice to provisions of their special laws.

A law which provides a comprehensive regulation of annexed-budget agencies outside the Law no. 1050 could not be put into effect so far. Although special laws relating to creation of annexed-budget agencies include some provisions regarding their budgets, they do not permit them to draw up and implement a separate budget independent of general-budget agencies. The basic idea behind the expression that “.... budgets funding their expenditures by their own revenues....” is based on an acknowledgement that goods and services generated by these agencies can be priced on the market. Yet, under the present system these agencies have acquired a fund structure which has not much in common with the basic approach defined by the governing law.⁶ For instance, the budget for 2000 shows that annexed-budget agencies can create a revenue that can only match 3,8 percent of their total expenditures. Revenues of the State Hydraulic Works Administration, one of the largest investing agencies among those included in the consolidated budget, have never exceeded 2,5 percent of its total expenditures. Therefore, there is no effort or approach designed to ensure that annexed-budget agencies carry on their operations in accordance with the definition made in the Law No. 1050.

⁶ A study (1931) titled “Explanations on the General Law on Accounting and Budget”, written by Faik Baysal in 1931, includes the following remarks: “Annexed budgets aim at provision of public services which have an industrial or commercial nature, but cannot be provided and managed by individuals or protected by revenues such individual may obtain or constitutes a source of revenue for the state”. This explanation shows that entities in this category are very similar to state-owned enterprises.

The consolidated budget system indicates that some agencies carry out their operations outside the scope of the consolidated budget both in terms of generating and using funds. Some revolving funds, funds and foundations established by agencies with consolidated budget can be given as an example. The most striking example is forestry revolving fund enterprises operating under the General Directorate of Forestry (OGM). A substantial amount of OGM's revenues are obtained by this revolving fund which also finances some expenditures. According to the 2000 Budget Law OGM's budget is approximately TL 68 trillion whereas enterprises with revolving funds subordinated to OGM have a total budget of TL 230 trillion (which is three times higher). A look at types of their expenditures and revenues, however, indicates that these enterprises should be included in the annexed budget because they produce public goods and services (cutting down and selling of trees in state-owned forests and incurring expenditures for performing this work). Similarly, development by universities of institutional formations including revolving funds followed by funds and foundations over the past decade can be considered as the result of a similar approach.

Such applications narrow the area effected by budgets while obstruct a healthy development of institutional systems in Turkey. For, difficulties created by the budget system's actual conditions (e.g. a rigid budget approach) or attempts made by executives to expand their discretionary powers inevitably lead to an adverse effect on dynamics of such institutional systems.

3.1.1.2 PUBLIC EXPENDITURE AREAS NOT COVERED BY THE BUDGET

In this section expenditures will be discussed in two groups namely indirect and direct public spending. The common denominator of these expenditures is that they are usually considered as non-budgetary activities. Total size of direct expenditures in terms of their relation with the budget (i.e. their public nature) is almost equal to 30 percent of the budget (excluding local governments, foundations, associations and mutual assistance funds). This ratio goes up to 45 percent when the comparison is made on the basis of the budget excluding interest payments. Together with funds transferred to local governments these ratios go up to approximately 40 percent and 60 percent, respectively. These two figures alone can give us an idea about political and economic consequences which the central government would create by means of direct spending.⁷

Before discussing non-budgetary expenditures in this report the basic approach relating to two expenditure areas so classified is outlined as follows:

- A) Indirect expenditures, irrespective of their types, must be tied to and included in the budget. Such expenditures that have a direct effect on the budget are essential to ensure transparency in particular.
- B) Relationship between direct spending and the budget can be established through three methods b, using the existing structure as an input:

⁷ More comprehensive information and figures relating to calculations are included in the report drawn up by sub-committee 1.

- Firstly, including agencies, which directly generates a public good or public service and in respect of which there is no justification for excluding them from the budget, within the budget (under a separate or affiliated entity).
- Secondly, provision of information relating to operations undertaken by agencies, which should operate outside the consolidated budget due to their objectives and functions (e.g. nature of goods and services in question, market structure, etc.), together with fiscal structure thereof (by specifying its relation with the sector) through fiscal reporting and establishing a clear relationship with the budget although they are excluded from the budget.
- Thirdly, inclusion of such operations undertaken by agencies, which are basically excluded from the budget but exercise a public authority (such as agencies with independent budgets) or have a fiscal relationship with the budget (local governments, foundations and associations, mutual assistance funds), in the budget and fiscal reporting thereof.

In this context, spending areas excluded from the public spending area are discussed under two headings namely direct and indirect expenditures. A comprehensive assessment relating to these spending areas are discussed in detail in the report being drawn up by the sub-committee (1) on transition to medium-term expenditure system.

Table 1.
Non-Budgetary Public Spending Areas

Non-budgetary Direct Expenditures	Non-budgetary Indirect Expenditures
<ol style="list-style-type: none"> 1. Funds <ol style="list-style-type: none"> 1.1 Partially Budgeted Funds 1.2 Non-budgetary Funds 1.3 Special Accounts 2. Revolving Funds 3. Local Governments 4. Public Agencies With Independent Budgets 5. Foundations and Associations 6. Mutual assistance funds 	<ol style="list-style-type: none"> 1. Government Property and Immovables 2. Quasi-official Transactions <ol style="list-style-type: none"> 2.1 Functional Losses Resulting from State-owned Enterprises 2.2 Bonds Issued to the Central Bank for Foreign Currency Translation Differences 2.3 Bonds Resulting from Consolidations 3. Contingent Liabilities <ol style="list-style-type: none"> 3.1 Guaranteed Foreign Debts 3.2 Transfer Credits 3.3 Domestic Guarantees 3.4 Deposits Insurance 3.5 Build Operate / Build Operate Transfer Projects 3.6 Investment Stock 3.7 Other Contingent Liabilities 4. Tax Expenditures 5. Taxes and Similar Levies Imposed by Different Laws (Revenues Not Attached to the Budget and Directly Transferred to the Agency) 6. Foreign Project Credit Applications

DIRECT SPENDING AREAS

As shown on the table above direct expenditures are discussed under a total of six headings. They are funds, revolving funds, independent public agencies, local governments, foundations and associations and mutual assistance funds. Some direct expenditures are carried out fully beyond legal rules required by the budget while some others are excluded partially if not totally. For instance, funds and entities with revolving funds may be exempted from rules regulating the budget's fund distribution process. In establishments covered by the budget some activities are carried out by using a procedure different from the budget (in-budget funds, revolving funds) and many activities may even be excluded from parliamentary control. Direct expenditures may be briefly classified as follows:

Funds

A brief look at public finance after 1980 indicates that the budget law, which plays an important role in allocation of funds, has not fully reflected public revenues and expenditures and non-budgetary tools have multiplied and grown in scope and some powers of the parliament have been delegated to the government and therefore the fiscal discipline has diminished. Funds have had the largest effect on our fiscal system in terms of damage to the budgetary integrity. They

have led to creation of a separate “fund finance” within the Turkish public finance system due to their status as independent public legal entities, their special expending procedures and exemption from existing control processes and fundamental fiscal laws.

Today there are attempts to include funds, which served as a fiscal tool to exclude expenditures from the budget in 80s, in the budget again in response to reactions stemming from fiscal discord they have created in 90s when budget deficits tended to grow, their size as compared to the consolidated budget and difficulties faced by international finance institutions to keep the economic situation in Turkey under review. Determination in this regard was also confirmed in the Letter of Intent submitted to the IMF in 1999.

Accumulation of some public revenues in accounts outside the scope of the budget in order to finance special expenditures is not a practice peculiar to the past couple of decades. The first fund was created back in 1934. Funds are in competition with the budget due to monies they have accumulated since 80s and areas in which they operate. The Program for 2000 (SPO) indicates that total expenditures of 11 funds and two accounts, included in the public sector’s general balance for 1999, amount to approximately TL 2,9 quadrillion which corresponds to almost 10 percent of TL 28,1 quadrillion or the estimated budget for that year. Interest payments excluded this ratio goes up to 17 percent and even exceeds 20 percent when figures relating to funds, included in the public sector’s general balance and not attached to the budget, are also taken into consideration.

Revolving Funds

In Turkish public finance management system enterprises with revolving funds, similar to those existing today, were subjected to a legal arrangement by Article 49 of the Public Accounting Law No. 1050 of 26.5.1927. Their number has increased since then and their operations extended to a variety of fields. Today, these enterprises are considered as necessary during performance of the state’s fundamental public services and functions. Commercial, industrial, agricultural, cultural and professional activities can be carried out through these enterprises. Thus, an idle capacity is made use of and a specific demand is met. Furthermore, the state obtains an additional revenue.

This being the case these enterprises aim at both providing public services and generating an income.

- Number: The total number of enterprises with revolving funds (EWRP), which were active as at the end of 1998, was 2985. 75 percent of these enterprises were classified as Agencies With General Budget and the remaining 25 % as Agencies With Annexed Budgets.
- Turnover: EWRP’s total sales reached \$ 2.2 billion as at the end of 1999 (calculated according to figures for 1998). It means that their total turnover is equal to 3-4 percent of the total budget (5 – 6 percent excluding interest payments).

EWRP system has mutated into a common practice for evading parliamentary control and exclusion from the budget. Numerous operations and transactions, which should otherwise be

performed within an agency with a general or annexed budget, are being carried out by these enterprises without much intervention.

At present, total turnover of enterprises with revolving funds has exceeded aggregate funds allocated to 11 ministries in 2000.

Local Governments

Relationship between local governments and the budget is basically established by functioning of three mechanisms: funds transferred from general budget tax revenues to local governments, funds included in the Finance Ministry's transfer budget and transferred to local governments during the year and guarantees issued in respect of local government projects financed by foreign project credits.

Public Agencies With Independent Budgets

Agencies receiving fiscal assistance from the budget's transfers section are defined by budget documents as Agencies With Independent Budgets which can obtain revenues and incur expenditures beyond the government's fiscal system. Laws and regulations governing these agencies include provisions which exempt them from general arrangements relating to fiscal legislation and their spending is neither subject to visa or registration by the Ministry of Finance and the Council of State. Payments they receive from the government's budget are recorded as expenditures under the General Budget. They are outside the Treasury's consolidation and funds transferred to these agencies' accounts with the bank are spent in line with services provided by them.

In 1999 Fiscal Year TL 2,6 quadrillion (approximately 91 % of which is accounted for by social security agencies) or 9.5 percent of the consolidated budget was transferred from the General Budget to twenty two agencies facing a financing gap. In terms of non-interest expenditures this ratio goes up to approximately 15.3 percent.

Foundations and Associations

Public agencies and institutions have set up a large number of associations and foundations of different sizes over the past couple of years mainly as a result of economic and social conditions and traditions. These entities are established by employees of the public agency concerned and their capital is created through deductions from salaries and wages of employees. The purpose of these entities is to pay pensions and retirement bonuses to their members, to provide health care services and to achieve solidarity.

Recently, services, which should normally be provided by public agencies, are being performed through such associations and foundations due to lack of funds allocated to that agency. Thus, they have started to accumulate funds which have reached substantial amounts as a result of this system which also permits pricing of services. This phenomenon has triggered new debates over management of these entities, which undertake activities qualified as public services or engaged in the process of generating a service, and their connections with the parent agency.

The focal point of these discussions among bureaucrats is usually revenues. This structure forms a substantial obstruction hampering efforts aimed at a better functioning of the system and opening up it to external audit.

Mutual assistance funds

There are many mutual assistance funds set up under the umbrella of public agencies in Turkey. A part of them have been formed by virtue of a law and carry out their operations in accordance with their charter. Their main source of income is deductions from salaries of their members similar to social security deductions (similar to mutual assistance funds created by ILKSAN, OYAK and a majority of state-owned enterprises). Their sources of income and expenditures can be classified as a public income and spending only if some specific conditions are fulfilled. It would not be correct to consider mutual assistance funds, whose members have joined them with their own free will and have no economic and fiscal relation with the public agency concerned, within the public spending domain. If, on the contrary, the fund's revenues are collected obligatorily pursuant to a law (or by creating a de facto situation) and/or the fund has an economic relationship with goods and services generated by the public agency concerned and there is a flow of fiscal resources, then at least a part of their operations can be considered as a public activity.

INDIRECT SPENDING

Although indirect public expenditures outside the budget differ among themselves they can basically be defined as disposals and expenditures carried out by the government due to its immovables (assets) and obligations it has assumed. Such activities, not directly included in the budget, have today reached substantial amounts because of Treasury guarantees and functional losses. Indirect spending, which has become one of the crucial problems faced by developing countries in formulating their budgets, exist in public fiscal system of many countries as one of the tools used to conceal public expenditures.

They have an legal basis which is not cyclical. For instance, they include tax rebates and exemptions, which should be considered as an expenditure and created by the government by means of its incentive policies. Their actual amount is not known and therefore cannot be budgeted. Quasi-fiscal operations carried on by the Central Bank, public banks and other state-owned enterprises and their costs are neither known. Moreover, these operations usually finance revenues transferred to groups organised around these activities in addition to target groups which are intended to be supported in terms of distribution of income.⁸ Similarly, Treasury guarantees based on a legal justification seems not to have an upper limit, which was periodically fixed until 1998, and they cannot be budgeted. Principal and interest payments in respect of guaranteed debts and returns from them are shown in the financing section without attaching them to budgetary allocations. With the budget for 1997 provision of a guarantee has been limited to the related agency's budgetary performance and capability, but it proved to be inefficient. Therefore, the budget law for 1998 set an upper limit of \$ 700 million regarding guarantees to be issued by the Treasury. Since agencies, which have made it necessary to set that upper limit, have not been clearly identified, this provision relating to upper limit could not bring about expected results.

⁸ Atiyas, Sayin (1997): 21

Based on this conclusion the budget for 1999 has set a ceiling of \$ 500 million exclusively for local governments and this limitation remained in force in 2000.⁹

Such public spending outside the budget, which must be shown, attached and reported within the budget, are analysed in greater detail in the report drafted by the sub-committee for conversion to medium-term spending system according to the sequence shown on Table 3.1.

Government Property and Immovables

The fiscal dimension of any disposal of a movable or immovable property owned by the government in Turkey can only be determined if that transaction creates a cash movement and both operation and management of such property are totally left to agencies which possess the same. Agencies are conferred upon with the authority to deal with property and immovables owned by the government, but they are not held accountable for utilisation of such resources.

Government-owned property and immovables cannot be traced efficiently and therefore actual value of any good or immovable excluded from the government's inventory as a result of privatisation transactions, which have come to the forefront due to growing budget deficits over the past couple of years and are being closely monitored by the media, cannot be determined. Therefore, a relationship (benefit / cost) between cash received by the government as a result of privatisation and the asset actually disposed of cannot be established fully.

Quasi-fiscal Transactions

Some activities undertaken by the central bank and/or other public banks in a country are considered as a fiscal transaction rather than a monetary one due to their specific nature. These transactions are categorised as quasi-official fiscal transactions because they are not considered as a public fiscal transaction, but lead to macro-economic results similar to those created by public transactions. Losses incurred by agencies as a result of such transactions eventually emerge as costs which need to be funded from the budget.¹⁰

The most important consequence of exclusion of quasi-fiscal transactions from the government's accounting system is that the budget deficit or, to put it in a broader context, public sector borrowing requirement cannot be measured accurately.

In this study quasi-fiscal transactions are discussed under three sub-titles, namely functional losses arising from state-owned economic enterprises (SEEs), which reach substantial proportions in practice, bonds issued to the Central Bank against currency translation differences and bonds arising from consolidations.

i-) Functional Losses Arising From SEEs

SEE functional losses occur due to the pricing process or delegation of special tasks. Prices of goods and services generated by SEEs are fixed by the government and if the price so

⁹ Dedeoglu, Emil, Erdem (1999): 9

¹⁰ Dedeoglu, Emil, Erdem (1999)

determined is below the actual cost the difference between the two amounts or any loss which may occur as a result of delegation by the government to a SEE of a special task is deemed to constitute a functional loss.

Since functional losses to be incurred by SEEs cannot be forecast precisely funds included in the budget to cover functional losses are calculated with reference to functional losses which have occurred in the preceding years and finalised after being reviewed by the Treasury. On the other hand, funds allocated to finance functional losses may sometimes be much lower than actual losses due to budgetary constraints. In order to make up for this gap amounts due by the Treasury to SEEs to finance their functional losses may be set off against their debts to the Treasury. Accumulated functional losses of SEEs is TL 1.4 trillion as at the end of 1999. Of this, TL 540 billion has resulted from TEKEL's subsidized tobacco purchases.

In 1999 SEEs, governed by the Statutory Decree No. 233, sustained a functional loss of TL 1.2 quadrillion in total and only TL 80 trillion of it could be paid while TL 757 trillion was set off against their liabilities to the Treasury. In conclusion, functional losses incurred by SEEs operating plants amounted to TL 1.6 quadrillion including TL 752 trillion arising from subsidized purchases. This amount could not be included in the budget.

State-owned banks' functional losses reached approximately TL 4 quadrillion as at the end of 1998. Of this, TL 590 trillion has been paid by issuing a special government bond pursuant to a provision incorporated into the budget for the fiscal year 1000. The same method was followed in respect of the budget for 2000 and special government bonds worth approximately TL 1.5 quadrillion were issued to banks concerned against 15 % of their accumulated functional losses amounting to TL 10 quadrillion as at the end of 1999.

In addition to these and for the first time in history the budget for 2000 calls for allocating TL 725 trillion from the budget to state-owned banks, fiscal structures of which have been degraded considerably due to tasks entrusted by the government, to offset losses arising from the difference between interest rate they are going to apply to support credits they are to lend during the year and actual costs of funds which have a negative impact on their fiscal stability.

ii) Bonds Issued to the Central Bank Against Currency Translation Differences

Pursuant to provision of Article 61 of the Central Bank Law, any positive or negative difference which may occur as a result of revaluation of gold and foreign currencies in the Central Bank's assets and liabilities after a change in the value of Turkish Lira are liquidated according to procedures to be agreed upon by the Bank and the Prime Ministry. The Central Bank transfers its losses resulting from revaluation to the Treasury, but pays no interest for this portion of the Consolidated Debt until the Treasury issues a note against such loss.

iii) Bonds Arising From Consolidations

Consolidation is a process whereby amounts owed by public agencies and institutions to each other are set off and it is widely used in Turkey. Consolidations have been carried out under a separate law and these transactions mostly took place outside the budget.

Pursuant to various consolidation laws the Treasury has assumed net liabilities of municipalities and SEEs to the Social Security Organization (SSK), Ziraat Bank, the Central Bank and other banks and to each other and issued to agencies to which such amounts are owed (usually state-owned banks) special government domestic borrowing notes bearing an interest usually lower than those available on the market in an amount equal to principal and interest to be paid in respect of debts so consolidated. New bonds may be issued against interest accrued on such bonds in accordance with the budget law of the respective year. Special government bonds are issued against interest accrued on such bonds again in accordance with the budget law of the related year.

Consolidation bonds, included among non-cash bonds, permits the government to incur expenditures “not visible as a spending” and shadows transparency of the budget and conceals actual size of government’s actions thereby creating a very adverse effect on fiscal discipline.

Contingent Liabilities

Contingent liabilities are commitments and guarantees which do not constitute a government liability for the time being, but may be converted to a liability and require payment in the future. These liabilities are classified according to their characteristics below:

i) Guaranteed External Debts

Budget laws allow the Treasury to issue guarantees in respect of loans borrowed by public agencies and institutions, including those with a capital in which the government has a stake more than 50 %, even if they are subject to provisions of private law.

Since 1995 both interest and principal of secured debts assumed by the Treasury in connection with secured loans are being traced in principal payments without attaching them to the budget. Whereas, this item should be included in expenditures in accordance with internationally accepted principles. Excluding this type of transactions, which have a steadily increasing share in the borrowing requirement, undermines fiscal discipline and shadows transparency of the budget.

Agencies foreign debts of which are guaranteed by the Treasury include greater city municipalities, provincial special administrations, SEEs, universities and some establishments slated for privatization. When loans in respect of which guarantees have been issued become due the principal obligors more frequently decline to repay these loans due to inadequate funds, lack of programs and objective criteria in issuing guarantees, political influences and their attempts to increase their funds by abusing the Treasury guarantee.

Secured foreign debts assumed by the Treasury Undersecretariat between 1992 – 1999 (provisional as of the second quarter of 1999) have reached US \$ 5.9 billion. Of this, US \$ 2.1 billion is accounted for by local governments, US \$ 2.8 billion by SEEs, US \$ 692 million by funds and US \$ 402 million by investment and development banks. Overdue amounts owed to the Treasury in connection with secured foreign debts reached US \$ 1.2 billion as of November 1999 and this amount is almost wholly (96 %) made up of guarantees issued to local governments.

Liabilities assumed by the Treasury during the period of 1992 – 1999 amounted to US \$ 5.3 billion. Repayments effected in respect of secured liabilities of local governments accounted for US \$ 3.4 billion of the amount referred to above.

Taking into consideration that municipalities were responsible for a substantial portion of secured debts which cannot be recovered by the Treasury the budget law for 1998 limited the amount of such debts, but a large part of this quota allocated has been used by municipalities which had a bad record regarding guarantees as no distinction was made between eligible beneficiaries. This hindered issuance of guarantees to some other SEEs (e.g. Turkish Airlines), which have repaid their secured debts, which they needed to finance their investments.¹¹

ii) Transfer Credits

Transfer and allocated credits are those which are borrowed by the Treasury from international credit institutions and transferred to public agencies in accordance with provisions included in budget laws. Although the credit is transferred to a public agency or a private establishment, the Treasury appears as the obligor.

Pursuant to provisions of budget laws conditions of loans transferred to public agencies must be identical to those included in loan agreements. However, it was found that conditions governing transfer of some loans borrowed by the Treasury from international credit institutions and subsequently transferred to the private sector includes different provisions in favour of the users thereof and these credits were not shown on schedules drawn up by the Treasury. A realistic assessment of transfer credits can be made only if the Treasury's all receivables arising from transfer credits, whether overdue or not, are known.¹²

Transfer credit system is far from being transparent in respect of utilization of public funds due to practices that have continued to date. Funds so spent are mostly excluded from internal and external controls during the public decision-making process.

iii) Internal Guarantees

Guarantees issued to the Soil Products Office, payments under Revenue Partnership Notes and motorway notes as well as guarantees issued to the Privatisation Administration constitute the scope of secured domestic debts.

The budget for 2000 limited the Treasury's guarantees to political risks which may arise from transactions assumed by the Turkish Export Credit Bank (EXIMBANK) by reason of loan, insurance and guarantee transactions and borrowings to be made by the Privatization Administration (limited to TL 75 trillion).

¹¹ Hurcan (1999): 74

¹² Council of State, Report on Treasury Transactions (1998): 16

vi) Deposit Insurance

After some banks were excluded from the Turkish banking system as a result of the fiscal crisis in 1994 almost all saving deposits were guaranteed by the government with a view to rebuild confidence in the banking system.

Saving deposits (including registered deposit certificates denominated in TL) in Turkish Lira opened by natural persons with local branches of banks operating in Turkey and authorised to receive deposits and foreign exchange deposits, classified as saving deposits, of natural persons who are residents of Turkey are subject to deposit insurance.

v) Build Operate / Build Operate Transfer Projects

The Build – Operate – Transfer model is the result of the government's intention to meet infrastructural needs, which it cannot satisfy by its own resources, through those of the private sector. They include guarantees for purchasing by TEAS or TEDAS of electricity generated, input guarantees required for generating electricity, a credit guarantee in the event short-term supplementary credits are required during the term of the investment and the loan is borrowed from the energy fund or from a foreign source, guarantees in respect of payments to be effected by the energy fund pursuant to articles of the agreement providing for transfer of the facility to the government agency, guarantees in respect of other payments to be made by the energy fund and guarantees issued by the Treasury for projects executed under BOT model. All these guarantees are payment guarantees which provide companies with a performance guarantee.

First guarantee obligation in connection with Build Operate Transfer projects guaranteed by the Treasury arose in 1999 and a water bill of US \$ 111 million was assumed on behalf of Greater Izmit Municipality in the form of a product sale guarantee.

vi) Investment Stock (Consisting of Multi-year Projects Awarded)

Investment stock includes public commitments which can be described as inviting bids in respect of multi-year investment projects of establishments included in the public sector and assuming an obligation against the contractor overamounts specified in the estimate under an agreement executed after the contract award.

Total investments of public agencies are included in the investment program of the respective year. There are 5.321 projects included in the investment program for 2000 which have yet to be completed and their total value is approximately \$ 151 billion. This project portfolio can be completed within almost 10 years on condition that no new project is included.

vii) Other Assorted Liabilities

Other assorted liabilities include those other than the fiscal risks listed above. Examples are assuming a capital commitment by virtue of agreements or various legal arrangements, assuming by the government of a liability upon occurrence of an event pursuant to applicable

laws, legal proceedings and disputes and contracts signed by the government under different circumstances.

Tax Expenditures

Tax expenditures, which can be summed up as granting by the government to various sectors and groups a tax advantage due to economic or social reasons, are being used as a very common political tool.

