

# INTERNAL AUDIT IN TURKISH PUBLIC FINANCE MANAGEMENT

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## Abstract

Turkish Public Finance faced with "Internal Audit Institution" with Public Financial Administration and Control Law (law number 5018) in 2006. Internal audit has entered into legislation in the light of the principles of transparency and accountability, with the purpose of using public resources effectively, economically and efficiently. This study aims to determine the operational status of the internal audit of public administrations. In this context, by examining the relevant parts of the law with the document scanning method, according to Internal Auditor positions allocated to the public administration, the numbers were determined. Staff allocated to the public administrations of the 47% is made up of as the Internal Auditor. But Internal Auditor has not been appointed to the most important institutions of the state yet. This has been identified as the lack of legal obligation.

**Keywords:** accountability, internal audit, internal auditor, transparency

**JEL Classification:** E6, D9

## 1. Introduction

The article 5 of 1982 Constitution of Turkey stressed that The fundamental aims and duties of the Turkish State were to safeguard the independence and integrity of the Turkish Nation, the indivisibility of the country, the Republic and democracy, to ensure the welfare, peace, and happiness of the individual and society; to strive for the removal of political, economic and social obstacles which restrict the fundamental rights and freedoms of the individual in a manner incompatible with the principles of justice and of the social state governed by rule of law; and to provide the conditions required for the development of the individual's material and spiritual existence".

The government must have efficient public finance, in addition to efficient public administration to fulfill those duties that were specified in the Constitution. Financial administration of the state was being done according to law no 1050. Financial management of public has failed to meet the requirements of this Law in terms of discipline, accountability

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and transparency. Public Financial Administration and Control Law (law number 5018) has entered into force at 01.01.2006 for using resources of public administration effectively, efficiently and economically (Arslan, 2004: 150-193). With this law, new practices and institutions were established which was called as "internal audit".

Internal control and external audit *have been placed at Public Financial Administration and Control law no 5018* in order to control the public finances appropriately. it is perfectly normal subject to external audit for resources of public administrations in order to have a transparent structure in addition to use resources efficiently, effectively which is very important to control and audit the public administration itself pre-external audit. Although external audit is mandatory in law, internal audit is left to of the top manager's discretion of the public administration. Internal control system impact on the functioning is thought-provoking because of internal audit constitution is depend on head of administration. If the internal audit does not work in a system, there is not possible to talk about quality of external audit.

## 2. Audit in Public Management and Control Law

Public Financial Management And Control Law was entered into force in 2006 which consists of nine parts. Fifth and sixth partials of law referred to the control and supervision of public finances. "Internal control" is in fifth section and "internal control" is in sixth section that discuss in law. Internal audit is expressed as an element of internal control.



**Figure 1: Audit In Law**

Audit in management are divided into two parts which are before spending and after spending. Internal control systems are contained process of before government expenditure. External audit is made after the expenditure. When the entity is made by internal control, external audit is made by the Court of Auditors.

### 2.1. Internal Audit

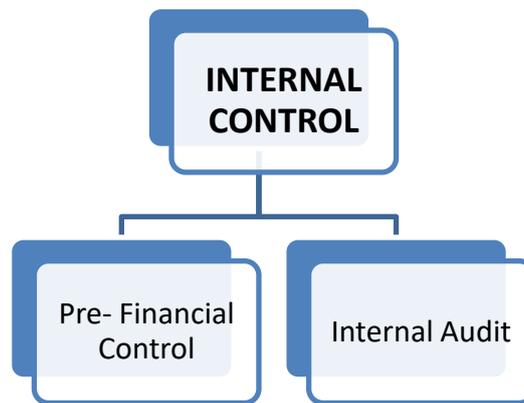
Internal control was defined at *article 55 of Public Financial Management And Control Law as "The whole of the financial and other controls comprising organization, methodology, procedure and internal audit established by the administration in order to provide that the activities are performed in an effective, economic and efficient way in accordance with the aims, defined policies of the administration and with legislation, the assets and resources are protected, the accounting records are held correctly and completely, the financial information and management information are produced in time and securely".*

In this article, internal control is expressed as an organization which contains internal audit and is made by public administration.

Internal control aim to;

- \* Execution of public financial activities in an effective, economic and efficient way
- \* Protection of assets and resources
- \* Keeping accurate and complete accounting records
- \* To produce timely and reliable financial information and management information

The most important part of these controls is internal control. As previously stated, internal audit is made prior to the expenditure.

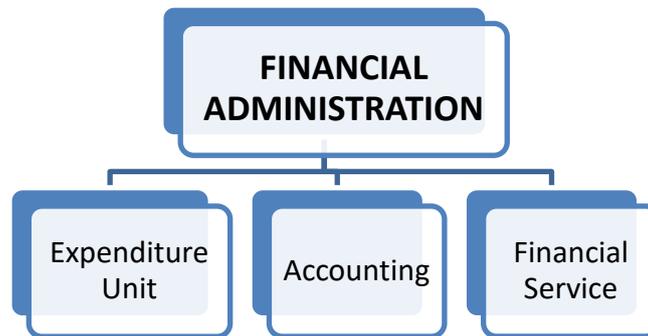


**Figure 2: Process of Internal Control**

Internal control consists of pre- financial control and internal audit. Pre- financial control is not only covered by the spending units regularly controlling the realization but also included during the preliminary financial control, performed by financial services. The phase of preliminary financial control is the withdrawal of the certification process in which preparation of financial decisions, transactions, loading, initiating, and implementation of business are carried out.

## **2.2. Financial Administration**

The terms of financial administration was defined in the same article together with internal control. Financial administration and control systems of the public administration consist of expenditure units, accounting and financial services. Financial administration is a system which was needed all of public administration of Law of 5018.



**Figure 3: Financial Management Schema**

This system consists of three parts; unit expenditure, including accounting and financial services. Expenditure units refer to allocated allowances to public administration. Financial services have a duty to make preliminary financial control.

### **3. Internal Audit**

Article 63 of law of 5018 is related with internal audit. Internal audit is an activity of providing independent and objective assurance and consultancy, performed in order to improve and add value to the activities of the public administrations by evaluating whether the resources are managed in conformity with the principles of economy, effectiveness and efficiency, and by providing guidance. Such activities are performed with a systematic, regular and disciplined approach and in accordance with generally accepted standards, aiming to evaluate and improve the efficiency of risk management and of management and control processes on the management and control structures and financial transactions of administrations. According to this definition, internal control is guidance and consulting activity.

Internal audit is performed by the internal auditors. Taking into account the structure and personnel number of public administrations, upon the positive opinion of the Internal Audit Coordination Board, internal audit units may be established, which are directly subject to the head of the public administrations. Internal audit will be done by Internal Audit Coordination Board is the competent institution. However, internal audit is not compulsory in law, senior management and appropriate is left to the opinion of the Board.

### **4. Literature Review**

Kesik (2005), discussed the issue of the Turkish Public Internal Financial Control System with law of 5018 in the EU process in his study. The use of public resources in pre-spending authority was given to the initiative, then was dominated by the increasing understanding of the effectiveness of control in the world budget systems. The law of 5018 will serve this purpose; internal control, internal audit and financial control concepts focused on the effects of European Union process (Kesik, 2005: 94-114).

Gül (2008) wrote an article on accountability in public administration and security services. Transparency and accountability of public sector institutions should be in each unit. In the security services, especially to those who exercised the profession of policing accountability,

transparency, emphasizing that it is more important that an article was explicated by reference to other laws and regulations varieties (Gül, 2008: 71-94).

Supervision of the work and action of managers in a variety of ways based on constitutional and statutory grounds is a very important gain for individuals (Kuluclu, 2006: 3-37). In this study, the control subject exhaustively discussed, management audit with the concept of audit is independent from management, it was stated that a phenomenon that could not be. The law is also stated different perspective and performance management were analyzed in detail in this study. In comparison with the OECD countries, given that public resources are effective, economic and efficient use which will allow for performance management is a concept that is explicated (Yenice, 2006: 122-132).

The uncertainty of the budget means growing out of the control of public revenue and expenditure and this also prevents taking quality services to individuals (Saraç, 2005: 122-163). In this article; it was stated that modified current budget system as stated in the policy document national programme of the, in accordance with international norms and European Union standards opened the way for the creation of public financial management and control system. In addition, this study explained in detail the functions of the Internal Audit Coordination Board and internal control system, internal audit. Internal control and internal audit institutions have been analysed in the context of European standards.

In the current situation in Turkey the picture was taken of the internal control. Because internal audit strengthens senior management in public administrations of the success, credibility and accountability, its value is increasing day by day (Aslan, 2010: 63-86).

Gönülaçar (2008) studied relationship between internal control and internal audit, as a title "internal control of bureaucratic Continent". Due to lack of enough activity of the Internal Audit Coordination Board in Turkey a number of problems have been raised. Even though internal control framework is drawn within Law No. 5018 the framework, it was emphasized that isn't active and status of the internal auditor is experiencing problems (Gönülaçar 2008: 1-21).