Tax rebates and exceptions used to support different sectors and exemptions or tax rebates put into effect with a view to support various social groups are typical tax expenditures.

Although tax expenditures are widely used as a taxation policy tool, total amount of such expenditures and their recipients are not known and they can neither be budgeted.

Yet, it should be the most undeniable right of the public opinion and the parliament to know which groups in the society receive funds through the government as a result of such a decision. Or, people who have contributed to that decision should have prior knowledge of the cost of the decision. In Turkey no law or other decision which permits a tax expenditure has been subject to a calculation neither in the related text or in the justification therefor.

Application of Article 279 of the Tax Procedure Code in 1999 serves as the best example for tax expenditures. Tax loss caused or funds transferred to the related sector by this provision, application of which was put off for one year in 1999, is estimated at approximately TL 1 quadrillion. Neither the justification for the related article of the budget law nor other supporting documentation include any calculation or a comprehensive assessment in respect of this decision.¹³

Arrangements Similar to Taxation Imposed by Various Laws (Revenues Not Attached to the Budget and Directly Transferred to an Agency)

Regulations other than the budget law confer upon various agencies the power to collect revenues similar to taxes. Although such revenue transfers should be attached to the budget and transferred to the establishment concerned, direct collection by that establishment of such revenues cause the amount received to be excluded from the public spending domain. The share transferred to TRT over electric consumptions may be given as an example.

Foreign Project Credit Applications

Foreign project credit application is usually formulated outside the budget and such expenditures are not subject to a budgetary control. These procedures are followed regarding project credits lent by the World Bank.

¹³ For further details see “An Example to Tax Expenditures Application of Article 279” written by Yılmaz, H. Hakan which is soon to be published.

Pursuant to provisions included in Loan Agreements the World Bank requires creation of a “Project Coordination Unit” or a “Project Implementation Unit” (PIU) for execution of a Loan Agreement relating to project credits. Personnel of such units and their qualifications are set forth by provisions included in Loan Agreements and appendices thereto or directly by the World Bank.

The agency or institution, which is to utilise the project credit, is identified in the Loan agreement and a PIU is set up within its organization. Contracts executed under the loan agreement are exclusively drawn up by PIUs and contracts relating to procurement of goods and services to be funded from the loan are signed by the head of the agency within which the PIU was established. In short, PIUs may function as authorised but unaccountable units.¹⁴

Procurements carried out by a PIU must be subject to the World Bank’s procurement procedures. Such projects are exempted from important laws of the Public Fiscal System such as the Law No. 1050, the Public Tenders Law and the Law on Court of Accounts.

Transparency of the public finance system is not the case for such transactions. A large part of expenditures incurred in connection with these projects are not included in government spending. Only some interest payments for repaid loans are visible in the budget as an expenditure and payments of principal and some interest and credit costs are recorded by the Treasury as a payment.

Cost of World Bank loans, the sole advantage of which is a long maturity, cannot be precisely calculated by any agency nor public supervision covering such loans is only performed by Treasury Controllers or independent auditors who verify that the loan has been used in accordance with World Bank procurement procedures.

3.1.1.3 MAIN FACTORS WHICH LEAD TO EXCLUSION FROM BUDGET

Factors which force agencies to remain outside the scope of the budget or the institutional structure embracing the budget are discussed in this section. These factors may be classified under the following main categories:

- A steadily declining contribution made by the budgetary process to efficiency of services generated during preparation and implementation of the budget. Failure to shift to plan – program – budget system has been its basic dynamic.
- Inability of spending agencies to have adequate control on their budgets in the process of preparation and implementation of budgets (this undoubtedly brings about or legitimise flight from assuming responsibility),
- Fund allocation and spending procedures are steadily getting more complex and lengthy,
- Failure to establish an adequate relationship between service – cost and performance of executives during the existing budget process,
- Agencies have lost their confidence in their budgets,
- There is a serious institutional resistance against efforts aimed at improving functioning of bureaucracy. Lack of a plan-program budgeting system can be given as an example for this resistance which particularly stems from traditional bureaucracy.

¹⁴ For further details see the aide memoire prepared by Hamdi Aydın (1999) for the sub-committee 2.

- Lack of the principle of reciprocity which should exist in the relationship between powers and responsibilities. Required accountability process does not exist in many issues in respect of which an authority has been granted.
- Existing laws and regulations are far from meeting current requirements.
- The need to allocate funds to a specific area for which they have been earmarked.
- The need to make an efficient planning in respect of multi-year services in the same context.
- Ease in spending due to lack of transparency and accountability.
- An accounting system which is not capable of generating data at required level and does not have required technical equipment and absence of fiscal reporting obligation.

These reasons among others have been conducive to creation of public spending domains listed in Table 1 and helped them to gain larger proportions as compared to spending under the budget which eventually undermined fiscal discipline.

Creation of flexible mechanisms which would eliminate reasons referred to above or ensure an efficient functioning within the budget and securing them by a legal framework would make a significant contribution to establishment and functioning of an effective public fiscal structure.

3.1.1.4 BASIC PROBLEMS CAUSED BY A NARROW BUDGETARY SCOPE

The existing budget does not fully reflect the actual amount and structure of public spending due to a variety of reasons including exclusion of funds from the budget which distorts budgetary integrity and discipline, diversity and large number of revolving funds, functioning of agencies which benefit from transfer facility outside budgetary control and information processes, effect on cost and revenues of superimposition of definition of public services which foundations and associations aim to provide and definition of services provided by agencies included in the budget, compulsory transfer of public funds through assistance funds outside the scope of budget and their being subject to political and bureaucratic conflicts outside the budgeting process, inefficiency of the recording and control system relating to the government's assets, failure to establish an adequate relationship between quasi-fiscal transaction and contingent liabilities and budget preparation and implementation processes, the government's inability to obtain a full set of information regarding its commitments and lack of information on tax expenditures. Absence of a fiscal reporting system further aggravates adverse effects of this structure on budgetary results.

The narrow scope of the budget also brings about a fractured public decision-making process. This leads to a serious coordination problem both in political and technical decision-making processes. The system, which is not configured to produce information and generates various points of resistance instead, may obstruct provision of services expected of it even if attempts are made to eliminate the coordination gap.

The budget does not contain the following information regarding activities it includes:¹⁵

¹⁵ Atiyas, Sayin (1997): 23

- 1) Effect of public activities on social welfare
- 2) Measurable outputs of public activities
- 3) Resources in kind used in these activities

Lack of these information has the following meaning:¹⁶

- 1) Absence of knowledge about effects of activities shows that effectiveness has not been targeted.
- 2) Results of activities are not expressed by measurable outputs which indicates that efficiency in services has not been targeted.
- 3) Lack of information on cost of resources in kind shows that these resources are not managed at all.

Thus, the existing system performs no performance management function even during activities embraced by the budget. This situation provides executives of public agencies implementing policies with a sizeable information advantage. This, in turn, furnish substantial revenues to these agencies and their executives while damaging administrative accountability. Only monetary information are used in the budgeting process in Turkey and these information enable the budget only to take short-term macroeconomic stability measures. The narrow scope of the budget restricts a satisfactory performance of this function.¹⁷

Revenues and assets of institutions such as foundations, associations and funds have reached enormous levels. Interventions aimed at obtaining benefits centering around these resources sometimes take a political form and when combined with insufficient public control (particularly due to bureaucratic benefits) hinder an effective and efficient use of resources.

Absence of an efficient reporting which transfer information included in the system to decision-making points of the budgeting process even restrict use of these information. An inefficient reporting also weakens controls.¹⁸

Main consequences brought about by a narrow budgetary scope, failure to provide an adequate set of information and inefficiency of the control process can be summarised as follows:

- A well-forecast budget program cannot be prepared.
- Actual level of spending relating to areas of activity of sectors / agencies and their sub-distribution are not known.
- In a budgeting system generating such inadequate information cannot systematically measure and assess expenditures (this shortcoming becomes more obvious in an environment in which mechanisms of program budget system does not function).
- Even the agency which has drawn up the budget has no confidence in it.

These factors limit the budget's effectiveness and form a considerable obstacle which hinders a healthy development of institutional formations in Turkey. For, strains brought about by the current budgeting system (e.g. a rigid budgetary approach) or attempts on the part of

¹⁶ Atiyas, Sayın (1997): 23

¹⁷ Atiyas, Sayın (1997): 23

¹⁸ Atiyas, Sayın (1997): 23

executives to broaden their powers to take discretionary decisions eventually have an adverse effect on dynamics of such agencies.

3.1.2 STRUCTURE OF BUDGET

In Turkey the government's budget takes its legal basis from provisions of the Constitution and the Public Accounting Law No. 1050. Articles 161, 162, 163 and 164 in chapter four of the Constitution titled "Fiscal and Economic Provisions" includes basic provisions governing preparation, approval and implementation of and modifications to budgets as well as final accounts. Article 166 included in the second section of this chapter stipulates that "the Government is responsible for planning economic, social and cultural development and particularly a rapid development of industry and agriculture in a balanced and harmonious manner throughout the country and an efficient use of national resources by performing a breakdown and evaluation of these resources and for establishing an organization required for this purpose". The Public Accounting Law, on the other hand, contains detailed provisions relating to application of applicable provisions of the Constitution. In a sense, it provides legal principles.

The program-budget system was prepared as a result of works initiated in 1968 and put into effect in 1973. The justification for the budget for 1973 fiscal year stated that a gradual transition to the program budget system from the conventional budget system had started and underlined the necessity to establish mechanisms which would create an infrastructure for the system as soon as practicable.

The program budget is a system in which the government's obligations in the existing economic and social structure are assessed and classified in terms of services provided and it is based on the concept of "service" in performance and maintenance of activities and allocation of resources. The basic approach in application of this budget system is services defined and their measurement and assessment by using assorted tools.¹⁹

Fundamental components of the program budget system are as follows:

- (i) Planning,
- (ii) Programming,
- (iii) Budgeting,
- (iv) Management, and
- (v) Assessment.

Planning includes identification of objectives and costs based on a medium-term projection while programming aims at an efficient implementation and supervision of the plan within a shorter period. Budgeting, in principle, means application of the program and the management component relates to an efficient structuring of units involved in implementation of the system. Finally, assessment means performing comparisons between options by using various analysis techniques such as system analysis, cost-benefit and cost-efficiency. In the program budget system "service classification" means classification of services under the title program sub-program-activity in the budgeting system and "classification of expenditure item" means the

¹⁹ Atiyas, Sayin (1997): 23

classification which is used to regulate utilisation of funds allocated for provision of such services. Main activity groups aimed at achieving the government's basic objectives is called a function. Another classification performed by taking into consideration basic services provided by the government to public is designated as a functional classification e.g. education, public health, agriculture, defence, etc.²⁰

Improvements identified within the framework of fundamental problems determined during transition from the conventional budget system to the program budget system in 1973, which are still being discussed, were listed as follows: (1973 program budget preparation guide);

“I) Conflicts and duplications in public services will be prevented and the budget will be given a flexible structure in parallel with changes in priority, importance and scope of services.

II) Administrative responsibilities of executives playing a role in preparation and application of budgets will be clearly defined.

III) Relationship between Service-Cost and Cost-Benefit will be expressly displayed.

IV) During the budget preparation process executives will be provided with the opportunity to present to the government and the legislature various solutions relating to issues which will ensure that the most rational choice is made.

V) Required atmosphere will be created for performing an assessment of service programs included in budgets of agencies to verify that they have achieved targets set in advance in terms of effectiveness, efficiency and benefit and for provision of physical verification possibilities in addition to legal control. Care will be taken to ensure that funds allocated to a specific project or activity is only spent for that project or activity in order to prevent lavish spending.”

In practice, however, the attempt to shift to the program budget system has been unsuccessful due to a poor political determination, failure to establish mechanisms listed in the 1973 Budget Preparation Guide (e.g. conversion to functional coding system, a sound determination of service programs and related institutional changes), abolishment of schedule (U), which was defined as one of the basic tools in the budget preparation system, in 1975, frequent revisions in expenditure items (such as a shift from detail at single-digit level to hundreds level) which combined with the failure to take actions regarding the coding system as specified in the 1973 guide. In a sense, the conventional budgeting system continued to be applied. Various benefits expected from service programs could not be obtained due to a failure to ensure continuous application of program-budget system and to carry out some arrangements aimed to be included in implementation over the medium term and resistance put by the existing institutional structure against the new system and the system started to return back to its original situation).²¹

²⁰ Public Fiscal Management Project (1995): 15

²¹ Yılmaz (1995)

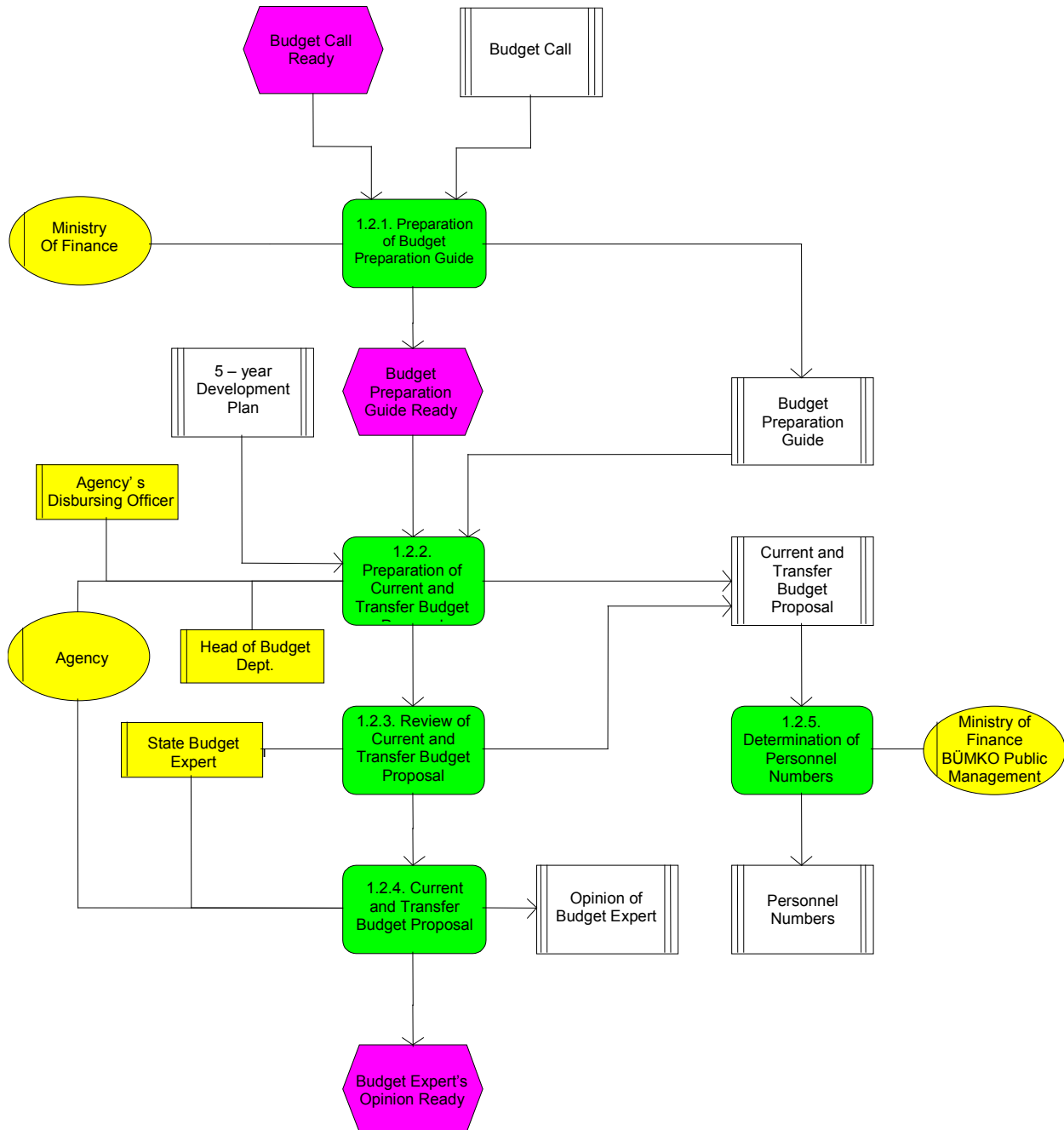
3.1.2.1 PREPARATION OF BUDGET

3.1.2.1.1 Budget Preparation Process

Preparation of budget usually starts after the Prime Minister's budget notice is published in the Official Gazette in June. The budget notice firstly draws an overall economic condition of the country and defines budgetary policies to be pursued under this economic environment. The Ministry of Finance publishes budget preparation guides which lay down fundamental principles to be observed in budget proposals and standards established. The budget preparation guide prepared and published by the Ministry of Finance describes the general economic situation and targets and then lists fundamental principles and standards to be observed in preparation of budget. It also defines guidelines for preparation of budget proposals within the framework of these principles and standards.

The budget preparation guide includes information relating to the code system to be used in preparation of the budget and how the budget proposal is to be prepared as well as various standard tables. Agencies prepare their current and transfer budget proposals (excluding expropriations subject to visas) in accordance with these guidelines.

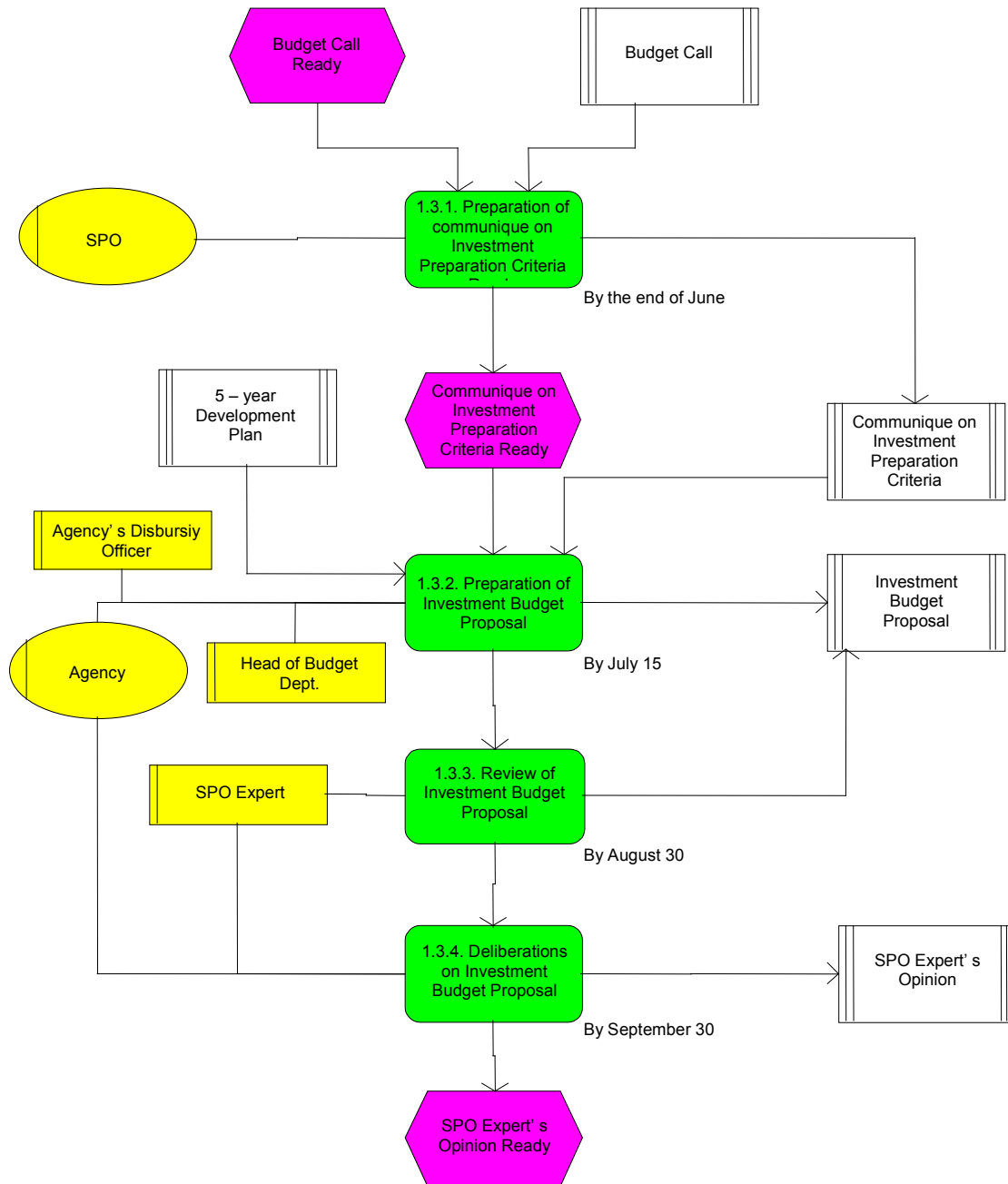
Figure 2
3.1.1.1 Preliminary Work on Current and Transfer Budget Proposal



The Ministry of Finance shall review current and transfer allocation proposals in order to verify that budget proposals of agencies have been drawn up in accordance with the budget notice, budget guide and the Prime Ministry's communique relating to investments while the SPO approves proposals for allocation of funds to finance investments after holding talks with related agencies.

Guidelines for preparation of investment program is published by the SPO as an attachment to the Prime Ministry's communique.

Figure 3
Preliminary Work on Investment Budget Proposal

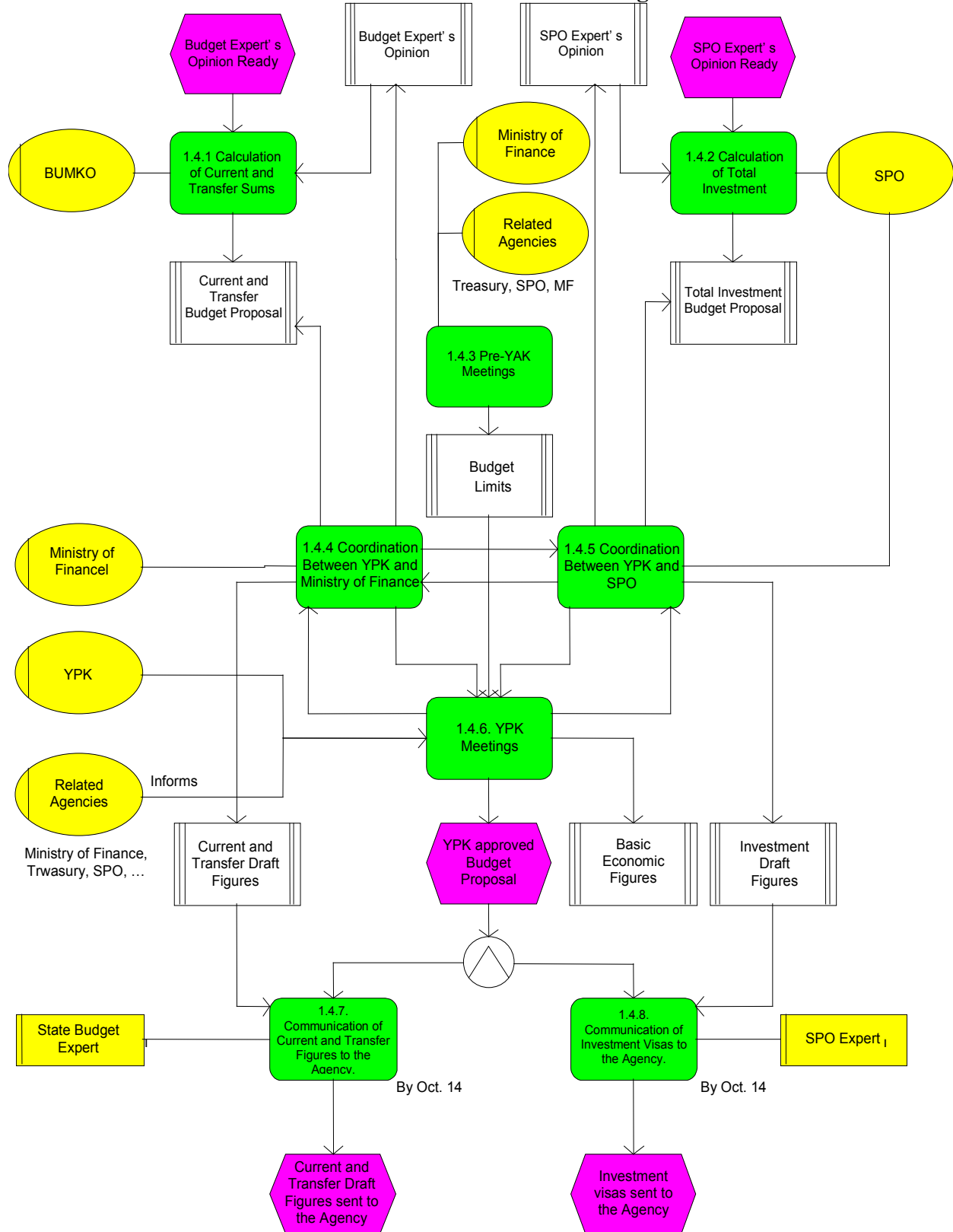


The budget draft is discussed by the Higher Planning Board together with General Economic Targets and Public Investments and then submitted by the Council of Ministers to the parliament (TBMM) as a government proposal (75 days prior to commencement of the fiscal year).