Undoubtedly, it can be spoken transparency and accountability range of functionality in internal control. However, in addition to having the professional competence, internal auditor also needs to take into consideration of the principles of ethics. A study in this context rules of professional ethics have a great importance for anyone involved in international audit standards and for auditors of Turkish public financial management institutions. The lack of ethical rules in accordance with international standards is regarded as a disadvantage for Public financial management in our legislation. It is really important to have common ethical values with the auditors of other countries all over the world in a professional sense (Koçberber, 2008: 61).

Another study revealed that Law no 1050 was inadequate that there is a need for a new law process of European Union harmonization and discussed the benefits to the Turkish financial system (Kolçak, 2006: 367-384). In the EU harmonization process issues about the internal control are noted under the title of "financial control" chapter of 32 (Şahin, 2008: 289-302). It was expressed in this paper that internal auditors were assigned by the top administrator and conducted a situation assessment. Senior managers are the chief actors of internal control and

internal audit mechanisms (Bozkurt, 2010: 129-135). Internal control should be well understood and well applied for the successful public financial management( Akyel, 2010: 83-97). When the literature is examined a lot of studies were found about internal control and internal audit. Some are in the form of a review of the situation, while others are to bring solutions to existing problems.

## **5. The Aim of the Study and Hypothesis**

The main objective of this study is to measure the functionality of internal audit in institutions and public administrations in the EU integration process. There are two main hypotheses within the scope of the study.

**H1.** In Turkey, public internal audit is not conducted effectively in public administrations and institutions as stated in the law.

Connection of Hypothesis 1 to sub-problems is as follows;

**P1.** What are the causes of inefficient audit institutions?

**P2.** What are the solutions to overcome obstacles in institutions?

**H2.** Top managers of public administration and institutions does not show interest to institution of internal audit.

Connection of Hypothesis 2 to sub-problem is as follows;

**P1.** What are the conditions of blocking and delays in the appointment of internal control top managers?

## **6. Method**

A qualitative technique is used to collect data in this study. Qualitative data contains information to achieve specific objectives in the natural environment, and techniques such as observation and interviews obtained from any of the participants perceptions and thoughts about the events (Leech and Onwuegbuzie, 2007). During this phase of the study, collect the data "document scan" method was used.

### **6.1. Document Scanning**

In qualitative data collection, two kinds of techniques are used. One of them is basic technique and the other is supportive technique (Özdemir, 2010). Naturalistic observation, document scanning and in-depth interview are among the methods for basic data collection. Document scanning covers process of analyzing some documents to which the researcher thinks that the reserach topic is related. (Hodder, 2002). In this study, published data and reports were scanned and examined at the internet address of the internal audit coordination board (<http://www.idkk.gov.tr>). According to Law of 5018, in which the institutions are subject to internal audit, vacancy of internal auditor and the numbers of empty employee positions were determined.

## **7. Findings**

### **7.1. Document Scanning Analysis**

Internal audit report which is prepared by The Internal Audit Coordination Board was shared in 2014. In this report there are performance informations about internal audit on the general public. In law of 5018, there are four lists as public institutions as I, II, III, and IV located in the numbered ruler; general budget institutions, special budget institutions, social security institutions and local government administrations belonging to the information it offers in

Table 1. According to this table; 34 general budget institutions, 105 special budget institutions, 2 social security institutions and 111 local government units have assigned internal auditors to vacancy position. There are 383 institutions in law of 5018. But 131 institutions have never assigned internal auditors. It is observed that 65% of institutions bound by the law by employing auditors.

**Table 1. Number of Full Staff and Assignment of Auditors In Institutions**

Public Institution	The Number of Institution No Make Assignment	The Number of Institution Make Assignment	Total Institution
General Budget	11	34	45
Special Budget	31	105	136
Social Security Institutions	0	2	2
Local Administration	89	111	200
Total	131	252	383

Source: <http://www.idkk.gov.tr/SiteDokumanlari/Faaliyet%20Raporlar%C4%B1/2014YiliKamuiDenetimGenelRaporu.pdf> (20.10.2016)

In Table 2, there are informations about the number of staff Internal Auditor and assigned Internal Auditor to the public administrations.