A rationale for the budget for the respective year is also submitted to TBMM together with the budget bill. When the budget is submitted to the Parliament the Program for the related year is also deemed to be released. The budget bill is first discussed by the Plan and Budget Committee

and then at a plenary session of the parliament for ratification. A budget bill and report presented to TBMM is reviewed by the Plan Budget Committee, which is made up of forty members including minimum twenty five members from the ruling party or parties, and approved within 55 days. It is then referred to a plenary session of the parliament. The budget bill is enacted and put into effect before January 1, set as the first day of the fiscal year.

Figure 4
YPK Review and Finalisation of Budget Bill



3.1.2.1.2 Fundamental Problems Encountered in the Budget Preparation Process

The most significant shortcoming faced during the budget preparation process is that the budget comprises only a part of the public spending domain. Secondly, the budget does not have a medium term projection and it does not allow measurement of performance due to a failure to establish a relationship between input and output.

At present, a substantial part (40-45 percent) of budget expenditures in Turkey consists of debt and interest, which has a financing cost. This ratio goes up to 60 – 65 percent when total transfers are taken into consideration. A brief look at the budget law shows that the legislature and public has no chance to monitor formation of this expense item and that the budget bill is not drawn up in a manner to monitor the borrowing program and actual spending through final accounts which would enable the parliament and public to exercise budgeting right appropriately. The same applies to other expenditures included in the transfer item.

Furthermore, items such as contingent liabilities which could become a government liability if not paid by the borrowers are neither shown in the budget. The government assumes an undertaking although it is not expressly authorised by the budget law to do so. Thus, the amount of expense item included in the budget law is lower than the actual sum which undermines credibility and transparency of the budget. Similarly, tax exemptions and exceptions rather than transfer spending also cause public expenditures to be reported incompletely. Such practices are common in the budget preparation process in Turkey.

The following fundamental problems are encountered during the budget preparation process in Turkey:

1 – a budgeting system which displays the relationship between an agency's services and costs does not exist. The existing program budget system has been transformed back into the conventional budget system.

2 – Scope of the budget does not show public spending and revenues as a whole. Reports required to be presented during the budget preparation process do not include all sources of agencies within and outside the budget and the amount and quality of output to be obtained from these sources.

3 – Budget preparation works cannot be carried out under a medium-term spending program in order to ensure economic and fiscal stability and to achieve a sustainable development. Relationship between the plan and the budget cannot be established adequately.

4 – Spending agencies do not perform a comprehensive evaluation which defines their targets and policies to be followed.

5 – Budget ceilings for agencies are not specified during budget negotiations held between spending agencies and central organizations.

6 – Revenues to be obtained by the spending agency from other sources are neither known in these negotiations.

7 – Reports that would enable drafters of the budget to see how funds allocated over the past couple of years have been spent and to verify that they have been used in an efficient and effective manner or reports showing the amount of output that could be achieved by funds proposed to be allocated under the next year's budget are not presented.

3.1.2.1.3 Reasons For Inefficiency of Plan-Program-Budget System

Reasons for the failure to implement the program budget system and for the de facto shift back to the conventional budget system can be outlined as follows²²⁻²³

1 – There are numerous approaches regarding the program budget system which are formed both in theory and application of the system (particularly objectives, tools employed and required guidelines relating to functioning of the system). The failure to establish a coherent and dynamic structure during the phase of application and development of the system has emerged as the number one problem. Although attempts designed to measure production of public goods and services within the budget formation by using various tools and to bring them under control leads to various arguments in theory, a well-functioning approach with specific medium-term objectives should have been developed in this regard as a minimum requirement.

2 – Identification of service programs in the program budget system and classification of these service programs as sub-programs, activities and projects is essential for functioning of the system and it is the most significant structural difference that separates the model from the conventional budget. A budget structure which identifies service programs properly, builds institutionalisation on this dimension and design and measure cost-benefit interrelation in their application could be able to meet expectations. 3 – The program budget system, functioning as a system analysis, needs a medium term plan and/or program as a minimum. This point is discussed in the program budget preparation guideline for 1973 as follows:

“Identification of priorities is directly related to nature of services to be provided, their connection with policy objectives, planning and costs of activities. This requires establishment of a proper and correct relationship between annual programs of 5-year development plans and the budget.”

Plans and programs, which are drawn up by the government, are carried out through the budget under the conventional government system. When Turkey shifted to a planned economic and social system this coordination was sought particularly in a technical sense and the need for a program budget was felt more than ever. In practice, however, a mechanism which would ensure a permanent interrelation and transition between program budget preparation process and the plan and program could not be formed. This failure mainly resulted from political bureaucratic traditions which prevented abandonment of the conventional budget preparation system rather

²² Public Fiscal Management Project (1995): 17 - 19

²³ Yılmaz (1995): 1-4

than differences in institutional structures. Lack of this interrelation particularly in identification of strategies have become more obvious during preparation of budget.

4 – The original intention was to build a functional classification base, embracing all government activities, at a later stage. A review of the current budget system from this standpoint reveals that not much has been done regarding functional classification with the exception of some minor arrangement in spite of the fact that a functional classification was needed to ensure a sound flow of information regarding the budget as a whole and agencies particularly on a yearly basis.

Yet, formulation of service programs require, creation of their sub-programs and finally formulation of their activities and projects require a comprehensive accumulation of information, manpower, a well-functioning flow of information and technical equipment (such as legal structure, magnetic medium, accounting system, statistics and operational researches, project preparation, etc.).

Such system analysis works, which aim at achieving the budget's efficiency in using resources, have been very insufficient from technical point of view. Development and modification of service programs and generation of new ones when deemed necessary is the most important internal factor. Formulation of a service program in the form of sub-programs and on activity – project basis is the second next step. Today, effectiveness and diversification of service programs in preparation of the budget has virtually disappeared. For, absence or interruption of efforts designed to formulate system analysis has caused budget preparation process to repeat itself.

3.1.2.2 IMPLEMENTATION OF BUDGET²⁴

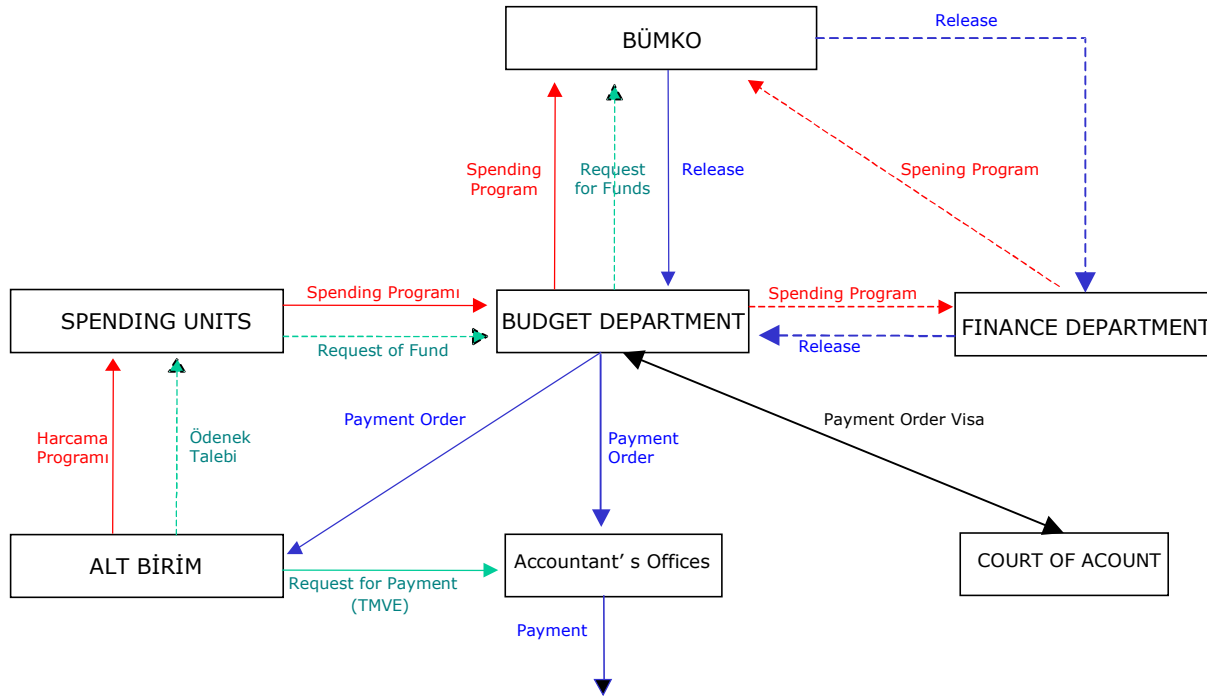
3.1.2.2.1 Primary Actions

Spending transactions are carried out as a result of actions taken by officials at various levels. Disbursing Officers are empowered to issue authorizations for expenditures and payments. Even though the Minister is formally responsible for effecting payments from the Ministry's budget this power is delegated to governors, general directorates or regional directorates due to administrative reasons. Accrual Officers of the agency incurring expenditures assess requirements and prepare documents required for payment while Accountants handle payment requests after assessment and approval. The basic responsibility of accountants is to effect payments and to maintain accounting records.

Development of the budget implementation process in terms of agencies and transactions are outlined in Figure 5.

²⁴ For further details relating to issues discussed in this section see "Implementation of Budget and Reporting" (December 1999) Yegen O. submitted to the Special Committee named "Restructuring of Public Fiscal Management and Fiscal Transparency" which was set up as part of Eighth Plan works.

Figure 5
Agencies and Transactions in Budget Implementation Process



Budget departments form part of ministries and central organizations of main spending units and perform a supervisory function relating to release or allocation of funds. The Court of Accounts functions as a log wherein all documents relating to the government's fiscal transactions are maintained and as a higher supervisory mechanism controlling fiscal transactions.

3.1.2.2.2 Organization

Spending Units (Accrual Departments)

A total of 39.598²⁵ accrual departments function under the general and annexed budget in Turkey. Accrual departments are usually organised as central and provincial units. Functions of accrual departments in the budget preparation process can be summarised as making a request for funds (fund allocation request) in respect of issues coming under the scope of their responsibilities through “detailed spending programs” and making a request for spending through “accrual requests and order for release of funds” within the framework of funds allocated to them.

BUMKO (Finance Departments and Budget Departments)

Finance departments and budget departments reporting to the General Directorate for Budget and Fiscal Control (BUMKO) which is subordinated to the Ministry of Finance are established at head offices of spending units. Finance departments are responsible for providing

²⁵ Accounting General Directorate Accounting Database (as of June 1999)

cooperation and coordination in relations between the Ministry of Finance and the agency. Budget departments are responsible for authorization of fund allocation (payment order) transactions under funds included in the budget in line with requests made by the accrual department to which they serve.

Accountant's Offices

In Turkey there are 1658²⁶ accountant's offices consisting of two groups including those set up at head offices and others established in provinces and sub-provinces. A majority of these accountant's offices carry out payment and revenue transactions performed in provinces, but they may also have different functions depending on their operating structures.

3.1.2.2.3 Implementation of Budget

Execution of Budget

Immediately after the Budget Law takes effect the Ministry of Finance (BUMKO) sends a communique to all ministries and spending agencies defining basic spending principles and limits imposed on allocations and asks them to communicate their detailed (monthly, quarterly, biannual and annual) spending programs. Upon visaing by BUMKO of detailed spending programs funds are released. After release of funds budget departments at the ministry and primary spending units enter funds allocated to their affiliated agencies and related allocations and sub-allocations are carried out. However, obtaining a visa from the Court of Accounts is necessary in order to ensure that funds earmarked are actually received by local agencies and spending units. Before releasing funds to spending agencies the Court of Accounts records all allocations, identifies conformance to allocation limitations, issues a visa and refers the payment order back to the related budget department which records the payment order so visaed and enters the budget allocation into the Allocation Book as a spending. The budget department sends a copy of the payment order to the spending agency and a second copy to the related Accountant's Office reporting to the Ministry of Finance. The accountant's office enters this payment order into the budget expenditures and payment order book. The person responsible for inventories in the unit which is to incur the spending determines the unit's requirement and notifies the accrual officer thereof. The accrual officer requests of the disbursing officer of the unit for procurement. The disbursing officer approves the procurement subject to funds allocated to the unit whereupon the accrual officer applies the procurement procedure within the framework of procedures set forth in applicable laws and purchases the goods or services needed by the unit. After procurement of the goods or services the accrual officer or the disbursing officer sign a spending request (TMVE) and send to the accountant's office concerned. The accountant's office reviews spending requests received from the agency in terms of recorded allocations and other legal obligations and effects the payment required.

²⁶ Accounting General Directorate Accounting Database (as of December 1999)

Allocation (Payment Order) Process

Phase One Fund Allocation

After the budget law for the related year is put into effect (usually in January) the Ministry of Finance (BUMKO) issues a communique laying down expending principles relating to the budget and deductions to be made from allocations. It asks spending units to submit detailed spending programs (usually for quarterly and biannual periods) by using schedules attached to the communique). Sub-units of the spending agency draw up detailed spending programs and send it to their head office. These programs are consolidated by the head office of the spending agency to draw up a detailed spending program for the agency. Detailed spending programs so prepared are conveyed to BUMKO through the budget department of the agency (until January 15 for 1999).

BUMKO reviews and visas detailed spending programs it has received and returns it to the budget department concerned. Visaing of a detailed spending programs means release of funds. Thus, the first phase of fund allocation takes place.

Phase Two Fund Allocation

Related budget departments perform allocations and sub-allocations for the central and sub-units of agencies under which they function within the framework of visaed spending programs they have received and draw up a “payment order” which are sent by budget departments to the Court of Accounts. The Court of Accounts records the payment order verifies that it is in conformity with the release and budget allocation, issues a visa and returns the payment order to the budget department concerned.

The budget department enters the visaed payment order it has received as an expenditure into the allocation book and sends a copy thereof to the unit or sub-unit which is to incur the expenditure and a second copy to the related accountant’s office. The accountant’s office enters that payment order as an expense item into a section of the budget expenditures and payment orders book designated for the related unit. Thus, the second phase of fund allocation to the spending unit is completed (funds are allocated) and the funds become available for utilisation.

Procurement Procedure

The Accrual Officer working for a ministry or a spending unit draws up a procurement approval and submits it to the Disbursing Officer. If the proposed procurement is approved and allocated funds are available the Disbursing Officer approves the expenditure.

Upon receipt of the disbursing officer’s approval the procurement process starts. The accrual officer in the spending agency applies the procurement²⁷ procedure subject to legal arrangements in question. Under normal circumstances a committee consisting of a personnel of the spending agency and the local accountant or the budget officer selects the supplier. The Accrual Officer submits the Committee’s decision to the Disbursing Officer for approval. If the

²⁷ D.I.K. has been taken as a basis as it is a more common application in description of the procurement process.

Disbursing Officer approves the decision made by the procurement committee a draft contract to be signed by the supplier and the agency is drawn up.

The Accrual Officer completes the procurement procedure and/or the Disbursing Officer signs the final revision of the contract. This contract is sent to the Court of Accounts for recording (registration) together with supporting documentation (the Ministry of Finance's visa, decision taken by the procurement committee and the certificate of approval issued by the disbursing officer). The Court of Account sends the contract it has registered to the spending agency whereupon the supplier delivers the goods or services in accordance with provision of the contract and the agency performs taking over of those goods or services. Thus, the procurement process is completed and the request for payment process is commenced.

Request for Payment Procedure

Request for payment procedure starts upon receipt of invoices or similar documents to be issued by the supplier after completion of procurement of goods or services. When an amount is required to be paid to the supplier, who has discharged his obligations under the procurement procedure and applied to the spending unit together with a document (invoice) duly issued for payment of a consideration for the goods or services procured the Accrual Officer of the spending agency draws up an Accrual Order and a Payment Order (TMVE) and sends them to the accountant's office.

Payment Procedure

Upon receipt by the accountant's office, to which the related unit is subordinated for payments, of the TMVE or the Request for Payment it applies the procedure and effects the payment.

3.1.2.2.4 Fundamental Problems Encountered During the Budget Implementation Process

Mechanisms which are needed to increase efficiency of the decision-making process in budget implementation are not defined adequately and these mechanisms do not function efficiently. Therefore, the process depends on knowledge and experience of the agency or individual making the decision. The most important weakness created by this shortcoming is that the budget implementation process does not function systematically.

Mechanisms which would ensure efficiency in budget implementation process can be listed as follows:

- * Roles and responsibilities
- * Delegation of powers
- * Fiscal discipline
- * Accrual based accounting and reporting
- * Commitment module
- * Cash planning
- * Information flow systems.

Particular problems observed in these mechanisms during implementation of budget are as follows:

A. Roles, Responsibilities and Delegation of Powers

- Roles and responsibilities of individuals in budget implementation are not defined clearly. In the existing system it is understood that disbursing officers, who are exclusively authorised to make spending from their agency's budgets, are not held accountable for expenditures actually incurred and accrual officers function as a certification officer in terms of powers they exercise and roles they assume (although they are held accountable by the Public Accounting Law for ensuring that any expense results from an actual need).
- Local units that are directly affected by results of public services do neither participate in decision-making processes nor exert control in budget implementation.
- Delegation of powers by first grade disbursing officers (minister) to second grade disbursing officers (undersecretaries, directors general, governors, sub-governors, etc.) should not be construed as a delegation of power to the person who is directly responsible for provision of a public service. For instance, the disbursing officer of a sub-provincial agricultural office, responsible for provision of agricultural services in that sub-province, is the sub-governor, not the head of that office.
- First grade disbursing officers transfer their powers to second grade disbursing officers through delegation of powers. In the current budgeting system liabilities which occur as a result of exercising of powers granted through an ineffective delegation process are not reported or accounted for.
- In the budget implementation process new roles (finance departments, regional revenue offices, tax departments, etc.) emerge everyday. These roles, which have no power as they are neither necessary nor functional, only bring about inefficiency and red tape.
- Titles of key personnel do not clearly define their functions. Fiscal control, accounting control and supervision, the three phase of the public spending control system, which are recognised internationally, are not thoroughly defined in the current system. Thus, the spending process being used encounters inefficient, multi-layer and superimposing interventions and lead to duplication of work.
- In practice fiscal control officer (budget department) function and accounting control officer (accountant's office) function are assumed by the same person (budget departments which are authorised to function as an accountant's office and provincial accountant's offices) particularly in provincial units and some spending agencies. This system permits the officer, who has confirmed a proposal for spending public funds, to approve the same proposal.
- In an efficient budget system three fundamental units must be involved:
 - * spending unit
 - * certification office
 - * approval office
 - * authorization unit
 - * accounting unit

In the present system role of the authorization unit, which can be defined as a unit responsible for verification of conformity of fund utilizations with the budget and authorise spending on behalf of the budget, is not described clearly. In practice a search performed by the Disbursing Officer (approval office) of the spending agency for funds before approving the request for expenditure and allocation control performed by accountant's offices (accounting unit) and verification of conformity with the budget item reflects a similar function. However, the Disbursing Officer's capability to maintain this function is limited due to lack of information on budget allocations, inadequacy of support systems and a pile of responsibilities created by the fiscal control system consisting of numerous components. Accountant's offices, which should only be responsible for performing an accounting control, function as the authorization unit. This prevents the fiscal control system from functioning efficiently.

* In the procurement procedure individuals responsible for each action (requirement, approval, control of funds before making commitments, correctness of documents, acceptance procedures, etc.) of the spending agency are not defined. These actions are not included in routine inspections and those liable for these actions do not share applicable penal liabilities.

* In the budget implementation process penal liabilities particularly arising from request for payment and payment procedures are only assumed by accountants. Penal liabilities have not been extended to cover all persons, especially disbursing officers, who play a role in these procedures.

B. Fiscal Discipline

- Since objectives in formation of the budget and the political will required to guide budget implementation and administrative responsibilities (such as utilization of reserve funds and Treasury guarantees) are not clearly defined in advance arbitrariness may occur in application of budget allocations which, in turn, has an adverse effect on fiscal discipline.
- Fiscal discipline cannot be ensured in the procurement procedure. Uniform methods are not employed in the procurement procedure, which constitutes a significant part of the budget implementation process. Since generally applicable laws governing procurement procedures are not in place institutions which are not subject to the Public Accounting Law and the Public Tender Law are formed. Government officials and individuals providing the Government with goods and services may encounter very different procurement procedures.
- In the process of provision of goods or services an efficient and effective management of public funds is put at risk as checks and procedures both in the fiscal legislation and administrative procedures (e.g. saving communiques) take a long time and are duplicated and thus a sluggish environment which is neither efficient is created.
- In the present payment system the banking industry is not used efficiently. Cheques drawn on the banking industry are collected by holders on the same day. Drawing of cheques rather than transfer to accounts, in which money remains in the banking sector for a longer period, leads to an unnecessary delay in the payment procedure.

C. Accrual-based Accounting and Reporting

- The existing accounting system is totally focussed on the budget. Therefore, it only permits to trace budget implementation results, but does not generate information on actual outcome of the government's actions.
- Since the accounting system is focussed on the budget transactions created by administrative decisions or pursuant to fiscal regulations and not attached to budget accounts are not reflected on the accounting system.
- Transactions performed due to both political and administrative reasons and which have a direct effect on results of the Government's actions are not properly included in the accounting system and they can be concealed by using the latter.
- The share received by agencies not embraced by the accounting system (agencies such as municipalities, special administrations, funds, social security organizations, etc. which hold and use a fiscal resource) nor their fiscal ties with the budget cannot be traced efficiently.
- Exclusion of the government's tangible assets from the accounting system require debiting of expenditures incurred in respect of these assets to the budget for the year when they were actually made. However, a building constructed within a budget year is also used in the subsequent budget years. Inclusion of its cost only in the budget for the year when it was incurred prevents accomplishment of proper budget implementation and activity results.
- The existing accounting system is based on the cash basis which means that a government liability, which has occurred in consideration of goods or services provided, is debited to the budget not when it actually occurred, but when paid in cash or transferred to an account and revenues are credited to the budget when they are received in cash or transferred to an account. In the cash-based accounting system data relating to the government's assets and liabilities cannot be recorded fully and timely.
- Continuity is one of the fundamental principles of accounting. In the existing accounting system activities and budget-related actions remain in the year to which they are related. Values such as liabilities, receivables and assets, which are the government's liquid assets, cannot be carried forward to the new fiscal year. Therefore, the government's existing budget policy does not allow separation of actions resulting from preceding years from current actions.
- Accounts have not been divided into sub-accounts. Therefore, different and detailed information in an account cannot be separated and reflected and reported by the accounting system. Even details of budgeted revenues and expenditures, which form the focal point of the existing system, are excluded from the accounting system after a certain level. Thus, budget implementation results cannot be traced clearly.

D. Commitment Module

- In the existing system commitments cannot be traced. A commitment module, wherein commitments, even provisional ones, will be recorded under an accounting discipline and attached to budgetary allocations, would lend support to implementation, and particularly preparation of the budget.

- Since a commitment module does not exist in the system commitments, in respect of which adequate funds have not actually been allocated, can be made after deduction of commitments made during the current year. Since commitments made are not deducted from funds initially allocated commitments, which together exceed the initial allocation, can be made in practice.
- Due to the inability to trace multi-year commitments required allocations cannot be made for related years.
- Actions such as employment of personnel and allocation of permanent positions taken by the public sector create an obligation for the government in the future. For example, total liability incurred by the government as a result of recruitment of personnel is not only limited salaries to be paid to such personnel. It also brings about many commitments including health, education and pension costs for minimum 3-4 persons. Since the system does not include a commitment module analyses, which would ensure inclusion of adequate funds in budgets of related years, cannot be performed regarding such actions creating a commitment on the part of the public sector.
- During a Fiscal Year the Ministry of Finance allocates funds to all ministries on various occasions. The Disbursing Officer should not approve public fund expenditures in the event their aggregate amount exceeds funds allocated. Where a proposed expenditure exceeds the amount of funds commensurate with such allocation item on that date when it is added with the amount of commitment issued prior to that proposal and expenditures incurred until that date the spending unit shall seek additional or supplementary funds before proceeding with the payment transaction. Since, as mentioned above, commitments assumed cannot be linked to budgetary allocations in practice the aggregate amount of expenditures incurred and commitments made exceed the total amount of funds allocated.

E. Cash Planning

- The detailer expenditure program aim at enabling agencies to decide how budgetary allocations are to be used during the year (within existing cash projections). Quarterly and biannually detailed expenditure programs, which are being drawn up in the existing system, are not comprehensive as they are not supported by adequate studies and reports. Detailed expenditure programs do not have alternatives. In addition to this, the present expenditure program system is a rigid one. No modifications can be made to detailed spending programs notified by agencies due to, say, seasonal fluctuations and no funds can be requested outside detailed spending programs.
- A sufficient relationship cannot be established between targets and macroeconomic policies set forth in the budget preparation process and detailed spending programs generated by agencies.
- In visaing of detailed spending programs cash and borrowing projections are not taken into consideration sufficiently.

F. Data Flow Systems

- An information system wherein computer technologies are extensively used must be created in order to ensure efficiency of decision-making processes during preparation and implementation of budget.
- It seems that Disbursing Officers are not informed of total fiscal limits, agreed expenditures and commitments issued until that date (depending on initial allocations, released allocations and amount of cash in hand).
- Agencies do not maintain an allocation books required to enable Disbursing Officers to determine actual amount of spending pledged for all allocation items, fund allocations and commitment limits allocated to them for specific purposes.
- The system functions with a large number of accountant's offices and budget departments due to absence of automation and information systems in budget implementation process. Therefore, even an analysis showing to what extent such departments are important and efficient cannot be performed. Interventions made by numerous budget departments and accountant's offices have an adverse effect on the system's efficiency.

3.1.2.3 ACCOUNTING, REPORTING AND CODE STRUCTURE OF BUDGET SYSTEM

3.1.2.3.1 Accounting Systems

In the past periods when governments played a minor role in the national economy information required for management of the economy were relatively simple. Conventional government accounting systems (budget-centred and cash-based). Beneficial for policy targets, utilization of allocations and supervision of legal liabilities conventional government accounting systems provide data relating to allocations, expenditures, revenues and obligations. The most significant feature of conventional government accounting systems is that they are cash-based accounting systems.

Cash-based Accounting

Cash-based accounting is only interested when a cash amount has been paid or received and it ignores when services and benefits provided by actions have actually occurred. According to the cash-based system transactions are only entered into accounts when a cash amount is received or paid. Goods and services (procurement of goods, labour, transportation, etc.) are included in accounts as consumed when their costs are paid to suppliers. Deduction of spending from funds earmarked is performed at the time of payment and revenues are credited to accounts when received deeming that they have been earned. Fiscal results are reported as the difference between amounts received and paid. Data are obtained from cash receipts and expenditures within a reporting period when the funds were used.

Cash-based accounting has provided a traditional foundation for accounting and reporting of public sector units, showing conformity with spending limits (cash), budgeting and holding units accountable. The cash-based system, however, does not contain and record the Government's assets, valuation of long-term assets, commitments made, portion of allocations

which is capable of being actually used, quasi-fiscal transactions, deferred payments, Treasury guarantees and fiscal transactions such as tax expenditures.

The cash method is the simplest approach used to keep the government's accounts. Since, however, it basically focuses on payments it provides least information beneficial for fiscal management. The cash method is primarily used to control funds and identify responsibilities. Although it is admitted that it has advantages regarding determination of spending limits, conformity and economic effect (short term), its capability to contribute to decisions relating to financing situation and management is limited to issues relating to cash resources and it excludes physical and fiscal assets and liabilities. It provides a basis neither for a performance evaluation in terms of cost-saving and efficiency nor an assessment whether or not objectives have been attained.

As mentioned above, the cash method provides information about payments effected during a fiscal year. Yet, these payments are not considered as actual costs as they fall short of showing the value of resources used and the activity actually carried out (for instance the payment may represent an investment in assets). Moreover, the cash-based system do not provide feedback regarding claims made against an agency at the end of a fiscal year as they record cash payments when they are made irrespective of the time when the commitment was made and the services were received.

Conventional accounting systems will maintain their importance in the future. However, they must be reviewed and reshaped in order to meet changing needs to ensure them to satisfy data requirements of an efficient public fiscal management and to adapt themselves to changing conditions. One of the methods developed with this objective in mind is the commitment method wherein accounts tracing commitments assumed are added to the cash-based accounting system. The commitment method in recording of fiscal transactions is one step ahead of the cash-based system.

Accrual-based Accounting

According to the commitment method fiscal transactions are entered into accounts when a commitment is made. The commitment method shows funds allocated to goods and services in respect of which an order has been placed. Thus, spending exceeding allocated funds is avoided by means of entry of commitments. The system functions so that budget allocations are used (or blocked) before making a commitment at the very beginning of the spending procedure and thus overspending is prevented at the commitment stage.

It is evident that the commitment method is useful from viewpoint of keeping allocations under control as well as fiscal liability. As it provides additional information in respect of commitments made the commitment method has more advantages as compared to the cash-based system. However, it is also a fact that data required by an efficient public fiscal management are not confined to utilisation of allocations and actual expenditures. Data to be generated by the Government's accounting system, which should provide data needed by an efficient public fiscal management, must also include other important factors which the public fiscal management is to use in decision-making processes. By using the commitment method scope of fiscal data may be

partially expanded as commitments made against funds allocated are shown. Yet, these data are still inadequate and incomplete because liabilities are not entered when the commitment is made. The commitment-based system only shows commitments made and payments subsequently effected. It does not measure costs of various public services accurately.

It goes without saying that more additional information are required today due to national policy preferences, management of the government's programs and activities and calculation of their results. In any case, fiscal integration should provide complete data which can be easily understood. Data needed for formulation of policies are required in connection with macroeconomic variables such as national income, consumption, savings, investments and fiscal equilibrium. Data for management purposes are needed alternative finance sources, their effects on the national economy, cash balances and management and distribution of public revenues by industries and regions. For an efficient management of the government's programs and activities additional criteria which would permit calculation of performance grades of costs, profits, outputs and efficiency. Similarly, there is a steadily increasing need for data regarding performance forecast and effectiveness, efficiency and cost-effectiveness of the Government's programs as a result of new developments in the concept of accountability to the legislature.

Data requirements changing due to management of the national economy include data relating to transactions, statistical data and fiscal information which are all different from each other. At national level data are provided from different sources. For example, the Central Bank provides data on monetary transactions, the State Institute of Statistics on a wide spectrum of issues, and the Ministry of Finance, Treasury and SPO about fiscal matters. However, data not based on sampling or carries error risks of unilateral entry systems such as lists, tables and schedules and not prepared by forecasting methods are those generated by the accounting system. Therefore, data relating to the Government's activities in pre-specified standards and as coherent as double entries, precise and conducive to performance of analyses must be generated from Government accounting systems. Government accounting systems are the most important source in meeting data needs which vary due to management of developing economies and therefore it is essential that Government accounting systems are established so that varying data needs are satisfied.

As a result of this necessity the an answer is sought to the following question: "What is the most suitable accounting and reporting framework meeting specific performance and responsibility requirements applicable to the public sector atmosphere ?. This effort aims at shaping up the accounting and fiscal reporting system according to specific conditions of the public sector. The accrual accounting, which has emerged in this context, is an initial step in that it diverts attention and contributes to an improved public management and public sector performance.

Accrual-based Accounting

The accrual-based accounting is interested when a transaction or event has taken place notwithstanding when an amount in cash was paid or received. This accounting system aims at comparing benefits gained at costs created during a period with goods or services provided together with revenues. These transactions may be carried out together with or independent of

cash transactions. Components and reporting procedure contains accrued revenues whether or not collected; expenditures comprising goods and services consumed during a period whether or not a payment has been effected; assets representing resources controlled by a unit which are expected to be obtained in the future and resulted from events that have taken place in the past; the unit's liabilities arising from previous agreements which could lead to a transfer of funds in an economic sense and own funds representing the unit's rights on assets after deduction of all liabilities.

The relationship between revenues and expenditures permit calculation of the net cost of the service provided. Timing differences between realisation of revenues and expenditures and cash transactions leads to an increase in assets (future economic benefits) and liabilities (economic benefit output in the future) capitalised as a revenue and expenditure in the period when they occur. The most common example is depreciation accruals arising from utilisation of capital assets. The relationship between assets and liabilities allows determination of fiscal condition of each unit.

The accrual-based accounting generates a wide range of fiscal data for an efficient public fiscal management. It provides necessary data regarding cash payments effected, available funds in connection with allocations in respect of which a spending authorization has been issued, assets provided for Government services, accrued liabilities and accrued costs of programs and activities performed within the specified period.

Suitability of the accrual accounting for enterprises in the public sector is generally accepted. It is assumed that the accrual-based accounting is basically necessary for the whole public sector as an inevitable result of changing management concept and data needs. Yet, there is less convergence of opinions regarding benefits of applying accrual accounting to fundamental components of the public sector dependent on the budget. Criticisms brought against this approach can be summed up as follows:

- In the public sector profit is neither a goal nor a measurement of performance in respect of basic public sector activities. Instead, the goal is provision of goods and services in compliance with the government's policy.
- Public revenues (at least a large part of it) stems not from sales, but from allocations and exercising of taxation power.
- Existing capability of the public sector activities to survive and debt repayment power depends on the government's will to continue its fund support rather than revenues obtained by that unit or service.
- Difficulties which may be encountered in the future depend not on the fiscal structure of these undertakings, but success of programs and activities in meeting policy targets determined by the government.
- Units may not be granted an authorization to sell or acquire assets in their own name and they neither have the freedom to change nature of their activities.

Thus, performance must be evaluated according to broader criteria rather than measuring success or failure by means of fiscal tests. Therefore, the most important target of accounting systems in the public sector is to verify conformity of cash spending to legal limits and the cash-

based and budget-centred accounting systems are assumed to have the capability to meet the Government's basic needs depending on the budget. As a consequence of this assumption intermediate formula, closer to the budget accounting and cash-based system rather than the accrual method have emerged.

Arguments made above indicate that in selection of accounting systems to be applied in the public sector assumptions are made on a plane with cash-based accounting located at one end and accrual-based accounting at the other. However, there are numerous arrangements which can be applied in order to adapt full cash or full accrual systems in order to satisfy accounting and reporting targets of each unit between these extreme ends. These adaptations have emerged as modified cash and modified accrual methods.

Modified Cash-based Accounting

This method generally functions in a manner identical to the cash-based accounting and reporting. It enters transactions and events upon receipt or payment in cash irrespective of the time when they were acquired or earned. Since cash receipts and payments, revenues and expenses would be equal reporting is based on revenues and expenditures and difference between them. This method neither trace assets, liabilities, obligations and receivables within the accounting system as is the case with the cash-based method. This method differs from the cash-based system in that accounts are held open for nearly one year after the fiscal year (set-off period). During this period expenditures incurred and invoices pertaining to transactions which occurred the preceding period are received provided that their allocations have been transferred to the set-off period. Receipts arising from the preceding period are also accepted. Receipts and payments, which occurred during the set-off period, but have resulted from the preceding period, are entered as receipts and payments of the preceding reporting period. Cash flows at the beginning of the new period, which have been included in the set-off period as they have arisen from the preceding reporting period, are deducted from entries for the new period. In this system the fiscal statement which is used for reporting is cash flow table. It also inherits all weaknesses of the cash method with the exception of the principle of periodicity.

Modified Accrual Method

This method employs a mixture of cash and accrual methods in order to enter transactions occurring at various phases of accounting processes. In this system events and transactions are basically entered when they occur rather than upon cash payment or receipt. Items entered by the modified accrual method include fiscal assets, liabilities, net properties, net fiscal liabilities, revenues and expenditures.

In this method account adjustments (reflection) are performed periodically in order to enter receivables and debts in accounts. During the process of consolidation of accounts cash and accrual accounts are aligned with each other. These adjustments can be made instantaneously, daily, twice weekly or monthly. Such a system actually meets a large part of the modern public management's needs.

In entering fiscal transactions there is an alternative to the modified accrual method. In this procedure expenditures and liabilities are entered when they are accrued, that is to say according to the accrual method. Revenues, on the other hand, are recorded when they are actually received i.e. according to the cash-based method. This hybrid system is recommended for public agencies which provide the public sector with services free of charge such as ministries and municipalities whose activities are basically funded from the general budget. This suggestion is based on the assumption that entry of such amounts according to the accrual method would not be safe as these agencies cannot predict the actual amount of revenues which can be collected actually. In this procedure, there is no homogeneity between revenues and expenditures in terms of the basis of entry. Its practical advantage is prudence and conservatism. This procedure is particularly useful for accounting at central government level where revenues mostly cannot be collected due to diversification of factors. A prudent and conservative attitude here may help prevent wrong fiscal results.

The modified accrual method:

- does not inherit weakness of the cash method in generating data.
- * is ahead of the commitment method as it enters liabilities as well as commitments.
- does not contain weakness of the modified cash method to produce data which it has inherited from the cash method. Since liabilities are entered when they are accrued a set-off period to ensure the principle of periodicity is not needed in this procedure.
- follows the budget more efficiently than the accrual method as it is not budget-centred.
- is more suitable for verification of conformity with budget allocations and control of responsibilities.
- is compatible with cost accounting factors required by efficiency and performance control.
- This method is also conducive to generation of data produced by the accrual procedure regarding assets, liabilities, commitments, quasi-fiscal transactions and debts.
- is more easy to apply compared to the accrual method. Therefore, it is more feasible as compared to the accrual method in improvement of a cash-based accounting method over the short term.
- Another opinion supporting this method is that entry of revenues according to accrual basis leads to wrong results in debt servicing due to continuous change in income figures and that entry of revenues based on the cash procedure particularly for identification of cash flows and planning is more advantageous.

In conclusion, it should be borne in mind that notwithstanding the final accounting method selected or its position between full accrual and full cash at both ends the primary

objective of each accounting and reporting system is to meet resource responsibility need most efficiently and to provide data useful for decision-making mechanisms.

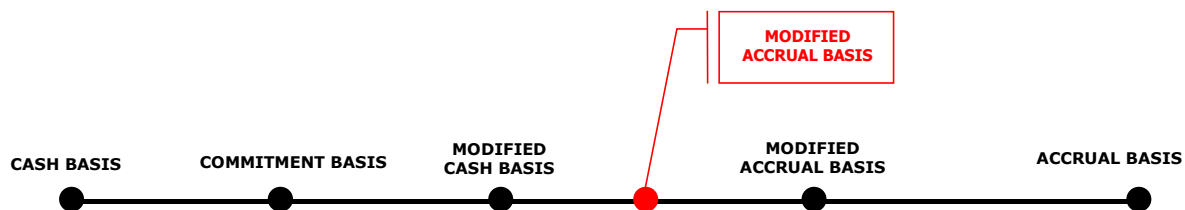
3.1.2.3.2 Budget's Accounting and Reporting Structure

Fiscal reporting relating to budget implementation is performed by accountant's offices which implement the final phase of the budget. Accountant's offices enter spending requests, all kinds of fiscal transactions and payments they have effected in accounts and books through the Public Accounting System. TMVE and SIF documents constitute the most detailed source of data accumulated by accountant's offices. These documents contain data relating to transactions carried out and the budgetary aspect of the transaction and the amount and accounts to which it will be entered into the Government Accounting System. These data, daily recorded in all accountant's offices throughout Turkey, are used to generate local reports drafted by accountant's offices at the end of the respective month. These monthly reports are consolidated in the Accounting General Directorate to prepare central reports.

Turkish Government Accounting System

As specified in the related section accounting systems are dispersed along a spectrum ranging from cash-based to accrual based methods. On this spectrum there are points both representing a mixture of these basic methods and those which contain different procedures.

Figure 6
Place of Government accounting System



After the latest revision made in 1990 the Turkish government accounting system is located somewhere between the modified cash-based method and the modified accrual-based method because it contains some accrual factors and a setoff period procedure.

Although the Turkish Government accounting system records transactions according to cash method and budget-centred, accounts are kept open for a certain period (set-off period) and accounting of transactions relating to the preceding year's budget is continued. In addition to these, some liabilities (custody accounts, liabilities not creating cash, etc.) and assets (interests in associated undertakings, loans, out-of-budget capital formations, etc.) which are not traced in a cash-based accounting system) are recorded in the Turkish Government accounting system. Because of these characteristics the existing accounting system should be defined as a mixture of the modified cash-based method and the modified accrual-based method.

3.1.2.3.3 Basic Problems Encountered in the Process of Accounting and Reporting of the Budget

In the light of comments given above fundamental problems faced in accounting and reporting of the budget can be listed as follows:

- The government accounting system is focussed on the budget. Thus, it records only transactions covered by the budget and does not trace public activities remaining outside the budget's scope.
- The existing accounting system is based on cash-based method which means that a government liability, which has arisen from goods or services purchased, is debited to the budget not it has actually occurred, but when it is paid in cash or transferred to an account and revenues are credited to the budget when they are received on cash or transferred to an account. As specified in the related section data relating to the Government's assets and liabilities are not fully and punctually recorded in the cash-based accounting system.
- The government accounting system has a narrow scope. The Government Accounting Regulation, put into effect from 01.01.1990, governs agencies with general budgets and those with annexed budgets without prejudice to provisions of laws exclusively governing their functions. Whereas, the public sector also includes entities such as municipalities, special departments, funds and social security organizations which control and use fiscal resources. Data obtained by excluding their assets and liabilities are not adequate for planning of the national economy and formulating and implementing economic policies.
- The government accounting system has a narrow scope. Exclusion of the government's tangible assets from the accounting system requires recording expenditures incurred for them into the budget for the year when they occurred. However, a building constructed within a budget year is also used in subsequent budget years. Inclusion of its cost only in the year for the budget during which it was constructed prevents achieving proper budget implementation and results which in turn leads to a decrease in efficiency of data to reflect the actual situation.
- The public sector does not have a unified accounting system. The existing accounting system embraces only agencies with general and annexed budgets and therefore other agencies were obliged to develop their own special accounting systems. Thus, differences between accounting systems so formed and the existing Government accounting system in terms of accounting procedures and book and document formats hinder consolidation of accounts in the public sector as a whole.
- The government accounting system does not classify accounts. In the existing accounting system accounts do not have a systematic coding. There are neither time-separating accounts. Accounts have not been subjected to a classification based on their nature. Only individuals who have specialised in this field can understand natures and meanings of accounts. Therefore, it is difficult to generate fiscal reports from the existing accounting system. The possibility for reports generated to comply with a pre-specified standard

virtually does not exist at all. Therefore, the existing accounting system is incapable of producing fiscal reports and data which can be understood and interpreted by all users and the Government accounting system continues to remain as a domain requiring special experience.

- The government accounting system does not display a complete continuity which is one of the fundamental principles of accounting. In the existing accounting system activities and budgetary actions remain within the year to which they belong. Assets such as assets, liabilities and receivables, which form the government's liquid assets, cannot be carried forward to following years. This hinders continuity of the government accounting system and comparability of reports generated by it.
- The government accounting system does not include adequate details. It is not conducive to generation of detailed data as neither a decoding system nor a full automation is in place. Accounts have not been segregated into sub-accounts. Therefore, different and detailed information within an account can neither be separated from each other nor shown and reported by the accounting system. Even details of budgetary revenues and expenditures, upon which the existing system focuses, remain outside the accounting system after a certain level. Required information are obtained as a result of efforts undertaken outside the accounting system which means that accuracy and accounting integrity of the double-entry system are enjoyed at a far lesser degree.
- The government accounting system is currently not suitable for reporting and generating conclusions. Due to the problems outlined above the existing government accounting system covers only transactions pertaining to general and annexed budgets and generate data relating to budget implementation results only in the form of schedules which can be drawn up by using extra-accounting methods. It is neither conducive to reporting in terms of account plan. Fiscal statements such as balance-sheet, cash flow statement, operating results statement and budget implementation results statement, which embrace the public sector, cannot be drawn up.
- Entry of budget applications and other fiscal transactions to a cash-based Government accounting system (which is basically a system between the modified cash-based and the modified accrual-based methods) leads to loss of many data which are essential for fiscal reporting.
- Fiscal reports, matching international standards, cannot be generated by this budget-centred accounting system which does not embrace the government's fiscal structure as a whole.
- Local reports produced by the system are not qualified as fiscal reports. These reports, which cannot be used in fiscal projections are not comparable and lack accounting integrity, are nothing more than a schedule or a table.
- Central reports, generated by the government's accounting system, remain as consolidated schedules and tables. The treasury general account and final account codes, whereby the

government presents results of budgetary applications, are neither fiscal reports and they are voted and endorsed within approximately fifteen minutes as it is discussed by the parliament together with the budget for the new fiscal year. Therefore, they are totally deprived of their efficiency.

- Many accounts used in the existing account plan no more serve any accounting purpose and transactions with different natures (of balance-sheet, final account or regulating account types) are being entered into same accounts.
- These phenomena, which are particularly evident in liability accounts, have resulted from tracing of a part of the government's liabilities outside the budget and the cash-based accounting system is incapable to meet accounting requirements brought about by developing borrowing instruments.
- The government's properties cannot be covered by this accounting system and thus cannot be reported.
- A large part of quasi-fiscal transactions occur outside the accounting system and those recorded by the system eventually get lost "bag" accounts, which are created as a result of a failure to use accounts in accordance with their objectives. Thus, quasi-fiscal transactions cannot be reported.
- This accounting system, wherein the government's fiscal transactions are recorded and thereby fiscal reports are generated, is not conducive to make allocation and cash projections as it can neither separate flows not generating cash from those generating cash nor show pending expenditures.
- Shortcomings of the accounting system have damaged the relationship which must exist between reporting and accounting i.e. "a correct and coherent report is generated by the accounting system" and even a large part of existing reports, which are clearly inadequate, have been drafted by using extra-accounting entry methods and databases.
- Accounting and reporting of budget applications, both at local and central levels, are carried out manually. Computer systems, which are used at a limited level, are not fully automated. Consolidation of data generated in the computer system requires manual entry of data and controls which has an adverse effect on accuracy and speed of data. The Public Accounts Bulletin, constituting the basis of central reporting, reports a transaction which occurred on the first date of the related month only after 50 days.
- An executive must be able to have prompt access to data in order to make right decisions. Information provided after a delay of 50 days is not adequate for a good and efficient management.

3.1.2.3.4 Code Structure of Budget

Encoding in Turkish Budget System

Encoding of the budget is needed to analyse the government's actions and their effect on the national economy as a whole or its parts. From this point of view, budget encoding serves the purpose of measuring, monitoring and analysing results of the government's action and to make comparisons between periods. Budget encoding covers fiscal (revenues, expenditures, deficits, financing) transactions and outcomes of public policies, but excludes production of goods and services by the government under market conditions and transactions in kind and actions taken by monetary authorities. Data from budget classification should be capable of being used as the most reliable input of national income calculations. Budget classification, therefore, must be able to trace methods and classifications used in compilation of national income calculations.

Existing budget encoding

01-999: Department codes, 01-99: Agency codes, 101-999: Program codes; 01-99 Sub-programs, 1-3 Types of allocations, 001-999: Activity codes, 100-900: Expense item.

3.1.2.3.5 Fundamental Problems Encountered in the existing budget encoding system

These problems may be analysed under four main categories:

A. Classification Problems

- Classification systematics has disappeared. Superimposition of institutional, functional and economic codes are common. The same thing occurs in sub-groups.
- Required classification standards have not been maintained. This erosion is particularly visible in functional classification and expense item classification.
- The classification system could not be developed in tune with the country's fiscal, economic and administrative development and changes in fiscal legislation.

B. Problems of Code Structure:

- The code structure is no more able to provide reliable data.
- Functional and economic codes superimpose within the code structure.
- Code sizes are not compatible with the classification system. For instance, only 10 expense items are being used although 999 expense items could be created.
- Institutional encoding is quite insufficient.

C. Application problems:

- Functional encoding does not use common codes. Same codes denote different service programs in different agencies.
- Use of codes has been narrowed in time.
- Encoding and classification standards have not been maintained in creation of fiscal legislation.
- Service and cost analyses methods have steadily weakened.

D. Infrastructural Problems:

- The technical infrastructure could not be developed in line with emerging needs. Particularly, technological progress has remained much behind requirements.
- An adequate number of qualified personnel could not be employed.
- Central budget units are mainly preoccupied with routine work rather than centralization of works and authorities and analyses.
- The classification system could not be developed in line with the country's fiscal, economic and administrative progress and changes in fiscal legislation.
- Solutions developed in respect of needs which emerged in time have damaged systematics.
- Methods relating to service and cost analyses have steadily weakened.

Along these lines a new code structure, in which institutional coding is based on the administrative structure included in the budget system and functional and economic encoding matches GFS standards, should be developed. In this new code structure requirements of fiscal regulations should be taken into consideration in financing-type coding.

3.2 FISCAL TRANSPARENCY

3.2.1 PRESENT SITUATION

One of the approaches developed during the discussion that centered on the fiscal crisis which hit East Asia in 1997 was problems encountered in generation of information which would provide a picture of developments occurring in the economy and the existing structure. In this context, lack of adequate transparency and openness on markets was shown as one of the reasons for the crisis.²⁸ After the crisis it became clear that conventional budgets have proved extremely ineffectual in defining fiscal risks to which economies were exposed. It was also observed that official budget accounts of not only Asian economies, but also other economies portrayed an economic situation which was healthier than the actual one. This has triggered global efforts,

²⁸ Hurcan, Kızıltas, Yılmaz (1999)

mainly undertaken by international organizations, to ensure fiscal transparency aimed at generation and publication of accurate data.

Fiscal transparency means public access to the government's structure and functions, fiscal policy plans, public sector accounts and fiscal targets. The public sector can be defined as all institutions and agencies, which are involved in formulation and implementation of a fiscal policy. Fiscal transparency strengthens accountability and increases political risks brought about by unsustainable policies.

Due to importance of transparency to the new public management concept and fiscal reforms the Ad Hoc Committee of the Board of Governors of the International Monetary Fund (IMF) has adopted the Code of Good Practices on Fiscal Transparency which lays down ideal rules in terms of the principle of transparency. The main long-term purpose of the code is to ensure that the country's fiscal sustainability is assessed correctly by using data generated by the system. Over the long term it is designed to generate adequate information about extra-budgetary activities and contingent liabilities to create an efficient budget.

This section attempts to analyse Turkey's success to implement Financial Transparency Standards in line with the Code of Good Practices on Fiscal Transparency developed by the International Monetary Fund (IMF). The assessment was based on a manual published by the IMF in order to portrait financial structures of member countries and a questionnaire attached to the manual.

The Code of Good Practices on Fiscal Transparency identifies four fundamental principles that should be supported in IMF-member countries. These four basic principles are listed below together with their sub-sections:

- **Roles and Responsibilities to be Defined Clearly:** The public sector should be defined explicitly and it should be separated from the remaining part of the national economy by clearly defined lines, policy and management roles within the public sector should be described clearly and a well-defined legal and administrative frameworks should be in place for an efficient financial management.
- **Public Access to Information:** The government must provide public with information which shall cover, inter alia, the central government's extra-budgetary activities for the current year and future and also report fiscal risks, which shall include amounts of spending likely to occur, tax expenditures and quasi-fiscal activities. In addition to these, there must be a clear commitment regarding publication of financial data.
- **Transparency of Budget Preparation, Implementation and Reporting Processes:** Text of the budget should define targets of the financial policy, a macro-economic framework, policies used as a guide for drafting the budget and main financial risks that can be defined. Budget data shall be classified to facilitate performance of political analysis and to increase accountability. In addition to this, procedures relating to spending and tracing of funds allocated must be clearly defined and the financial reporting must be punctual, efficient, comprehensive and reliable and define deviations from the budget.

- **An Independent Audit and Publication of Statistical Data:** Fiscal data should both be accessible by public and audited by an independent auditor.

3.2.2 PROBLEMS

Ensuring fiscal transparency in order to make a better assessment of the national economy and to increase efficiency in the public sector has become one of the major prerequisites. According to the Code of Good Practices on Fiscal Transparency and minimum standards established along the code, major shortcomings observed in Turkey may be summarised as follows:

- The budget has a very narrow scope as a result of which only a very small portion of public resources are spent with the parliament's approval and then audited on behalf of the parliament.
- Extra-budgetary activities are not presented to the parliament together with the draft budget.
- The government's semi-fiscal activities are not disclosed.
- Budgets for the past and following two years are not presented to the parliament together with the draft budget for the current year.
- The central government's contingent liabilities, tax expenditures and its semi-fiscal activities arising from its relations with state-owned banks, state-owned enterprises and central banks are not published together with the budget blueprint.
- Governments do not present their opinions vis-à-vis fiscal sustainability and their endeavours in this field.
- Financial risks which may result from contingent liabilities, deviations from assumptions and forecasts, etc. are not reported.
- Roles and responsibilities are intermingled which prevents performance of an administrative responsibility assessment.
- There are problems in recording transactions on a gross basis. Consolidated budget revenues are recorded on a net basis. There is no functional classification of transactions according to GFS 1986.
- Classification of transactions do not permit an evaluation of administrative responsibilities for collection and utilisation of public funds.
- Different budget deficits definitions, which would permit making an economic analysis apart from the budget's general balance, are not used.

- No document showing accounting standards are drawn up. A totally cash-based accounting system leads to problems in assessment of the national economy.
- Some difficulties are encountered in interpretation of tax laws which are frequently amended. In addition to this, fiscal laws are enacted without even informing agencies concerned thereof and without being discussed publicly. Actions should be taken to ensure that draft laws are discussed at different levels.
- The scope of final accounts is extremely limited just like the consolidated budget. Public activities cannot be evaluated as a whole. Independent auditing of public funds is performed by different auditors.

As a result of completion of the Assessment Form for Turkey regarding four main sections it was seen that Turkey's fiscal transparency is 59.7 % and 48.9 % according to two different methods. When judged according to a scale with 100 points these two percentages actually correspond to a very low performance. For, a low performance in the range of approximately 40 – 50 points show that there are serious gaps in the system. A calculation made by using assumptions of the second method reveals the problem more obviously. A performance at 48.9 percent represents a low level with actual shortcomings in terms of transparency standards in public fiscal management.²⁹

3.3 EFFICIENCY OF THE PARLIAMENT IN THE BUDGETING PROCESS

The parliamentary regime is described as a system based on cooperation and unity in work based on the concept of separation of powers and in this system executive body comes out from and is accountable to the legislature regarding all of its actions. Approval of budgets, which are designed as a program showing actions to be taken by the executive body during that fiscal year, has a special importance regarding political supervision. In other words, a budget is a list of orders issued by political decision-making bodies to the public administration regarding public services. Representatives of people have a right to identify services which the government is responsible for providing and funds to be allocated to such services.

Budgetary supervision performed by peoples' representatives is an undertaking designed to verify that services are provided efficiently. Thus, governments which generate services and empowered to spend public funds are accountable to the legislature for exercising the power conferred upon it. Such actions are usually governed by constitutions and laws in all countries.

According to Article 87 of the 1982 Constitution responsibilities and powers of the Grand National Assembly (TBMM) include enacting laws, supervising ministers, discuss and ratify draft budget and final account laws. Under the existing laws TBMM controls the government during the budgeting process directly and indirectly. TBMM's direct supervision on the government is performed through inquiries, general inquiries, general debates, parliamentary examinations, parliamentary investigations and votes of confidence. In addition to these, there are other direct

²⁹ Hurcan, Kızıltas, Yılmaz (1999)

methods including enactment of laws relating to public spending, revenues, properties and liabilities and deliberations of budget and final account bills. Indirect supervision exerted by TBMM on the government is performed by commissioning the Court of Accounts (Sayıstay), which is authorised by law to audit on behalf of TBMM, to audit all public properties and assets.

3.3.1 DIRECT EFFICIENCY

3.3.1.1 PRESENT MECHANISM

Limits of powers to be conferred by parliaments on the executive body regarding utilization of public funds and an assessment of actual exercising of this power is particularly important in terms of the parliament's effectiveness. All countries, notwithstanding their administrative system, consider increased influence of parliaments on the budgeting process as a fundamental reform. This process, which reflects the parliament's direct efficiency on the budget, is carried out in Turkey in two phases: in the Plan and Budget Committee and then in the plenary session of the parliament.

3.3.1.1.1 TBMM Plan and Budget Committee

General and Annexed Budget Bills, Development Plans, bills and proposals which, in the opinion of the Speaker's office, are related to Development Plans and draft laws and proposals which require an increase or decrease in public spending and revenues or bills and proposals with specific articles related to these items are reviewed by the TBMM's Plan and Budget Committee which is made up of a total of forty members including minimum twenty five from the ruling political party.

Pursuant to Article 161 of the Constitution, relating to preparation and implementation of the budget, the Council of Minister submits to the Parliament general and annexed budget bills and a report showing national budget projections seventy five days prior to the first day of the fiscal year. The blueprint to be approved by the Plan and Budget Committee is taken up by a plenary session of the parliament and a decision is made until the next fiscal year.

In preparation of work programs in budgets due consideration must be given to guidelines set forth in Annual Programs drawn up by the State Planning Organization (SPO) and submitted to the Higher Board of Planning and then ratified by the Council of Ministers.

A "Budget Rationale", which is prepared by the Ministry of Finance together with the general and annexed budget bills and includes a comparison of the budget for the current year with those of the preceding years, and an "Annual Economic Report" analysing national and international economic developments are also presented to the parliament.

Final account bills are presented by the Council of Ministers to the Parliament within seven months from the end of the related fiscal year. The Court of Accounts presents the "General Conformity Statement" to the Parliament within seventy five days of the date of submission of the related final account bill.

The Ministry of Finance draws up a “Treasury General Account” encompassing the text of the final account bill, its rationale, a trial balance for amounts received and paid within and outside the budget, income final account statements and related comments, revenues of each province and agency by their types defined in the budget and expenditures incurred by each department and submits the same to the Parliament.

The final account bill, together with the budget bill for the new year, is included on the agenda of the Plan and Budget Committee and the Committee submits the budget bill and the final account bill to a plenary session of the parliament altogether.

Article 163 of the 1982 Constitution stipulates that allocations granted by general and annexed budgets show the maximum amount of funds which can be spent, and that budgets shall not include any provision that such limits may be exceeded by virtue of a decree to be issued by the Council of Ministers; and that the Council of Ministers may not be delegated a mandate to modify the budget by virtue of a statutory decree; and that any proposed amendment to the budget for the current year for increasing allocations as well as other bills and proposals which could bring about a financial burden on budgets for the current and subsequent years, shall identify financial sources to meet expenditures specified therein.

In this process the Parliament is expected to evaluate the government’s request for a mandate which it seeks to obtain by virtue of the budget law and to restrict it where it deemed necessary. Since political parties composing the government also have majority in the Plan and Budget Committee, its members may affect distribution of public funds, albeit to a certain degree, in spite of the fact that the committee’s decisions rarely contradict with the government’s expectations. The committee assumes an important role in providing a platform for a serious debate on contents of the budget which enlightens public.

3.3.1.1.2 Other Committees

Various mechanisms, wherein the Parliament is included in the process, function in the public fiscal management. Firstly, developments plans are given their final shape in the Parliament pursuant to the Constitution. Budgets and final accounts are also ratified by the Parliament. Fiscal supervision of state-owned companies, which still have an important place in public economy, is governed by a procedure encompassing TBMM’s Committee for State-owned Economic Enterprises (SEE). The Committee for Auditing TBMM’s Accounts has been entrusted with the task of auditing accounts of the Parliament, Presidential Office and the Court of Accounts. The Parliament’s powers also extend to enactment of laws which authorise the government to assume new responsibilities and increase public expenditures or narrows the government’s scope of activities or creates new income sources. As part of its power to supervise government’s actions the Parliament may exercise tools such as written or verbal inquiries, parliamentary investigation and researches in connection with fiscal issues.

The development plan, budget, final account, motions with fiscal effects are discussed by the Plan and Budget Committee which has supervision tools functioning in accordance with provisions of the Constitution and TBMM’s house regulations. The SEE Committee and the

Committee for Auditing TBMM's Accounts are analysed in the following sections by reference to their functions.

COMMITTEE FOR AUDITING TBMM ACCOUNTS

The Committee, which oversees application of the parliament's budget and budgets of entities subordinated to the parliament presents a report including its findings to a plenary session of the parliament. The committee audits final accounts of the Court of Accounts as an entity reporting to the Parliament pursuant to the Law on Establishment and Responsibilities of the Courts of Account and the Presidential Office's final accounts in accordance with the Presidential Decree on Establishment and Responsibilities of the Presidential Secretary General's Office and draws up a report which is submitted to a plenary session of the parliament. The scope of audit on budgets of the Court of Accounts and the President's Office is limited to steps outlined above.

Audit on the parliament's accounts are based on the parliament's Accountant' Office's accounts. Since the parliament's house regulations provides that it cannot be less than six times a year it is submitted to the plenary session in the form of quarterly reports. In addition to this, the parliament's final account is audited annually and a report, containing the outcome of the audit, is drawn up. Although the parliament itself is subject to the Court of Account's audit the latter is not allowed to do it. The Court of Accounts neither presses for performing such an audit.³⁰

Reports generated by the committee as a result of an auditing of final accounts of the parliament, the Presidential Office and the Court of Accounts are read out at a plenary session of the parliament only for their information. These final accounts are also included in the final account bill and eventually enacted by the parliament.

SEE COMMITTEE

An article defining the scope of the Law no. 3346 of 2/4/1987 on Auditing by the Grand National Assembly of State Economic Enterprises and Funds names establishments more than half of paid-in capital of which has been provided by government entities and other establishments more than half of paid-in capital of which has been provided by such establishments, and the Municipalities Bank and establishments subject to private laws which have been granted specific public powers and responsibilities and the main objective of which is to provide such public services provided that they are not professional organizations with the status of a public entity. Establishments more than half of paid-in capital of which has been provided by local governments and professional organizations with the status of a public entity are not subject to such audits. Thus, municipality economic enterprises (MEE) are excluded from the scope of this type of audit.

SEE audits are based on a report drawn up by the Higher Audit Board (HAB) of the Prime Ministry. Published as books and distributed to members of the Committee in advance these

³⁰ However, the Court of Accounts, by its decision no. D.3.99-67/2 of 12.01.1999, decided that accounts of all agencies including TBMM, Presidential Office and the Court of Accounts, whether included in the general budget or with annexed budgets, should be audited by the Court of Accounts. This decision will be finalised after being approved by its General Assembly.

reports contains sections titled “place of the establishment’s operations in the global economy”, “place of the establishment and its operations in the Turkish economy”, “institutional legislation”, “organizational chart”, “staffing”, “fiscal structure”, “balance sheet”, profit and loss accounts and income statement”, “overall status of the establishment’s budget vis-à-vis its operations”, “financing”, “revenues”, “procurements”, “production and costs”, “marketing”, “insurance”, “results of operations”. The report includes criticisms and suggestions at the end of each section. Another report, containing the establishment’s responses to HAB report, is also distributed to members of the Committee.

Results and income statements (profit and loss account) of establishments, taken up by the SEE Committee, are voted and release. They are very rarely rejected. The Committee’s reports, which are required to cover all SEEs, discussed and voted are printed and distributed to members of the parliament. Groups of political parties or minimum 20 deputies or the government may raise an objection against a report so distributed. If an objection has been made, then the Committee reviews issues objected and draws up a report which is discussed by a plenary session of the parliament as a priority. Yet, even the opposition parties do not take an exception against any such report which eventually becomes final. In consequence, this audit becomes a routine formality.

3.3.1.1.3 TBMM’s plenary session

Each phase of the budget process including taking of decisions relating to the budget, implementation of such decisions and auditing of results, are directly or indirectly related to the TBMM’s plenary assembly. Enactment of the budget bill and deliberations on and ratification of final accounts, showing results of implementation, and general statements of conformity are fundamental mechanisms which ensure effectiveness of the Plenary Assembly during this process.

Draft budget and its appendices are first discussed by the Plan and Budget Committee and then submitted to the Plenary Assembly. Deputies are not permitted to submit motions to decrease or increase revenues during discussions and restrictions on the number of deputies permitted to take the floor and motions which can be submitted permit to perform only an overall assessment of the budget.

Where the parliament turns down a draft budget it would have exercised its right of supervision on the executive body in the most uncompromising manner. First examples of rejection of a budget, rarely seen in Turkey, occurred in 1965 and 1970 during tenures of Inonu and Demirel, respectively. They reflected naked superiority and effect of the parliament on the executive power. Yet, this should not lead us to a conclusion that rejection of a budget is the sole and most meaningful tool to remove a government from power.

There may be cases where a budget bill cannot be ratified before the commencement of the fiscal year due to some political or extraordinary reasons or its rejection by the legislature. In that case, a “provisional budget” is prepared as a workaround as was the case when the government resigned during discussions on the budget bill for 1999 fiscal year. For, public activities must be maintained, public demand for goods and services must be met and public spending and revenues required for these functions must be incurred and collected. Under such circumstances a

provisional budget must be submitted to the Parliament immediately. Although the Constitution does not include a provision which stipulates that a government should resign if its budget bill has been rejected, parliamentary customs require resignation of that government. In such a case, a government whose budget bill has been turned down needs to receive a mandate from the parliament to spend public funds and collect revenues for a certain period. Both parliaments and governments usually cooperate in order to ratify a tentative budget for such purposes.

16 provisional budgets were adopted between 1920 and 1990. These provisional budgets had a maximum term of (4) months including the one for 1996. The provisional budget covering the first half of 1999 fiscal year was the longest one in the history of the Republic. Yet, provisional budgets inherit substantial risks. The most important risk is that a provisional budget drawn up for the following year may not meet new requirements. Moreover, there may be differences between funds allocated for investments in the preceding year and actions anticipated to be taken during the new year in terms of quantity and quality and payment difficulties may occur. On the other hand, a government, whose main budget bill has been turned down, may use the provisional budget for its own interests.³¹

3.3.1.2 PROBLEMS

Budget results mainly depend on application rather than preparation and ratification processes. Wide discretionary powers conferred upon the government in application of the budget and the parliament's inability to control how these powers are exercised, adopting a supplementary budget during the year, releasing of spending exceeding allocations by granting additional funds at the end of the year create very strong motives to identify expenditures according to daily priorities during the application process. Problems arising from this approach can be summarised as follows:

- Although a budget is defined as a law which shows annual income and expenditure projections of government departments and agencies and permits their application and execution, governmental actions have been taken outside the scope of the budget because of various laws or administrative arrangements which impaired unity of budgets.

As the budget's scope got narrower the government has been granted wide discretionary spending powers in respect of which it was not accountable to public and these powers were eventually used to distribute a substantial portion of funds outside the budget.³²

- The Plan and Budget Committee should serve as the main platform on which the parliamentary control must be performed and the legal framework must be developed. In practice, however, the Committee cannot function efficiently due to various reasons including majority of ruling parties in the committee, an overloaded work schedule and lack of a fiscal reporting system in presentation of budgets.

³¹ Falay (1999)

³² The government has been given a wide spending mandate through additions to budget laws and the parliament has virtually been excluded from the budgeting process. For details see Konukman and Oyan (1998) and Dedeoglu, Emil and Erdem (1999)

- Discussions on budget bills start with planning of expenditures first and income projections are drawn up in this context and a decision is taken to finance the deficit. In a majority of cases, reliable scenarios relating to the income budget cannot be developed and the income budget is ratified without detailed discussions.
- Another consequence of the problem created by calculation of public deficits without considering factors such as quasi-fiscal actions and contingent liabilities and failure to include these amounts in budget bills submitted to the parliament in terms of transparency is that a power over and beyond the mandate granted by the Parliament for spending public funds is exercised by the executive body in practice. Budget laws permit a majority of quasi-fiscal actions included in budget laws or other fiscal laws applicable to the public sector to be taken and recorded outside the budget and therefore there are a plenty of semi-fiscal actions remaining outside parliamentary and public control. This creates a serious problem in measurement of public deficits accurately and development of appropriate macro-economic policies.³³
- “Domestic borrowing” which has been and is continuing to be carried out has caused the “right of budgeting”, conferred by constitutions of the Republic on the Parliament, to be transferred to the government in spite of legal provisions and thus to an unnecessary expansion in public spending.³⁴
- A budget would enjoy credibility on domestic and international markets only if the deviation between its objectives and actual results is within tolerable limits. From this perspective, large deviations have been observed between initial targets of budgets and year-end results particularly over the past couple of years. Funding of spending exceeding funds allocated by supplementary allocations and use of Additional Allocation Bills in order to settle accounts at the end of the year damage the budget’s principle of openness.³⁵
- Deputies from neither ruling parties nor opposition parties have rarely taken the floor to criticise or make suggestions in respect of final accounts since the date when the 1982 Constitution took effect.³⁶ For, final accounts are considered as texts not reviewed, but only voted by deputies and in practice deputies from both the ruling and opposition parties do not make use of the procedure established for ratification of the final account bill, a process where the budgeting right should especially be exercised.

The main legal reason for inadequate parliamentary supervision on final accounts is the absence of an explicit article in the Constitution regarding parliamentary deliberations on

³³ Dedeoglu, Emil and Erdem (1999)

³⁴ Ekzen (1999)

³⁵ Konukman (1996)

³⁶ Final Account Bills for 1989 and 1990 form an exception from this point of view. During deliberations on these draft laws problems outlined in this study were raised by some deputies. These criticisms were even included in minutes of the meetings in the form of reasons for dissenting votes. For details see Konukman (1996). Another exceptional event in this process deserves mentioning. The Plan and Budget Committee, during its deliberations on the Final Account Bill for 1995, was obliged to adopt a principle not to approve supplementary funds to fund excessive spending which have no legal basis in the following years. Unfortunately, this positive intervention, unprecedented in the Parliament’s history, proved ineffective. For, the Committee ignored its own decision during discussions on final account bills for the succeeding years. For details see Konukman (1998).

final accounts and their outcome. This, in turn, leads to shortcomings in the parliament's role to supervise the budget.

- When a final account bill is approved liability for spending exceeding allocations is deemed to have discharged. In other words, ratification of these complementary allocations is construed as a “release” of governments which have violated the power conferred upon it by the legislature by means of excessive spending. In fact, any release by the parliament of an additional allocation without being informed of reasons for incurring expenditures exceeding allocations is against the spirit of final account bills.³⁷
- Absence of a simple fiscal reporting system as well as data needed by the parliament to perform a meaningful debate has an adverse effect on the Parliament's effectiveness in terms of its supervisory powers.
- SEE sub-committee reports and the Committee's reports are drawn up by HAB members and auditors which reduces contributions made by members of the parliament.
- Article 165 of the Constitution defines SEEs as “.... state-owned establishments and partnerships more than half of the capital of which are owned by the Government directly or indirectly....” whereas the Law No. 3346 put into effect pursuant to the Constitution's article referred to above and the Statutory Decree No. 233, which provides a framework for SEEs, establishments included in the general budget or with annexed budgets, which operate enterprises by using public funds, and those owned by local governments (Erdemir, Turkish Central Bank, Eximbank, MEEs, etc.) have been excluded from the scope of parliamentary control.

3.3.2 INDIRECT EFFECTIVENESS

Reasons to be given by the executive body, which is empowered by the parliament to collect revenues and incur expenditures through the budget, before taking and exercising this power and its actions in this domain should be subject to a comprehensive review and assessment by the parliament. At this point, specialised organizations, which would perform an audit on behalf of the parliament, are needed as is the case in the rest of the world.

3.3.2.1 EXISTING PROCESS

3.3.2.1.1 Court of Accounts

According to the Constitution the Court of Accounts is a constitutional institution which contributes to a sound, orderly and efficient functioning of the government by auditing the Government's revenues, expenditures and properties independently and impartially on behalf of the Government and to enter final judgements in respect of accounts and transactions of public entities through a trial process.

³⁷ Konukman (1996).

During the trial process the Court of Accounts reviews income, expenditure and property transactions and accounts kept by accountant's regarding such transactions together with all related records and documents and eventually enters a final decision about all these transactions and accounts. Thus, it ensures that losses, which have arisen erroneous actions taken by accrual units and accountant's offices, wherein applications are finally converted to monetary transactions, are recovered from persons who have caused such losses. As part of its responsibilities to audit on behalf of the parliament it audits revenues, expenditures and properties of government departments included in the general budget or with an annexed budget on behalf of the parliament and submit its findings to the Parliament.

After completion of auditing and supervisory work entrusted by laws "Statements of General Conformity" are prepared in accordance with the Constitution and Article 81 of the Law on Establishment and Responsibilities of the Court of Accounts.

The overall purpose of reports generated by the Court of Accounts is to provide data and opinion whether or not the government accounts are accurate and balanced, public fiscal system and checks are established and operated efficiently and public funds are spent in accordance with the principles of economy, efficiency and effectiveness. Statements of general conformity and other similar annual fiscal reports presented to the parliament:

- support final account laws by performing an analysis public accounts and facilitating their interpretation,
- ensure that the draft budget for the succeeding year is discussed and enacted on a more solid basis,
- help elimination of shortcomings arising from application of fiscal and other regulations imposed by the legislature or the government,
- demonstrates wrong policies or bottlenecks with a view to ensure an efficient operation of Fiscal Management Systems and processes they contain, and
- contribute to ensuring transparency in fiscal management and establishment and improvement of fiscal accountability.

Since 1996 the Court of Accounts has been presenting a "Report on Budget Application Results", which contains details relating to expenditures and revenues arising from implementation of that year's budget and showing deviations between forecasts and actual figures, together with the Statement of General Conformity. It is also preparing a "Treasury Transactions Report" containing significant findings of fiscal audits since the same year. In addition to these, an "External Debt Follow-up Report" is submitted to the parliament under a procedure maintained since 1997.

3.3.2.2 PROBLEMS

- In spite of the fact that Articles 25, 28, 47, 55, 87, 88 and Supplementary Article 10 of the Law on Court of Accounts require it to provide the parliament with reports on different issues, this obligation has been generally ignored for years. For instance, Article 87 provides that the Court of Accounts shall present to the parliament annual reports relating to “property accounts” of departments included in the general budget or with an annexed budget whereas it actually does not draw up such a report because ministries do not prepare their Property Final Accounts, which they are required to present pursuant to the Law No. 1050, and the Ministry of Finance neither takes any action in this regard. Reports, which should be prepared for establishments other than those included in the general budget or with an annexed budget pursuant to applicable laws, are neither presented and the parliament does not make any request in this regard. Statements of General Conformity must be submitted annually because it as a constitutional obligation. Yet, these statements are not based on satisfactory and concrete findings resulting from audits.³⁸
- Public funds, which have been excluded from the budget and audits performed by the Court of Accounts as a result of the narrowed scope of the budget, prevent the Court of Accounts to conduct its audits under an integrated approach.
- Failure to shift to a plan-program-budget system effectively, an accounting system not based on accrual system, non-use of computer technology and absence of a budget and accounting codification conducive to performing analyses and assessments create a serious obstacle for fiscal reporting.
- Lack of coordination between accountant’s offices and their large number as well as non-existence of a Fiscal Management Information System create difficulties in generating accurate, timely and appropriate data to be used for fiscal reporting.
- The Court of Account’s conventional auditing system has been designed in accordance with its judicial function. Therefore, works on preparation of the General Statement of Conformity and other reports can be performed at a very limited level.

3.4 EFFECTIVENESS OF THE AUDIT SYSTEM AND PROBLEMS

An audit is a systematic, planned and programmed process applied with a view to evaluate actual results of economic activities and events by performing an unbiased analysis and measurement thereof based on pre-set objectives, criteria and standards; to prevent recurrence of errors in the future, to guide improvement of individual and institutional capabilities, to increase validity, reliability and coherence of fiscal management and control systems and to increase efficiency, economy and effectiveness and to acquaint parties concerned with findings and results of the whole process.

It follows from the above definition that an audit is a systematic, planned, programmed and continuous activity with set objectives. The nature of this activity requires it to be performed by experienced individuals, units, boards, organs and institutions. The global perception of audit is that it is a continuous and systematic effort carried on under annual programs in accordance with strategic priorities giving due consideration to risky areas.

³⁸ Konukman (1996).

Notwithstanding types of audit there are rules which an auditor should comply with regarding goals to be attained, auditing procedures and techniques he will follow, quality of work and the report he will eventually draw up. These rules are collectively named as “Audit Standards”. It is a widely accepted view that audit standards constitute minimum requirements affecting reliability of an audit and they ensure to identify limits to methods and stages to be employed in the audit and its outcome. Quality of an audit work is measured according to compliance with these standards.

Independence is considered as the cornerstone and a sine qua non element of all types of audit. Although audit procedures vary from one country to another there is a convergence of views on the necessity that the auditor and the auditing unit, organ and institution should be independent in order to ensure that their findings, results and recommendations are “impartial”. Independence requires independence from the entity being audited in a sense and also being free of all kinds of external intervention. Strengthening and securing independence by means of rules and ensuring an effective independence in practice are important and vital issues which should be given due consideration.

Publications on auditing also focus on position of the auditor against the institution or unit being audited; provision of budgetary funds required to perform the task; sufficiency of personnel in terms of their number and special skills; recruitment and discharging of personnel; existence of satisfactory promotion, wage and other employment conditions; taking a decision on scope, content and timing of an audit; unrestricted access to data and documents; reporting of findings, results and recommendations without being subjected to any restriction.

This section dwells on effectiveness of the audit system and focuses on fundamental factors affecting functioning of our audit system while making required assessments. They are as follows:

Adverse Effects on Audit Resulting from a Public Fiscal Management Not Conforming to Principles and Requirements of the Modern Management Approach

- Numerous shortcomings and incompleteness of the Turkish public fiscal management system and the legal framework, which constitute a physical infrastructure for the auditing system, have created one of the most serious handicaps to increase efficiency of the auditing system.
- Similarly, our fiscal management system does not function according to fundamental principles and concepts such as fiscal transparency, public accountability (fiscal accountability and performance accountability) and performance management which are key elements of a modern public fiscal management system.

Insufficiency of Audits to Prevent Corruption and to Create an Environment Deterring Corruption

- The national system is not effective enough to prevent corruption and to create an environment deterring corruption.

- The role assumed by auditing systems to obstruct corruption is being reviewed in many countries and auditing systems are expected to function with maximum efficiency in this regard. Discovery and investigation of corruption are not generally considered as a mission of auditing systems, but emphasis is being laid on their role to maintain a sound fiscal system, to operate control mechanisms adequately, to ensure transparency and to establish accountability.
- Similarly, members of the auditing industry point out that formation of environments, which provide a fertile ground for corruption, could be avoided by placing risky areas of the public sector, which are most effected by corruption (collection of taxes and other resources, public procurements and contracts, customs duties, privatisations, etc.) in the scope of audit programs. One of the main themes discussed by the 16th Congress of INTOSAI held in 1998 in Uruguay was devoted to the role of high-level audit to prevent and discover corruption.

Auditing Profession Has Not Developed Sufficiently

- It appears that auditing has not fully developed as a career in Turkey. A report titled “Development of Accounting, Financial Reporting and Auditing Services in Turkey”, drawn up by Mourice Mould, a World Bank expert, was discussed at a symposium jointly organised by TURMOB and the World Bank on January 12-14, 1994 and attended by representatives of organizations and institutions engaged in accounting and auditing sectors in Turkey. Issues taken up at the symposium are summed up under the following headings:
- selection of an organ fully responsible for development of accounting and auditing profession as soon as possible,
- creation of a committee responsible for management of the accounting law and improvement of the Turkish Commercial Code in this context,
- development of generally accepted international standards regarding Turkish accounting and auditing standards,
- taking actions aimed at enabling auditors to receive professional training and to improve their skills,
- continuous application of training programs by professional organizations,
- making required modifications to the Turkish Commercial Code in parallel with actual and potential demand in accounting and auditing sectors,
- to transfer of auditing functions of the public sector to private firms and to redefine responsibilities of public auditing units as supervision of the fiscal system and audits performed by private sector,
- to unify professional groups in the auditing and accounting sectors under a single chamber,

- to ensure that individuals providing auditing, fiscal reporting and accounting services in both public and private sectors have common professional qualifications and those who are employed by the sector are required to pass a separate qualification test,
- The symposium referred to above has led to comprehensive debate on development of accounting, financial reporting and auditing services in Turkey. Although TURMOB has taken remarkable steps regarding training of auditors, accounting and auditing standards since that date these developments were far from being adequate to ensure development of the profession to match Western standards. On the other hand, efforts to embrace the auditing system in the public sector under an integrated approach could neither be initiated.

The Concept of Independence is not Fully Perceived by Auditing Units and Auditors

- The concept of independence is one of the most critical elements of the auditing process. In Turkey failure to establish independence together with all of its prerequisites is considered as one of the most important reasons for unsatisfactory outcome of the auditing process.
- “Evaluation Report Regarding Actions Required to be Taken to Help Combat Corruption”, drawn up by the Presidential State Auditing Board, clearly points out that “..... failure to observe the principle of independence in auditing, set forth in international auditing standards, as required is one of the main reasons weakening effectiveness of audits”.
- The report also concludes that “..... independence, which requires that no instruction is received from the authority on behalf of which services are being performed in planning, programming and execution of an audit, to be free in identifying auditing priorities and selecting methods fit for the audit to be performed, and to decide how works, to be carried out upon request of the competent authority, are to be completed, is a status which must be granted to all auditing units which perform their duties through members of the profession.”. This conclusion gives an idea about dimensions of independence and also construed as an admission that this concept is not fully comprehended in Turkey.

Existence of Areas and Activities Exempted from Auditing and Restrictions on Audits

- Creation of areas not subject to auditing continues in Turkey either de facto or through legal arrangements. This phenomenon, which can be labelled as circumvention of auditing, is one of the most important problems of the Turkish auditing system.
- For instance, Statutory Decree no. 576 takes funds transferred to the Natural Disasters Fund and allocated to specific purposes outside the scope of the Court of Account’s auditing function. The auditing method portrayed by the Statutory Decree no. 576 is neither in conformity with Article 165 of the Constitution. The funds in question are audited by a committee consisting of inspectors from the Prime Ministry and the Ministry of Finance and sworn bank auditors. An auditing to be performed by this committee may

be technically considered as an external audit, but is not an audit performed on behalf of the parliament and its findings are not reported to the parliament. Here, the audit is not performed by an auditing unit, organ and institution and results are not submitted to the Grand National Assembly.

- Another example can be found in the Law No. 278 on Establishment of the Turkish Scientific and Technical Research Agency. According to article 11 of the law “*Accounts of the Turkish Scientific and Technical Research Agency shall be audited by a Board of Auditors consisting of three auditors to be appointed by the Prime Ministry for a term of two years.*” Furthermore, Article 12 of the law stipulates that “*The Board of Auditors’ Report and the Scientific Board’s Report and the annual balance sheet shall be referred by the Prime Ministry to a committee made up of seven members four of whom shall be elected by the Higher Board and two by the Court of Accounts and one by the Ministry of Finance*”. The auditing model stipulated for TUBITAK do not include audits to be performed on behalf of the Parliament pursuant to Articles 160 and 165 of the Constitution and this agency is also excluded from TBMM’s audit.
- Paragraph 2 of Article 3 of the Banking Law No. 4389 which provides that “The Agency’s annual accounts including the Fund and its transactions relating to its expenditures shall be audited by a committee consisting of an auditor from the Court of Accounts, an inspector from the Prime Ministry and an inspector from the Ministry of Finance” is also in contradiction with provisions of Articles 160 and 165 of the Constitution. The same applies to the Defence Industry Support Fund established by virtue of the Law No. 3238. Similarly, the Law no. 3230 includes no provision regarding auditing of the Promotion Fund.
- More examples can be found by a wider investigation. The purpose of our Sub-committee is to point at unaudited areas created by laws.
- On the other hand, spending of public funds through foundations, associations, companies and enterprises formed is detrimental to public fiscal management and leads to undisciplined public spending while symbolising circumvention of an audit. Results of audits performed in connection with public funds in these organisations are not disclosed to the Parliament under Articles 160 and 165 of the Constitution. Moreover, what portion of such resources are technically audited by auditing units is not known.
- Another matter of significance is that activities of provincial organizations of public agencies and establishments are included in almost regular audits central units close to the higher management are exempted. Our Sub-committee has determined that this procedure does not depend on any justifiable reason.
- It was also found out that public spending relating to projects funded by the World Bank are being excluded from an audit performed on behalf of the parliament and they are neither sufficiently audited by internal auditing units.

- Another important point is that personnel, whose main responsibility is to perform audits, are employed in non-audit areas under such designations as “supervision of administrative works” and “management of administrative tasks” which are not expressly permitted by applicable legislation. This phenomenon does not conform with professional security and it leads to an insufficient auditing of some areas due to shifting of work force, which should have been allocated to areas to be audited, to other functions.
- Similarly, an audit is not performed at all or carried out insufficiently as a result of the emphasis laid on “investigation”, within distribution of responsibilities among auditors who are also authorised to conduct “investigations”. Conducting an “investigation” where deemed necessary is a requirement arising from nature of the work involved. If the auditors only focus on investigations without paying attention to their auditing responsibilities, then benefits to be brought about by auditing cannot be obtained fully.
- There are agencies or organs wherein audit units are not composed of an adequate number of qualified personnel. In some others there is no inspection or auditing unit at all. This is considered as an attempt to restrict the scope of auditing.

Failure to Perform Auditing According to Priorities Based on a Strategic Plan

- In Turkey audits are rarely performed according to strategic plans and annual programs giving due consideration to priority and risky areas.
- Strategic planning can be described as a continuous and systematic process used with a view to take decisions on targets of strategic planning and how these targets are to be attained and how the performance is to be measured and assessed.
- Failure of auditing units, organs and institutions in Turkey to give due consideration to strategic planning in order to distribute their limited resources (personnel, movable and immovable properties) in a balanced manner to perform their duties properly is considered as a serious shortcoming.

Inadequate Application of Modern Auditing Procedures

- The current auditing system in Turkey is mainly focussed on compliance audit. Turkish auditing units, boards and organs have instituted efforts to adopt modern auditing procedures including auditing of accuracy and reliability of financial tables, auditing of fiscal systems and internal control mechanisms and performance auditing in addition to their conventional functions but they could not complete their work on new auditing methods so far.
- INTOSAI auditing standards include verification of existence of a desired relationship between various items of financial statements and to identify undesired relationships and unusual trends.

- Taking this principle as a starting point INTOSAI concluded that an auditor shall investigate and analyse whether financial statements have been prepared in accordance with acceptable accounting standards and whether there is an adequate explanation about various parts financial statements and they have been appropriately assessed, measured and shown.
- On the other hand, INTOSAI makes a special emphasises on the fact that public accountability would be increased to the extent powers granted to the Court of Accounts are increased and it is empowered to carry out regularity and performance auditing in all public agencies or to guide auditing being performed and diverts attentions to importance of performance auditing.
- INTOSAI defines performance auditing as auditing of economy of administrative actions according to sound administrative principles and applications and management policies; auditing of efficiency in the use of human, fiscal and other resources including pursuance of methods applied to eliminate shortcomings determined by entities being audited and information systems, performance criteria and supervision arrangements; and auditing entities by comparing the actual effect created by their performance in achieving their goals with the targeted effect.

Absence of the Concept of Internal Control and Inadequate Relationship Between Internal Control and Audit

- It is observed that the internal control system in Turkey is not considered as a totality of coherent principles and that components of this system are randomly distributed among various laws.
- INTOSAI's Internal Control Standards describe internal control structures as an establishment's plans including the management's attitude, methodology, procedures and measures providing an adequate security in attaining targets. Internal control structures basically aim at developing regular, economic, productive and efficient activities and quality products and services in line with the organization's functions; protecting funds against losses arising from extravagance, abuse, inadequate management, mistakes, corruption and other irregularities; ensuring compliance with laws, regulations and the management's directives; preparing and maintaining reliable fiscal and administrative data and disclosing such data fully and accurately in timely reports.
- In Turkey internal control structures, fundamental goals of which listed above, are not handled in a systematic and integral manner and standards have not been established in this field. This has a direct effect on efficiency of internal audit which is one of the most important components of integral control. For, one of the critical approaches in modern audit is based on an evaluation of adequacy and efficiency of the internal control system in the entity being audited and to investigate reasons for weaknesses and shortcomings in this system and eventually creation of and follow up on recommendations aimed at improvement of the structure audited.

Auditing Methods and Techniques Have Not Been Fully Established

- Although existence of some useful examples is not denied it is generally observed that comprehensive manuals and guidelines showing auditing methods and techniques in the light of most recent developments are not being used extensively in Turkey and facilities brought about by these tools are not properly made use of.
- In publications auditing is perceived as phases and procedures to be used for planning and execution of an audit and reporting of and follow-up on its results and auditing techniques are considered as tools used by the auditor to gather data required for the audit.
- In developed countries guidelines and manuals are not considered as documents which are to be strictly complied with and thus hindering creativity. On the contrary, they are considered as springboards needed for making an actual use of the auditor's prudence, professional experience and creativity.
- Since production of quality products as a result of an audit depends on guidelines and manuals guiding applications failure on the part of our auditing system to make an adequate use of these tools should undoubtedly be considered as an important shortcoming.

Absence of a Continuous and Systematic Approach to Improvement of Professional Skills of Auditors and In-service Training

- In Turkey auditors do not receive a training on fundamental issues provided by professional associations prior to their admission to the profession. It is also a common fact that they do not receive continuous in-service training in order to improve their professional skills and to enable them to keep abreast of developments in the auditing industry. Similarly, in-service training programs provided in our system are based not on a systematic and well-programmed system, but under a master – apprentice approach.
- INTOSAI lists “employment of qualified personnel” and “training their employees in a manner to enable them to perform their duties efficiently and determining conditions required for advancement of auditors and other employees” among responsibilities of courts of accounts.
- Similarly, a document titled “Internal Audit Profession Application Standards and Guiding Principles”, published by the U.K. Internal Audit Institution, states that internal audit personnel shall be responsible for maintaining their training in order to maintain their professional competence; underlines that they shall be continuously informed of current developments in and improvements to internal audit standards, procedures and techniques; and points at the necessity to join professional associations and attend conferences, seminars, professional courses and in-house training programs and to participate in research projects with a view to receive a continuous training.

- Absence of a systematic and well-structured in-house training for auditors, who function in an environment steadily getting more complex and rapidly changing, is a significant handicap.

Information Technology is not Properly and Systematically Employed in Auditing Industry

- Auditing units and organs in Turkey cannot make a systematic use of facilities provided by information technology in the field of auditing.
- At present, almost all public agencies and organizations endeavour and seek to make a steadily increasing and extensive use of information technology in their fiscal systems an addition to management systems. In addition to many benefits it offers employment of information technology in fiscal transactions bring about numerous weaknesses such as reducing accountability by leading to anonymity in transactions and permitting repetitions in data entries and processing and unauthorized access which are extremely critical for fiscal auditing.
- Electronic Data Processing Executive Committee, established by INTOSAI, sets up working parties and endeavours to include techniques developed in this field in auditing standards. Similarly, courts of accounts of the U.K. and Canada, which have a well-deserved reputation on modern auditing applications, draw up “*manuals*” and “*guidelines*” which provide guidance to auditors regarding auditing and development of established computer systems and they are continuously updated in the light of enriched auditing practice.
- Although a growing number of public agencies and organisations are making use of information technology in their fiscal systems in addition to management systems it seems that use of information technology by auditing units, institutions and organs is trailing behind.

Lack of Communication, Coordination and Cooperation Between Auditing Organizations

- “Evaluation Report Regarding Actions Required to be Taken to Help Combat Corruption”, drawn up by the Presidential State Auditing Board, states that the total number of auditing units established by various public agencies and organizations have reached 129 and that more than thirteen thousand positions have been allocated to auditors.
- Although each auditing unit in this uncoordinated system undertakes works and efforts based on good faith they are inward oriented. In other words, dialogue, coordination and even cooperation are not properly employed in the field of auditing in Turkey. Absence of auditing standards and a common auditing approach and concept hinders opportunities to act together on intellectual plane.
- This situation also leads to repetitions in auditing and sometimes to exclusion of some areas from the scope of auditing and thus weakens its efficiency.

Audits Are Not Transparent and Verifiable

- In spite of the fact that annual reports include a detailed breakdown of general annual operations of auditing units and institutions in Turkey and specify to what extent they have achieved their annual goals, these reports rarely find their way out of the bureaucratic system and not disclosed to public.
- In developed countries annual operations of auditing units, organs and institutions are also reported to public in parallel with the principle of transparency. For instance, pursuant to the General Inspector Code of the United States of America actions taken by the General Inspector are made public biannually. Similarly, courts of accounts virtually open their actions and performances within a specific year to public inspection through annual reports submitted to parliaments. Even audit reports drawn up by independent auditors are attached to annual reports of courts of accounts.
- From our Sub-committee's point of view, the understanding that auditors should also be open to auditing has not taken root in Turkey so far and this is considered as a shortcoming.

3.5 EXISTING INSTITUTIONAL STRUCTURE AND PROBLEMS

The confusion and lack of coordination in the administrative, fiscal and legal structure means loss of discipline and authority in fiscal management in addition to the planning concept. In such a system a plan is neither needed nor implemented if it actually exists. A part of fiscal policy trends witnessed after 80s in Turkey may be considered as creation of such a tissue. This situation cannot be explained simply by mismanagement or optical distortion. Yet, it is clear that it is unsustainable.

Today, public spending in Turkey is distributed among a large number of budgets with different structures and funds and enterprises with revolving funds. Public spending is managed through general budget, annexed budget, special budget, autonomous budget, funds and agencies with revolving funds. In addition to this, some foundations, associations or trusts established by public agencies are deemed to provide public services and funds are obtained and spent on behalf of the government by granting them tax exemptions and allocations from the budget or receiving payments from beneficiaries of services directly provided by the Government for such organizations. Therefore, the principle of budgetary integrity is undermined and the precise amount of public revenues and expenditures cannot be fully seen because of public revenues and expenditures remaining outside the scope of the consolidated budget.

On the other hand, collection and spending of public revenues through different and separate agencies and creation of a large number of public entities undermines spending discipline, weakens reliability and credibility of the government, prepares a fertile ground for deterioration at various levels, obstructs the opportunity to use the budget as a fiscal policy tool and thwarts an efficient use of funds.

An historical analysis of developments in institutional structure of the public fiscal management in Turkey reveals that the system did not initially have so much fractured and different regimes. More integrated regimes, which could embrace developing technologies and a changing government concept, could not be developed. Furthermore, the public fiscal system have become more divided in terms of services and institutions and many services and institutions have been excluded from the general fiscal system.

Each new step which overlooks the contradicting coexistence of centralism organised in the form of a powerful execution / powerful prime minister and a disintegrated public fiscal management in Turkey risks to be nothing more than an artificial alteration.

This phenomenon weakens effectiveness of the legislature in spending of public funds, eliminates the possibility to audit public spending or weakens such audit and leads to a failure to execute plans and programs regulating use of public spending as initially targeted. Thus, the government cannot function adequately and costs of services steadily rise.

On the other hand, boundaries of individual public services have not been clearly defined and the same public service or function has been divided between more than one agency the direct outcome of which has been a failure to perform public functions and services expeditiously and cost-effectively. Furthermore, existence of a variety of organizations responsible for coordinating spending by public agencies and ensuring that they are carried out under a specific plan and program also adds to effects of shortcomings referred to above. Similarly, problems cannot be effectively identified and solutions cannot be formulated because of the centralised structure of both spending agencies and those responsible for providing coordination and neither takes decisions based on sufficient and in situ examinations.

The centralised structure of legislation regulating spending procedures for public entities which lays emphasis on conformity assessment rather than efficiency evaluation and its rigid rules hinders flexibility of the system and proliferates the idea that circumvention of audits and laws is something necessary or prepares a ground for using it as a pretext for avoiding audits. Problems faced by the system are further aggravated due to basic issues such as institutional organization, sharing of powers, development of legislation, identification of policies and techniques employed as well as mistakes made in selection of executing entities and their inadequacies and wrong choices.

4. PROPOSALS FOR RESTRUCTURING THE PUBLIC FISCAL MANAGEMENT AND ENSURING FISCAL TRANSPARENCY

4.1. A NEW BUDGET SYSTEM

This section contains proposals which aim at a more efficient operation of the system and require certain wide-ranging transformations, considering also the problems of our budgetary process which has been examined in detail in the third section.

During its activities, Sub-Committee 1 has taken the medium-term expenditure system recently developed by the World Bank as a model in order to start from a certain model and to assess the system in Turkey and develop proposals on that basis. However, the assessments on which the proposals are based have been discussed in view of Turkey's realities above all and the experience of countries that display examples of best practice. The basic objective has been an effort to assess the current situation in the framework of a model.

Proposals towards a new budget system have been examined under three main headings: "Preparation of the Budget", "Implementation of the Budget" and the "Accounting, Reporting and Code Structure of Budget Implementation". Under the preparation of the budget which is the first heading, an effort has been made to develop basic proposals which reflect a new approach towards the budget system. The basic mechanisms and proposals defining the operation of this new approach are given in the relevant section. However, a set of detailed assessments and proposals concerning this section will be included in the report of Sub-Committee 1 (transition to the medium-term expenditure system) which will be completed in March.

In the following two sub-sections, proposals have been developed mainly on the basis of the current problems of the budget system. Proposals in this framework are discussed in detail in the sub-sections.

4.1.1 PREPARATION OF THE BUDGET

The required link between policy-making, planning and budgeting can only be established by a well-designed medium-term expenditure system with its mechanisms in place. The need to address the Turkish Budget System in the framework of a medium-term plan or programme as envisaged during the transition to the plan-programme-budget system in the first half of the 1970s continues to exist today.

In this context, as a result of the examination of both the World Bank's medium-term expenditure framework and the experience of countries that display examples of best practice and the current structure of the Turkish Budget System, it has been concluded that a medium-term approach to the functioning of the public decision-making process is of greater importance today. The medium-term expenditure system is basically a process directed towards the development of public expenditure policies that help decision-makers foresee the medium-term expenditure limits and that make it possible to link these limits to medium-term expenditure policies and costs. This process has three main objectives:

- ensuring macro discipline,
- allocating the resources according to strategic priorities,
- using the allocated resources in practice as effectively and efficiently as is desired.

Public resource allocation is determined basically at the end of a political process. Putting the policies framed in this way into practice at the desired efficiency requires their planning/programming and it is through the budget that the planned policies are put into practice. In the functioning of this process, the basic objective is to achieve the budgetary results listed in three main items above and the budget is the main instrument for reaching these objectives.

A public decision-making process which is based on a medium-term expenditure programme, i.e. which aims at a relationship between plans and budgets and programmes, must be specified as the main objective and the budget system (such as the plan-programme budget system or the output-result based budget system) must be built on this. The proposals concerning the budget system based on a medium-term expenditure programme in the frame work of the approach developed in the report of Sub-Committee 1 are addressed under four main headings: (a) setting out the economic and fiscal structure, (b) budget policy statement, (c) preparation of sector/organisation plans and budgets and (d) approval of the budgets by the parliament. As the fourth heading, namely the parliament, is examined in detail in section 4.3 below, it will not be taken up here and only the parliamentary relations considered necessary in the first three stages will be discussed.

A. SETTING OUT THE ECONOMIC AND FISCAL STRUCTURE (UPDATE REPORT)

The process of deciding the budget magnitudes for the next year and the subsequent two years must start with taking a full picture of the initial economic and fiscal structure. This stage, generally called the first part of the strategic phase, is based mainly on the development of a macroeconomic framework which makes revenue and expenditure projections for the period of the next three years. The main activity involves macroeconomic analysis and modelling as a necessary step to achieve total fiscal discipline.

Taking a full picture of the economic and fiscal structure and making three-year projections with certain assumptions on the basis of that picture are the main objective of this process. This stage which is based on technical work requires a comprehensive understanding of the present and future costs of the current policies. In this respect, the technical capacity of the central organisations must be high and the current system must be continuously improved. In a system that lacks a good accounting and reporting structure and cannot sufficiently grasp developments and activities in the private economy, it is not quite possible to say that the economic and fiscal structure is adequately set out and that well-designed macroeconomic policies are prepared on that basis.

External audit organisations such as the Audit Court as well as central organisations such as the State Planning Organisation, the Treasury, the Ministry of Finance, the Central Bank and the Statistics Institute assume duties and responsibilities at this stage. The central units with responsibility must prepare the projections of the effects of the government's fiscal policies on the economy not

according to the expectations and opinions of the government about the economic structure but according to their own professional assessment criteria and as determined by the assumptions and the data structure. At this stage again, reporting obligations must be introduced and their inspection (so as to include the assumptions made) must be carried out by an audit body (the Audit Court) independent of the executive. If the activities conducted at this stage by the central organisations and the cabinet are inspected with regard to legal obligations, and reported to the assembly, by a body independent of the executive, this will increase the efficiency of implementation.¹

The practice in New Zealand is a good example in this regard. In New Zealand, with the start of the new fiscal year, the strategic work of planning (for three years) and budgeting for the next period also starts. As one of the important activities of the strategic phase, the Treasury prepares an Economic and Fiscal Update in December for the purpose of showing the developments that took place in the last six months of the economy and making the necessary revisions in connection them. In other words, the fiscal decisions taken or implemented after the previous update (June) and the new situations arising in the economy are reflected in the relevant tables and figures and the three-year projections made are accordingly reviewed (so as to include also the total public magnitude in the economy). This update which shows the reflections of fiscal decisions and the three-year projections is regularly issued so as to reflect the results of a technical work and is used as a basis to form the macroeconomic framework.²

The proposals developed for the setting out of the economic and financial structure to provide the expected benefit are listed as follows:

- ❑ The institutional and functional duties and responsibilities of the central organisations must be clearly defined by a framework law such as the Fiscal Accountability Act.
- ❑ The Update Report must be of such scope and technical adequacy as to cover the whole of the economic and fiscal structure (both the private and the public sectors). Techniques and analyses must be developed that will cover the private economy as well as the areas of public expenditure.
- ❑ The process must be supported with a legislative arrangement that is as wide-ranging as possible (such as the Fiscal Accountability Act). As in the cases of other countries, the realisation of the benefit expected from this process requires the existence of an effective legislative arrangement which fully covers the transactions.
- ❑ Information and data used in this process must be obtained in accordance with certain standards, and the assumptions used in forecasts must be defined clearly.
- ❑ The update must be produced by the central units as the result of a fully technical work free from political pressure.
- ❑ In the update, the economic and fiscal structure must be evaluated in a comprehensive way and 3-year projections must be set out.

¹ Yılmaz, (1999) (B): 35

² Yılmaz, (1999) (B):35

- ❑ Each update must seek to reflect the new situations that have arisen since the previous update, such as unforeseen changes in the economic structure and the cost increases caused by new legislative arrangements which have come into force.
- ❑ The risks related to the economic and fiscal structure must be defined well and the different growth scenarios must be built on these.
- ❑ Special fiscal risks (seeking to remain outside the area of public expenditure) must be set out clearly and a comprehensive assessment of these must be made. What is meant by risks here is those risks which include fiscal results such as the government's conditional obligations, its functional losses and its obligations arising from various laws or arrangements.
- ❑ It must be ensured that the accuracy of information and assumptions is examined and approved by a constitutional body.

B. DETERMINATION OF THE BUDGET POLICY AND MAGNITUDES BY THE COUNCIL OF MINISTERS (BUDGET POLICY STATEMENT)

The fiscal structures and priorities of budgets to be prepared by the Council of Ministers in a three-year perspective must be stated in advance because the basic assumption is that an Assembly which is formed by election uses as agent a mandate it has received from principals and the Council of Ministers which is elected from among this Assembly implements through the budget system the fulfilment of its obligations arising in the process of political competition. At the very beginning of the budget process, the Council of Ministers states its basic preferences which originate from its political will, in view of the picture presented by the economic and fiscal structure.

This statement of will is important in that it states to departments and to other sections of society the public magnitudes that the government foresees for the next three years and the policies it seeks to implement. In other words, the public organisations take the points foreseen in this text as a starting point while forming their own budgets and, at the same time, the private sector gets a clearer idea of what will be the magnitude and the areas of activity of the public sector over the next three years. Therefore, the uncertainty to be created by the public sector diminishes for both the public sector itself and the other economic actors.³

The proposals developed for the statement of budget policy, which is the most important political stage of the budget preparation process, to provide the expected benefit are listed as follows:

- ❑ The Update Report and the Government Programme, which is the basic document of the government in the process of political competition, must be brought together to determine the priorities of fiscal policy.
- ❑ In the framework of the priorities of fiscal policy that are set out by this document in a concrete fashion, the Council of Ministers must set out the fiscal strategy on the basis of

³ Yılmaz (A) (1999):50

quantitative magnitudes and targets. Basic policies concerning the fiscal structure (such as expenditure, revenue, borrowing) must be determined here and the quantitative targets showing the results of these policies must also be set out here. The relevant annexes which are part of this section must absolutely provide the projections of the tables that set out the picture of the fiscal structure such as fiscal performance and fiscal position, and the assumptions used.

- ❑ In the statement of budget policy, the budget priorities that show to institutions the basic political preferences they will consider while making budget exercises must be explained here. The council of ministers must form these priorities in view of the basic magnitudes that it has determined in the section of fiscal strategy.
- ❑ After the fiscal strategy is set out, the Council of Ministers must set out in this framework its short-, medium- and long-term economic and fiscal objectives and intentions.
- ❑ The analyses and assessments developed for expenditure must be developed also for the revenue structure in the same framework.
- ❑ After the magnitude of public expenditure for the next period is set out through the fiscal strategy, the approval of the Assembly must be obtained for this magnitude.
- ❑ The budget ceilings of organisations must be determined following discussions in the Council of Ministers, within the public magnitude approved by the Assembly, and the organisations must be asked to prepare their budgets in the framework of these ceilings.

C. PREPARATION OF SECTOR/ORGANISATION PLANS AND BUDGETS⁴

The need for ministries and organisations to be able to make forward-looking plans, with an adequate certainty achieved in the sectoral decision-making process, has raised the need for access to information which serves as a basis for strategic and implementation-related decisions. After the economic and fiscal structure is set out, the Council of Ministers determines budget ceilings for sectors/organisations under the guidance of the fiscal strategy, and the organisations must form in this framework their sector plans and budgets for the next year and the subsequent two years. It is obvious that a higher level of predictability of these sector ceilings determined for future years will increase the expected positive impact of a medium-term expenditure system on budget results.

The sectors will take these expenditure ceilings, which will change every year in the light of macroeconomic conditions, as an indicator provided to them for the future years and will form their sector/organisation plans and budgets accordingly. In this framework, budgetary decisions will leave the principle of finding resources as rapidly as possible and will move into a structure determined by government policies. Sectoral plans and budgets are the basic infrastructure of the medium-term expenditure system. Well-prepared sectoral plans are the basic source for the preparation of organisation budgets in a more target-oriented way. Sectoral policies which are formed in the political structure are designed through plans and put into practice through budgets.

⁴ For detailed information, see The World Bank (1998): 40-43 and Yılmaz (1999) (B): 26-30

The proposals developed for sector/organisation plans and budgets to function in an efficient way under a medium-term expenditure programme are brought together under six headings:

(a) *The Framework of Sector/Organisation Responsibility Must Be Defined Properly*

- ❑ Political responsibility and administrative responsibility must be clearly separated from each other in the production of goods and services by the organisation.
- ❑ The Minister who has political responsibility must delegate to the organisation the authority he has received under the Budget for the utilisation of resources, i.e. for the provision of the programmed services (or for the output and result targets), but he must ask both during and after implementation for an account of how the authority he has delegated as the principal has been used.
- ❑ Before budget implementation is started, a performance contract must be made between the Minister and the highest manager of the institution.
- ❑ A legislative arrangement must be made to set out political, administrative and fiscal responsibilities. In many countries, this is done through laws governing performance contracts.
- ❑ The basic principles of responsibility related to the delegation of power under the framework act⁵:
 - The roles and responsibilities of the actors must be clear;
 - The responsibility must be towards the organisation (and all types of reporting to be done in this framework must reflect the responsibility of the organisation);
 - The performance criteria must be defined clearly and the objective/result relationship between the budget and the service produced must be established;
 - The detailed studies between the performance objectives and the performance criteria formed must be continuously carried out by the responsible central organisations;
 - The reports prepared and the information used concerning performance must be accurate and reliable.

(b) *Consensus on Sector Objectives and Policies and Continuous Review of This*

- ❑ During the review of the sector, the starting question is whether the State is really responsible for the policies it conducts in the context of the sector as a whole or whether certain policies or

⁵ For detailed information, see the joint study by the Canadian Audit Court and Treasury (1999) (Translated by Hakan Özbaran)

activities that are implemented will be left to the private sector or other institutions of society (such as non-governmental or voluntary organisations).

- ❑ If the State does have a policy responsibility, then the following important question is whether the proper implementation of the activity will be carried out within the budget.
- ❑ After the starting question, the objectives and targets of the ministries and organisations must be defined.
- ❑ It is necessary to act very carefully in forming the priorities besides the sectoral priorities because it is important that disputes to arise from the discussion of different priorities within the sector should be solved by mechanisms in the system.
- ❑ Organisation objectives and priorities must be periodically reviewed and exercises in this area must be continued. This work must be done for the budgets of future years especially when the implementation of the new year's budget begins.

(c) *During Budget Preparation and Implementation, the Central Organisations Must Play A Role Primarily in the Areas of Regulation and Supervision*

- ❑ The responsibility for preparing and implementing the organisation budget within the ceilings set must be given mainly to the spending organisation.
- ❑ The central organisations must continuously provide the spending organisations with information on technical issues required at the beginning of the budget process such as planning of cash management and the monitoring of the formation of performance criteria and must check compliance with the introduced principles through mechanisms of enforcement.
- ❑ After the budget is prepared and put into practice, there must be no intervention by central organisations in the budget as far as resource utilisation is concerned. The implementation of the prepared budget in the foreseen framework must take place under the responsibility of the organisation.

(d) *The Resource Structure of the Sector Must Be Fully Set Out in the Process of Budget Preparation*

- ❑ The total amount of resources to be allocated for the sector must be defined in as great detail as possible. Ideally, the resource structure must include taxes, donations and contributions, activity incomes, voluntary organisations and private firms.
- ❑ Setting out the resource structure as a matter of priority must raise the medium-term resource projections of the organisation, and the detailed analyses/exercises to be carried out for the expenditures must be carried out also for the revenues. Afterwards, these projections which are made on a sector basis must be harmonised with the projections of the medium-term revenue system.

(e) *The Budget of the Organisation Must Reflect All the Activities of the Organisation*

- ❑ The policies, programmes and activities of the sector must be considered together.
- ❑ Sector budgets must cover all activities and organisations and the focus must be on all expenditures. Activities related to the sector or organisation that cannot be directly linked to the budget must be linked by means of reporting and be shown in the total.
- ❑ Decision-makers must assess the likely expenditure results of the policies by using the sectoral policy priorities they have developed by means of reviewing the sector. As a good starting point, a calculation must be made of what will be the total costs if the current policies are fully funded.

(f) *Flexible Mechanisms Must Be Developed to Facilitate the Allocation of Resources to These Areas When Priorities Change*

- ❑ The system must include mechanisms which will help and facilitate a corresponding change in the flow of resources when the policies are ranked from the less important to the more important or in the opposite case.
- ❑ Sectoral decisions are taken at different levels (for the whole sector, for the ministry, for the organisation, etc.). Each of these must be subject to the restrictions and rules introduced by the decisions taken at a higher level, and the institutions must have flexibility to take their own strategic decisions within those restrictions.
- ❑ Beside this flexibility, high-level sector managers must comply with the rigid restrictions determined during budget implementation and ensure consistency between the sector expenditure priorities and the fiscal objectives of the government. They must strive to maximise strategic priorities within the limits at each lower level.
- ❑ In the process of producing and providing the service, changes must be made in both the employment of the persons who produce the service and their powers and responsibilities over the resources they have used (such as their appointment for a certain period and the determination of performance criteria).

4.1.2 IMPLEMENTATION OF THE BUDGET

As will be remembered, the mechanisms to ensure efficiency in budget implementation were listed in the third section as follows:

- Roles and responsibilities
- Delegation of power
- Fiscal discipline
- Accrual-based accounting and reporting
- Commitment module

- Cash planning
- Systems of information flow

In the framework of this classification made in the third section and the problems set out in budget implementation, the proposals will be discussed in the same way here:

A. Roles, Responsibilities and Delegation of Power

- ❑ The roles and responsibilities of the officials in budget implementation must be clearly defined. For the roles and responsibilities determined to serve the purpose in the process of efficient use of the resources, accountability must also be defined. Accountability is one of the basic mechanisms that ensure the proper and efficient use of public resources by individuals and institutions who use them.
- ❑ In the process of resource utilisation, as much power as possible must be delegated to lower units and individuals responsible in budget implementation.
- ❑ Orderers instead of accrual officers must have primary responsibility for expenditures made out of organisation budgets and for the expense being due to real needs, while accrual officers must be held responsible at the secondary level in terms of the power they exercise and the role they assume.
- ❑ In the implementation of the budget, it must be ensured that local units directly affected by the results of public services participate in the decision-making processes. Local control of the decisions taken in the framework of such participation must be put into practice.
- ❑ The practice of power delegation from first-degree orderers (the minister) to second-degree orderers (such as the undersecretary, the general director, the province governor, the district governor) in budget implementation means power delegation to the most authorised official of the central administration instead of the person who is principally responsible for producing the service. This has an adverse effect and cost in resource utilisation and also reduces administrative flexibility. For this reason, power must be delegated to the person in the relevant unit who is responsible for producing the service. In this framework, the responsibilities arising from the exercise of powers must be reported and accounted for.
- ❑ In the process of budget implementation, new roles (such as finance presidencies, regional revenue directorates, tax office presidencies) emerge with every day that passes. These roles, which have no powers as they have no necessity and functions, bring only inefficiency and bureaucracy into the system. Such practices must be avoided as much as possible and the system must be designed with simpler and less overlapping interventions.
- ❑ It is considered necessary that three basic units take part in an effective budget implementation:
 - the expenditure unit
 - the documentation office
 - the approval office

- the authorisation unit
- the accounting unit

Administrative and legal arrangements must be made in the system to define clearly the role of the authorisation unit which can be defined briefly as the unit to identify the conformity of the use of appropriations to the budget and to authorise their use on behalf of the budget.

- In the implementation of the budget, penal liabilities in payment requests and payment procedures in particular must be extended to all persons who are involved in these procedures such as the orderer.

B. Fiscal Discipline

- Fiscal discipline expected from the budget tends to disappear as a result of such reasons as a decrease in the contribution of the budgetary process to the efficiency of the service produced in the process of budget preparation and implementation, the fact that resource allocation and expenditure procedures have taken on a very complicated and time-consuming character, the fact that current legislation is far from meeting the conditions of the present day and the fact that organisations have no faith left in the budgets they prepare. The purchasing procedure must be designed using standard methods, especially with a view to ensuring fiscal discipline and control, and the flexibilities to be introduced in practice must be open and applicable to every institution that meets the conditions envisaged.
- In the process of the procurement of goods or services during budget implementation, the effective and efficient management of public funds must not be put in jeopardy through time-consuming and duplicated controls and procedures under fiscal legislation and administrative arrangements (such as austerity circulars).
- To make the current payment practice more efficient, greater use must be made of the banking system. In this context, priority must be given to remission to an account instead of payment by cheque.

E. Commitment Module

- In the existing system, commitments cannot be monitored. A commitment module in which final and even provisional commitments are recorded under an accounting discipline and linked to appropriations in the budget must absolutely be introduced in budget implementation. In the Stand-By Agreement signed with the IMF, it is envisaged that commitment-based accounting and reporting will be introduced in 2001 for organisations subject to the consolidated budget.
- With the addition of the commitment module to the system, commitments undertaken during the current year must be deducted from the available appropriations, no commitments must be undertaken where there are not sufficient appropriations, and the initial appropriations must not be exceeded.

- ❑ Public sector actions such as recruitment of personnel and allocation of staff positions are acts that place the State under future obligations. For example, recruitment of personnel not only puts the State under an obligation equal to the salaries of the persons who are recruited. This action by the public sector also results in many other commitment items such as the healthcare expenses of at least 3 or 4 people, the expenses of training and the payment of a life-long pension. In such acts by the public sector which are in the nature of a commitment, it must above all make a wide-ranging calculation of costs (in a way that includes the medium term) and see this in the framework of a commitment module.

E. Cash Planning

- ❑ It is intended that the institutions should decide how to use the budget appropriations during the year (within the existing cash projections) by the implementation of the detailed expenditure programme. Detailed expenditure programmes must be prepared with alternatives. The implementation of expenditure programmes must be made flexible according to the areas and forms of activity of the institutions.
- ❑ In the process of budget preparation, the objectives and macroeconomic policies and the cash and borrowing projections must be taken into account while preparing the detailed expenditure programmes, and an adequate link must be established between them.

F. Systems of Information Flow

- ❑ Intensive use must be made of computer technologies to ensure the efficiency of decision-making processes during the preparation and implementation of the budget.
- ❑ The book of appropriations which is necessary to ensure that orderers are informed about the total financial limits, the expenditures decided and the commitments made until then (depending on the initial appropriations, the appropriations released and the amount of cash available) must be kept in the institutions.
- ❑ Since automation and information systems are not used in the implementation of the budget, the system operates with a large number of accountancy and budget offices. For this reason, an analysis must be made of really how important and efficient those offices are and the number of budget office presidencies and accountancies must be reduced.

4.1.3 THE ACCOUNTING, REPORTING AND CODE STRUCTURE OF BUDGET IMPLEMENTATION

THE ACCOUNTING AND REPORTING STRUCTURE

- The basic duties and responsibilities regarding the improvements to be made in the public sector accounting and reporting system must be determined. When country practices in this area are considered, it is observed that the first action taken by countries which seek to improve their public sector accounting and reporting systems is to form a committee to carry out those improvements. This committee, which will determine the scope, content,

method and principles of the improvement, must include representatives of the private sector and chambers of accounting professionals as well as representatives of the public sector. All the proposals put forward below must be discussed and put into practice by this committee.

- The accounting and reporting objectives of the state accounting system must be determined. Before an improvement in the accounting system is attempted, a decision must be made concerning to whom, for what needs, and how, this system will carry out reporting. The preparation of intelligible and standard financial reports for management purposes, such as the balance-sheet, the cash flow chart, the statement of activity results and the statement of budget implementation results, must be clearly set out as an objective in reporting.
- The scope of the accounting and reporting system to be implemented in the public sector must be determined. The state accounting system must cease to be budget-centred. Therefore, the accounting system must also trace the activities of institutions not included in the budget, instead of simply accounting the transactions of institutions covered by the budget. The public sector includes also such institutions as municipalities, special administrations, funds and social security organisations, which keep and use financial resources. Their assets and liabilities must also be captured by the accounting system.
- Unity of accounting must be ensured in the public sector. Extra-budgetary institutions must not be allowed to form special accounting systems of their own. In this way, consolidation of accounts must be ensured throughout the public sector.
- The state accounting system must trace not only budget transactions in terms of subjects, but it must account all transactions of the public sector. All the financial and tangible fixed assets of the state, its tangible and non-tangible resources, its quasi-fiscal transactions and its contingent liabilities must be captured and accounted for by the accounting system.
- Continuity is one of the basic principles of accounting. The state accounting system must be formed so as to display full continuity. Under the current accounting system, activity and budget results remain in the year to which they belong. In fact, it must be possible to carry the liquid values of the State such as its assets, debts and claims over to the new fiscal year. Therefore, it must be possible to carry the activity and budget results of the State over to future years and it must be ensured that the reports generated from accounting are comparable.
- The improvement to the state accounting system will depend on the selection of the accounting basis. Therefore, the principles of accounting and reporting to be applied must be determined. The current accounting system is founded on the cash basis. As explained in the relevant section, information related to the assets and liabilities of the State cannot be recorded fully and in time under a cash-based accounting system. For this reason, in the context of the improvement to the State accounting system, the accounting basis to apply must be re-determined. As an improvement in the short term, the amended accrual

basis must be selected as it is capable of generating all the information to be needed by an efficient public fiscal administration and as the changeover to it will be easier. Work has been done in this area by the General Directorate of Accounts. Based on the said work, it should be possible to put into practice, through limited changes to the State Accounting Regulation, an accounting system that rests on the amended accrual basis. With the stages of system analysis, pilot application, agreement with other institutions and draft amendments to the Regulation already completed, this work has now reached the stage of full-scale implementation. The first step to be taken towards the restructuring of public fiscal management and towards fiscal transparency must be to put this work into practice as soon as possible. The long-term objective in the improvement of the State accounting system must be specified as the transition to accrual-based accounting which records all public transactions properly and in time and has a high reporting flexibility. In this area, a "Public Fiscal Management Project" is being conducted at the Finance Ministry and the Treasury Undersecretariat, with the support of a World Bank loan. A new budget code structure at GFS standards and a uniform account plan based on the accrual principle and conforming to international accounting standards have been developed under the said project, which is currently at the stage of pilot application. As a long-term objective, work on this project must be accelerated and its implementation must be given momentum.

- Accounting methods must be developed which will correctly measure the cost of public services produced. In this context, cost accounting practices must be included in the public sector accounting system. For example, funds spent by the State for its fixed assets must be spread over the economic lifetime of the assets in question. In this way, it should be possible for the data obtained from the accounting system over the years to reflect the real situation.
- Public sector accounting standards must be determined and announced. In the event of a change in the standards announced, the new standards must be made known without delay. It is essential that the accounting standards to be determined should conform to international accounting standards. To achieve accounting and reporting reliability, the determination and implementation of standards must be placed on a legal basis. Neither the accounting basis nor the accounting standards must allow manipulations and creative (!) methods.
- An account plan that conforms to the selected accounting basis and standards must be formed. The account plan to be formed must classify the accounts according to their characteristics with time-separating accounts and a systematic coding. The account coding system must be sufficiently detailed. In this way, everyone must be able to understand the nature and meaning of the accounts in the State accounting system, and State accounting must cease to be an area of specialty.
- The budget system should be harmonised with the accounting system. In this connection, the accounting plan prepared must be in keeping with the budget code structure and hence of a flexibility such as to provide the opportunity for budget code amendments.

- In the matter of financing, the aspect of economic and fiscal life which makes itself most plainly felt, the accounting plan should be flexible enough to follow new developments and instruments which may emerge.
- In the matter of reporting, duties and responsibilities should be clearly defined. In order for these duties and responsibilities not to suffer erosion over a period of time, the creation of a legal grounding in this matter would be a much more positive action.
- The reporting standards of the state accounting system should be defined and announced. Together with these standards, the preparation, presentation and publication of reports should be bound to certain standards/periods. This operation, which is in the nature of an undertaking, should definitely be renewed in the event of a change in standards. By means of these standards, the correctness and reliability of information should be ensured. In the reporting of budget applications and other financial procedures, as far as possible cash-based standards and the basis of net balances, which can cause the loss of much information of importance, should be avoided.
- The necessary relationship between reporting and accounting, that is the condition that “correct and consistent reports are produced from accounting”, should be preserved. Reports should not be produced from databases and tables which cannot be used and compared in financial projections, which are distanced from accounting consistency and which are prepared by non-accounting procedures.
- Central reports prepared from the state accounting system should be prevented from being unified sheet and table strings. Central reports giving accounts of state budget implementation should be supported by financial tables. The law on treasury general accounts and finalised accounts should be discussed on the planning budget commission and general committee separately from the new financial year budget and its effectiveness should be ensured in this way.
- The accounting of budget implementation and its reporting at both the local and central level is in general administered through hand-processed operations. This negatively affects the correctness and rapidity of the information. A process carried out on the 1st of the month of the Public Accounts Bulletin, which constitutes the foundation of central reporting, is reported 50 days later. For an administrator to be capable of making correct decisions, it is necessary for information to reach him in the shortest possible time. For good and effective administration, information provided with a 50-day delay is not adequate. A computer infrastructure to work on the accounting and reporting system should be created without delay. It is necessary for the system to be created to have a standard application which can be used by all accounting units. All institutions needing information (the Treasury, the State Planning Organisation, the Court of Public Accounts etc.) should have easy access to the system. In addition to accounting procedures, payroll and payment procedures (access to the banking sector by electronic means) should also be capable of execution by the system. At the point which financial systems have reached today, the online carrying out of all accounting

procedures and the production of immediate reports by the systems in question are inescapable necessities for effective administration. An operation encompassing all these processes should be administered by an Accountancy General Directorate. With the project called “count2000”, all accounting units (comptrollers’ departments, tax offices, budget department directorates) will be able to reach headquarters and produce immediate reports online. It is expected that the project will be realised at the beginning of the year 2001. A similar project is being applied at the Treasury Under-secretariat. In the matter of the accounting and reporting of public financial administration, it is definitely necessary to put these projects, which meet the needs of the whole technical infrastructure, into effect as soon as possible.

BUDGET CODE STRUCTURE

- Coding should definitely begin with institutional structure. The distribution according to service functions of public expenditure should be classified by the budget code structure.
- Budget coding should be designed in such a way as to indicate the sources from which public expenditure is financed.
- The standards necessary for coding should be constituted in the light of international standards and in the light of the experience of countries which set a good example of implementation. In this context, a transfer should be made to the functional classification which places the service-cost relationship at the forefront and whose introduction was foreseen in 1974 but which still has not been implemented.
- Taking into account its different purposes and users, code classification should be brought down to the most detailed data. On this subject, lessons should be learned from the incorrect applications experienced and operations which impede the production of detailed data should be clearly prohibited.
- Transfers between institutional, functional and economic codes should be avoided. In this context, code structure and implementation should serve the purpose of the production of correct, reliable, comparative, consistent and measurable data.
- The necessary relationship between state accounting and budget coding should be established and coding should be formulated in the context of the functionality of state accounting.
- Data from budget classification should be capable of use as the most reliable input of national income accounting. For this, budget coding should be designed with a structure which will serve this purpose.
- The target should definitely be the implementation of a code structure of a flexibility such as to encompass changes in the fiscal and economic structure.

4.2. ASSURANCE OF TRANSPARENCY

In securing basic budget results such as the assurance of fiscal discipline, the distribution of resources according to strategic priorities and their effective utilisation, fiscal transparency is an important tool. For reasons such as the failure to separate powers and responsibilities well, the conceptualisation of only a part of public spending within the scope of the budget, the inadequacy of the structure of accounting, reporting and coding and the failure to develop standards, it is impossible to say that the Turkish public fiscal administration system is working effectively and responsibly. In this sense, it is necessary to move to efforts to ensure the transparency of, in particular, arrangements to be made in the public fiscal system in the short term.⁶

As a result of evaluation and analysis carried out in the context of the principles developed in the IMF regulations, the overcoming of the deficiencies referred to above seems inescapable, especially for the effective working of the public fiscal system in the short term. The recommendations made here have been developed with an emphasis on the context of the Regulations. As has been explained previously, the aim of the Regulations is, in the short term, to make possible the creation of appropriate data concerning the likely responsibilities for extra-budgetary operations and their realisation for an effective budget and in the long term the creation of appropriate data for the carrying out of analyses which will enable correct evaluation of the fiscal sustainability of the nation.

In this context, we may list the arrangements which may be made in Turkey as follows:

- Expansion of the scope of the budget, ensuring the preparation of financial reports of the same type by all institutions using public resources in the event that there are legal and political difficulties in carrying this out and the provision of information concerning the entire public sector by means of the consolidation of these;
- The preparation and provision of budget estimates within a structure providing the opportunity for analysis and definition of responsibilities;
- Reporting government transactions on a gross basis and thereby producing more correct information on the utilisation of account items;
- In addition to the comprehensive and reliable making of reports, their indication of deviations from the previous period;
- Explanation of data and accountancy standards used in accounting annual budgets and results;
- An undertaking in the matter of regular publication of financial information and reports;
- Notification of the purposes of budget applications (for example in the fields of education and health);
- Description on a regular basis of central government indebtedness and assets;
- Commencement of preparation of reports on possible liabilities and tax expenditures and hence recognition of the opportunity for financial risk analysis;

⁶ Hürcan, Kızıldaş, Yılmaz (1999)

- Use of the general budget balance together with definitions of other budget deficits during the course of budget discussions and hence ensuring the carrying out of further-ranging analysis;
- Ensuring the application of regulations relating to expenditure such as the State Tenders Law for the benefit of the public as a whole and hence the standardisation of procedures applied in the use of public resources;
- The removal of fiscal regulations from their present state of confusion, their simplification and the assurance of the public debate of all legal arrangements in the country together with all developments in this matter by using all technological facilities (such as placing drafts on the Internet);
- In parallel with expansion of the scope of the budget, expansion of the scope of Court of Public Accounts inspection.

To make all these possible, the following will be useful:

- Transfer to a medium term budget system;
- Commencement of the implementation of the assessment-based accountancy system;
- Publication of the state balance sheet;
- Evaluation of fiscal sustainability through the carrying out of financial risk analyses.

For the achievement of these aims, it is necessary for a number of legal and institutional arrangements to be made. As a priority, there should be discussion of what type of addition should be made to budget texts or to existing statutes and regulations for these aims to be capable of realisation or of which articles need to be removed from these legal arrangements to ensure fiscal discipline.⁷

In the short term, it is necessary to ensure the publication of data at international standards guaranteeing to the public regular, correct and reliable information for the private and state sectors. In addition, the constitution of a Council which will ensure the monitoring of this data and also the development of common accounting standards for the public and private sectors which can be applied in the long term should come onto the agenda in the short term as is recommended in the section on accounting and reporting.

For the achievement and sustainability of long term aims and in particular for the implementation of assessment-based accounting principles, amendments require to be made to the Public Accountancy Law and the Court of Public Accounts Law which have the nature of Turkey's fiscal constitution. While working on statutory regulations, the subject of the preparation, taking into account the level of indebtedness in Turkey and the status of its guaranteed debts, of an indebtedness law which will contain contemporary debt management procedures can be brought onto the agenda.

An important adjustment which requires to be made in the long term is the recording and reporting of the transactions of all public institutions and in turn of the transactions of the private

⁷ 47Dedeoğlu, Emil, Erdem (1999)

sector according to the same accounting standards. In the event that this is done, the whole of the economy will become capable of comparison and information providing the opportunity for more correct evaluation and drawing of conclusions will be acquired. When reporting on the same basis is achieved for the entire public sector and when, as a result of this, the accountability of parties using public resources is ensured, structural debates over linking one institution to another or separating one from another will come to an end and a more useful debate, the debate over which users of public resources are using these productively, will come onto the agenda.

4.3. INCREASING THE EFFECTIVENESS OF PARLIAMENT DURING THE BUDGET PROCESS

4.3.1. DIRECT INCREASE IN EFFECTIVENESS

Recommendations for action to increase directly the effectiveness of Parliament during the budget process are listed as follows:

- The removal of a significant part of the activities financed by public revenues from the scope of the budget has also removed the opportunity for the evaluation and inspection of the macro-economic effects of these activities and, as a result of this, areas have been left in which wide-ranging powers are used with no accountability to Parliament and hence to the people. Because of this it is necessary to transform the scope of the budget in such a way as to reflect state activities in their entirety and ensure their accounting responsibility to the people.
- Parliament should again use in an effective manner and to a significant extent its previous reductionist budgeting right during the course of budget implementations. The effective inspection of the tolerances allowed in operation to spending institutions, the development of their accounting responsibility and the creation of sanction mechanisms in this regard are required.
- Publication through financial reporting of a government balance sheet and the financial tables which complete this will meet to a great extent the need of Parliament, which is charged by the people with the inspection of the government, for financial information. Preparing the state balance sheet within the context of the fiscal reporting to be presented to Parliament by the government will provide the opportunity for structuring Court of Public Accounts inspection around the financial tables and will render Parliament's inspection mechanisms effective.
- Because applications of supplementary allocation for expenditure over and above allocations which cannot be legally explained damage confidence in budgets legally sanctioned in Parliament, these applications should be resorted to only in exceptional circumstances. Again, it is necessary to tighten the law on promulgation of supplementary budgets during the financial year and to limit the application of these to matters which may be resorted to in situations of genuine emergency.
- Budgets prepared on the basis of a medium-term expenditure approach will provide important benefits from the point of view of indicating the effects on medium-term macro balances of decisions taken by Parliament.

- Information, evaluations and determinations concerning all activities which may be set up in connection with planning outside the state consolidated budget should be presented in the form of reports to the Planning and Budget Commission. Thus it will be ensured that the inspection of both the consolidated budget and State Economic Enterprises and state institutions and their partnerships which do not have State Economic Enterprise status will not be confined to the past but will be extended into the future
- In the event that provisions concerning the establishment, powers, duties, working and function of the Parliamentary Accounts Inspection Committee are regulated by a law, as with the Petitions Committee and the Human Rights Inspection Committee, or that provisions concerning this Committee are developed within the Internal Regulations, the regulatory funded limitation can be overcome.
- Basic dimensions concerning the Planning and Budget Committee should be discussed and the government plan on these matters should be obtained. Institution budgets should be discussed in Parliamentary economic committees established within Parliament for each sector or institution.
- On the accounts of the Presidency, Parliament and the Court of Public Accounts, Court of Public Accounts inspection on behalf of Parliament should be carried out as well as Parliamentary internal inspection.
- A powerful information support infrastructure should be created within the State Economic Enterprises Committee as a technical equipment and human resource.
- It is necessary for those State Economic Enterprises defined in Article 165 of the Constitution as “having capital more than half of which belongs directly or indirectly to the state” to be brought wholly within the scope of Parliamentary and consequently of Higher Inspection Commission inspection without being subject to any differentiation, for all State Economic Enterprises to operate within the same regulatory provisions and for the relationships between the State Economic Enterprises, the State and the consolidated budget to be set forth clearly.
- The decision as to whether or not State Economic Enterprises which are subject to Parliamentary and consequently to Higher Inspection Commission inspection under Article 165 of the Constitution should be discharged should be taken by the State Economic Enterprises Committee without their being subjected to any differentiation.
- Sanctions should be set out by adequately clarifying the concepts of economic and fiscal crime within the Turkish legal system, performance contracts should be entered into between State Economic Enterprise administrators and the state and sanctions to be applied in respect of those administrators who do not conform to the performance contracts and whose activities are not discharged in Parliament should be openly regulated.
- For ensuring that enquires and inspections requested by State Economic Enterprises of the Ministries to which they are attached/related are carried out on time and as necessary, the adjustments required should be made to the relevant regulations.

4.3.2 INCREASING ITS INDIRECT EFFICIENCY

Actions proposed to increase the parliament's indirect effectiveness, which it tries to establish via the Court of Accounts, particularly in terms of results of implementation during the budgeting process are as follows:

- The dominant role of the Court of Accounts's judicial functions should not hinder submission of reports to the parliament.
- Auditing performed by the Court of Accounts and reporting of audit results shall be restructured in order to meet information requirements of the Plan and Budget Committee.
- Results relating to recording and registration of agreements and contracts relating to expenditures and visas issued in respect of allocation and staffing procedures shall be regularly submitted to the Parliament.
- In order to convert audits performed by the Court of Accounts on behalf of the Parliament into a meaningful and effective process the Parliament's house regulations must define:
 - rules and procedures to be followed by the Plan and Budget Committee in reviewing reports to be submitted to it in accordance with the Law on Court of Accounts,
 - contents and format of the final report to be produced by the committee,
 - a procedure relating to follow-up on issues to be specified in these reports,
 - rules and procedures to be pursued by the plenary session of the parliament in reviewing reports in accordance with the Law on Court of Accounts.

During deliberations on final accounts to be conducted by the Plan and Budget Committee a new independent committee similar to the "Court of Accounts Committee", which existed in the past, should be set up in order to ensure that budget implementation results during the preceding period are audited efficiently. Should such a committee be established reports referred to above should be taken up by this new committee and related rules and procedures must be laid out in the parliament's house regulations.

- General compliance statements should no more be drawn up as superficial reports which merely consists of an analogy of accountant's administrative account schedules and ministry's final account schedules and treasury general account. Such reports shall be transformed into comprehensive documents containing detailed data, opinions and analyses. In this context, "Treasury Transactions Report", being attached to compliance statements over the past couple of years and "Budget Implementation Results Report", showing deviations which have occurred in expenditures and revenues as a result of budget implementation serve as an example. It appears that these reports, being generated by the Court of Accounts over the past couple of years, have made significant contributions to increase the efficiency of parliamentary control.

- It is essential that a reporting process relating to potential liabilities which may result from the government's financial transactions and guarantee obligations, quasi-financial operations and additional burdens created by the foregoing items on the budget as well as tax rebates and exemptions is put in place as soon as practicable.
- The Court of Accounts shall furnish to the parliament periodic reports relating to results of audits performed on assets of institutions and agencies with general and annexed budgets. It shall also be ensured that final asset accounts, which are required to be drawn up by the Ministry of Finance pursuant to the law no. 1050 but could not be done to date, are submitted to the Parliament and the Court of Accounts. In addition to this, reports, which are required to be prepared pursuant to Supplementary Article 10 and Article 87 of the Law on Court of Accounts must also be submitted to the parliament.
- That a bulk of the Court of Accounts' efforts are focussed on judicial functions should not constitute a barrier for performance of the audit which must be done on behalf of the parliament. Like in any other country the primary objective of the audit performed by the Court of Accounts should be to carry out an audit on behalf of the Parliament and report its results to the Parliament. This stems from a Constitutional and legal requirement. Pursuant to Article 160 and 164 of the Constitution and Articles 25, 28, 32, 47, 55, 81, 87, 88 and Supplementary Article 10 of the Law on Court of Accounts, there are numerous reports which the Court of Accounts is required to submit to the parliament in addition to General Compliance Statements. In practice, however, the Court of Accounts is unable to perform these statutory functions partly due to external factors with the exception of General Compliance Statements and reports which are rarely prepared, but never submitted to the Parliament. On the other hand, the Parliament neither makes any request in this regard.

4.4 INCREASING EFFECTIVENESS OF THE AUDITING SYSTEM AND ENSURING PERFORMANCE AUDITS

In this section proposals are discussed under main titles by adhering to the approach adopted by the sub-committee. Strategies required to implement each suggestion under each main title are listed below:

Taking Action Aiming at Improving Auditing Standards by Taking International Standards and Examples of Good Practice Into Consideration:

- A framework law, which entirely embraces the national auditing system, must be enacted. This law shall include provisions relating to duties, powers and responsibilities of auditors; appointment, discharge and retirement of auditors and their guarantees; preparation of auditing programs; reporting of audit results; establishment of an internal control system and auditing relationships and creation of a "National Auditing Committee".
- A "Chamber of Public Sector Auditors", bringing public sector auditors together under its umbrella, must be set up by giving due consideration to characteristics of this sector.

- A National Audit Committee shall be established. Consisting of representatives from all professional organizations and leading associations this committee shall be commissioned to make contributions to establishment of auditing standards, to monitor local and international developments in this field, to carry out and cause to carry out researches relating to auditing, to identify fundamental principles for preparation of manuals and guides containing auditing methods and techniques; to carefully keep under review independence of auditing units, bodies and institutions as well as auditors; to discuss problems encountered during audits and to make recommendations to appropriate authorities where deemed necessary. The committee should also make public by a report results of annual operations and auditing issues and problems in Turkey.
- Given that we are in the process of full membership to the European Union national auditing standards – including professional ethics -, reflecting global developments and giving due consideration to national facts and requirements, must be drawn up as soon as possible and auditing standards considering needs of the public sector shall be identified.
- Following identification of auditing standards (including ethical rules) selected auditing functions, currently being performed by public auditing units, bodies and institutions, should be carried out by independent auditors in the private sector on behalf of such units, bodies and institutions on condition that quality control mechanisms on their works and products are established.

Performance of Audits According to High Professional Standards and Production of Services and Products of High Quality:

- Auditing units, organs and institutions shall base their work on strategic plans taking priority and risky areas into consideration and carry out them according to annual programs.
- Manuals and guides containing auditing methods and techniques, which do not hinder creativity of auditors, shall be developed and they shall be subjected to continuous reviews and updates.
- Before their recruitment auditors shall receive an education on basic aspects of auditing and these education programs must be organised by professional organizations. After their recruitment they shall receive a continuous and systematic training in order to enable them to keep abreast with developments and renovations in their profession.
- Auditing units, bodies and institutions, which have adequate capabilities to do so, shall set up training sections which will be responsible for organising, coordinating and monitoring inhouse training courses on auditing profession and to evaluate their results in accordance with strategic plans and implementation programs or units of such organizations responsible for training shall be restructured in order to meet training requirements on auditing.

- Auditing units, bodies and institutions shall systematically use information technology as required.
- Auditing units, bodies and institutions shall publicly issue reports relating to their annual operations together with a list of completed or scheduled works and the degree of achievement of these works as well as results of their audits.

Ensuring that Independence is Strengthened and Deeply-rooted:

- The audit framework law, to be enacted, shall include provisions relating to guaranteeing independence of auditing units, bodies and institutions as well as auditors in accordance with international standards in accordance with international standards.
- The National Audit Committee shall carefully keep under review issues relating to independence of auditing units, bodies and institutions as well as auditors and give its comments on prevention of infringements.

Annulment of Legal Provisions and Current Practices Limiting Audits:

- Legal provisions, which cause public funds to remain outside the parliament's control, shall be aligned with Articles 160 and 165 of the Constitution.
- The practice of allowing foundations, associations, companies and enterprises, set up for this purpose, to use public funds shall be discontinued in order to ensure that public funds, to be included in the ordinary public financial management system, are subjected to routine audits.
- The current practice of leaving central units of public agencies and institutions, close to senior management, must be stopped and no area shall be excluded from the scope of audits.
- The Audit Framework Law shall be designed to close actual assignments such as "supervision of administrative works" and "management of administrative functions" professional guarantees of auditors thus eliminating the possibility of restricting the audit.
- A balance shall be established between investigation and auditing functions of auditing units and bodies, which are also responsible for conducting investigations, so that the auditing process is not restricted. If additional personnel are required in order to achieve a balance between auditing and investigation functions and to carry out works according to priorities of auditing, then such additional personnel must be assigned.
- Auditing units shall be set up in public organizations and agencies which currently have no auditing and inspection unit. Auditing units of agencies, which have an insufficient number of auditors, shall be strengthened by additional personnel.

Extensive Application and Implantation of Modern Auditing Practices:

- Establishment of performance managements and performance measurement regimes in the public sector is undoubtedly an important issue which requires a change of attitude in terms of performance auditing. However, inception of performance auditing should not be made conditional upon achievement of these tasks. Therefore, performance auditing, which will contribute to creation of performance managements and measurement regimes, shall be instituted as soon as possible.
- Achievement of a level of quality, generally accepted by the auditing industry, should be aimed in performance auditing. Opportunities designed to make an efficient use of methodologies and good practice examples (monitoring these methodologies and good practice examples in respective countries, invitation of experts to Turkey, translation of useful documentation, etc.) of countries such as Canada, the U.K., Australia, New Zealand and the U.S.A. which have a well-deserved reputation in this field.
- Performance auditing is more complicated than conventional auditing and requires auditors who use a different approach. In addition to this, temporary use of consultants, who have expertise on specific issues, is also necessary. Therefore, use of consultants shall be taken into consideration during early planning phase of performance audit process.
- Taking into consideration that a specific type of auditing, commonly known as financial auditing, based on accuracy and reliability of financial statements, is expected to gain importance and proliferate in parallel with efforts to develop a new accounting system for the public sector within a relatively short period training of auditors to prepare them for this type of auditing must be commenced from today. In addition to this, training programs specific to performance auditing shall be designed and organised in accordance with internationally accepted training programs.
- Since financial auditing and performance auditing in particular require patient, creative, analytic-minded auditors who can easily adapt themselves to teamwork and cooperation and digested the new auditing culture actions must be taken to ensure that auditors are equipped with such skills and auditing based on a teamwork spirit must be encouraged.
- On-the-job training programs, which are required to incorporate new auditing techniques such as “Computer-backed Auditing Techniques” and “Auditing of Computerised Environments” into the national auditing system, must be launched within the framework of international experiences.

4.5 INSTITUTIONAL RESTRUCTURING

Increased responsibilities of the government, high costs of new tasks, inability to eliminate existing problems in spending of funds as aforementioned in a speedy manner and drifting away from the planning concept has made it necessary to achieve an institutional organization of the state and restructuring of financial management of the organizations in question in parallel with a revitalisation of the planning concept.

In the restructuring process the following criteria shall be taken into consideration:

- physical and social resources and their use and sharing of services and resources between the central and local public financial management units shall be redesigned based on an efficient planning concept,
- mechanisms that will trigger a close cooperation between entities responsible for providing coordination in respect of financial management shall be created and unnecessary divisions shall be eliminated,
- application of accepted budgetary principles shall not be hindered,
- sound criteria shall be established for selection of individuals who will be responsible for performing duties relating to financial management; personnel who will be assigned to financial management units of institutions as well as organizations which will ensure coordination regarding financial management and related priorities shall be identified and such individuals shall have adequate knowledge and experience on provision of services at optimum cost and by using best methods,
- the government shall be able to obtain maximum benefit for each penny it spends,
- auditing mechanisms shall be set up to perform evaluation and auditing of public spending in terms of efficiency and performance,
- a legal framework, designed to ensure that public spending is authorised by decisions of the legislature to the extent practicable, shall be developed,
- roles and responsibilities and institutions which will assume them shall be organised so that services can be provided in the most expeditious manner and at the most appropriate cost.

Primary functional and institutional suggestions, developed according to these principles, are listed below:

- Provincial organizations (particularly governors and sub-governors) and non-governmental organizations must also take part in the process designed to identify services to be provided together with the central government and those which are involved in the decision-making process, other than agencies concerned, shall be restructured to enable performance of a their organizational structure and number of their personnel. Provincial Coordination Boards must be reorganised to include municipalities and sub-provinces must be restructured based on this model.
- During the process of provision of services provincial organizations shall assume a greater role. Powers, duties and responsibilities of local civil authorities must be redefined and this should be complemented by institutional modifications designed to accelerate the decision-making process, to accelerate red tape and to encourage participation in the decision making process. In this context, development of restructuring and participation mechanisms shall be reviewed also in order to ensure alignment with the European Union format.

- Roles and responsibilities of institutions, which are responsible for coordination of and follow-up on financial management, relating to decision-making and implementation processes of other organizations must be redefined and they shall be transformed into entities identifying general policies and principles rather than handling daily works or new distribution of roles between units of these institutions must be performed. However, these institutional changes must be accompanied by redefinition of responsibilities of managers of spending agencies.
- Without creating a new institution a coordination mechanism shall be developed in order to ensure that institutions, responsible for coordination of financial management, cooperate more closely with each other in preparation of budgets, development of investment plans and identification of general principles.
- The present organization of the prime minister's office, which includes more than 20 agencies and has transformed it into an uncoordinated executive unit from a high-level coordination unit, shall be modified. As a result of these sorting process the prime minister's office shall be organized as a simple structure which is only responsible for the following 6 agencies:
 - State Planning Organization,
 - Capital Market Board,
 - Central Bank,
 - Banking Regulation and Supervising Board,
 - TUBITAK (after being merged with TUBA),
 - TODAIE.
- Actions shall be immediately taken in order to force foundations, associations or funds, which have been established within public institutions and agencies and use goods and services generated by them or financed by resources collected from individuals who want to have an administrative action completed under such names as donations or grants, to liquidate themselves by preventing them from receiving public funds and transfer of public property, whether movable or immovable, to such organizations must be prohibited.
- A continuous improvement of institutional structures in parallel with transformation in economic / social / administrative and political structures is also essential to avoid creating an obstacle against progress. The criterion to be considered here is to establish structures stable enough to ensure institutionalization, but also conducive to improvement enough to keep abreast with developments.

New and radical policy changes in the public finance system must include new targets and strategies. It must make an accurate identification and diagnosis of the existing system, but should not confine its targets only to its rectification. Planning must be the cornerstone of such a new approach. What kind of a planning is needed ? Answers to this question are listed below:

- The planning process should not be developed and dictated by the central unit. It should be formulated as a result of a gradual participatory process based on an interaction in both directions. The interaction process must also play a determining role in functioning of implementation and control processes.

- These processes must function in harmony with the administrative establishment. Thus, the latter shall be restructured in order to ensure efficiency of this process.
- Short and medium-term policies, which reinforce relations between budgets and plans, must be made public by the political structure every year by establishing a relation between these policies and plans (such as Budget Policies Statement) and budgets must be formulated after being subjected to technical reviews based on this framework.
- How required funds will be obtained and how they will be structured shall be clearly specified in plans and budgets according to political preferences and they shall be adhered to the extent practicable. What should be given due consideration here is to ensure that interventions to economic process do not have a complex structure as was the case in previous periods and minimum interventions are made to the market within definitions set forth in advance (state interventions designed to eliminate creation of monopolies or conditions which could prejudice fair competition between actors).
- Distribution of duties – powers – responsibilities and funds between sub-units of the central government as well as between the central and local governments must be defined clearly without leading to any conflict or duplication and identical and/or similar services shall be provided by a single ministry. The central and local governments must be integrated in terms of provision of services.
- Accomplishing harmony between decision-making, implementing and supervision processes and the legal, administrative and financial structure must be one of the primary goals. In this context, framework laws, which would ensure that plans are not drawn up as documents which repeat themselves and are inefficiently implemented, and lack of coordination and inefficiency in public management and public finance by means of a budgetary process, must be formulated. These framework laws must serve as the primary source of the plan.

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