There are 383 public administrations and institutions in Turkey that internal audit staff. It was allocated 2072 auditors all of public administrations. But number of assignment is 966. Staff occupancy rate is %47. In this table the most interesting data is interested in social security institutions. Because these institutions have assigned 39 auditors from allocated number of 40. 695 of cadre allocated to general budget institutions, have made assignment to 314 cadre. Vacancy rate is %55 in general budget institutions, %43 in special budget institution and % 63 in local administrations.

**Table 2. The Ratio Of Total Staff To Full Staff**

Public Institution	Number of Staff	Number of Full Staff	Rate of Full Staff (%)
General Budget	695	314	45
Special Budget	603	344	57
Social Security Institutions	40	39	98
Local Administration	734	269	37
Total	<b>2072</b>	<b>966</b>	<b>47</b>

Source: <http://www.idkk.gov.tr/SiteDokumanlari/Faaliyet%20Raporlar%C4%B1/2014YiliKamuiDenetimGenelRaporu.pdf> (20.10.2016)

Table 3 shows that; although internal auditors are allocated to the local governments and universities they haven't been assigned yet. 12 Cities in this table have never assigned internal audit to institutions. Allocated 108 staff are waiting in vain.

**Table 3. Non Assigned Cities Internal Audit (Municipal, Provincial Administration And University)**

Cities	Allocated to Muicipal	Allocated To Provincial Administration	Allocated To Universty
Ardahan	3	3	3
Artvin	3	3	3
Bayburt	3	3	3
Bitlis	3	3	3
Gümüşhane	3	3	3
Hakkari	3	3	3
Iğdır	3	3	3
Kilis	3	3	3
Muş	3	3	3
Siirt	3	3	3
Şırnak	3	3	3
Tunceli	3	3	3

**Source:** <http://www.idkk.gov.tr/SiteDokumanlari/Duyurular/Dolu-BosKadroSayisi.pdf> (20.10.2016)

Table 4 gives information about non assignment internal auditors among general budget public administrations although auditors are allocated. Twelve institutions have never assigned internal auditors. Some of them are; Constitutional Court, Council of State, Supreme Court, Audit Court and [the Supreme Board Of Judges And Prosecutors](#). This is a negative situation for high courts of justice. Also it has been seen that Prime Ministry and Presidency have no internal auditors in their units too. Although Revenue Administration has twenty five staff it hasn't appointed internal auditors to units.

**Table 4. Non Assigned Internal Auditors In Institution of General Budget**

Institutions of General Budget	Number of Staff Allocation
Constitutional Court	3
Prime Ministry	8
Presidency	3
Agency For Workshops In Punishment	5
Council of State	3
<u>State Personnel Presidency</u>	3
Revenue Administration	25
Supreme Board Of Judges And Prosecutors	3
Board of Public Auditors	3
<u>Undersecretariat Of Public Order And Security</u>	3
Audit Court	3
Supreme Court	3

**Source**

**Adress:** <http://www.idkk.gov.tr/SiteDokumanlari/Duyurular/Dolu-BosKadroSayisi.pdf> (20.10.2016)

## 8. Conclusion and Suggestions

Public Accounting Act (1050) was put aside when The Public Financial Administration and Control Law (5018) came into force in Turkish Law. It has been involved in a lot of innovation in the public financial understanding. One of these innovations is the "internal audit institution ". With the help of the internal audit of public resources it was aimed to spend effectively, efficiently and economically. And also it was targeted consolidate the principles of accountability and transparency. Since 2006, Internal Audit Coordination Board has authorized to allocate internal auditors to general budget of the public administration, special budget of public administration, social security institutions and local administrations.

In total, 2072 internal auditor cadres have been allocated until 2014. 966 internal auditors have been appointed to different units of public management. The occupancy rate is 47% of the staff. Exception of the general budget, other public administrations have never assigned internal auditors in 12 cities. Some of general budget of the public administration have never done this too. It has seen that very important public administrations have no internal auditors as a Presidency, Prime Ministry, Constitutional Court and Supreme Court.

Public Financial Management And Control Law" in article of 63, internal audit institution was left to the discretion of the top managers. Assignment of internal auditor isn't mandatory. The Law has come in to force for 11 years. But some public administrations have never taken in internal auditors to their units. And most of them didn't fill up completely allocated cadres. This situation can result from the fact that the institution internal audit is not compulsory in public administrations.

As a result; whereas internal audit is voluntary, external audit is compulsory. There is no power to impose sanctions in the internal audit, which are not considered significantly by senior managers of public administration. Internal auditing goes no further than the advisory and guiding activities. To gain interoperability, internal audit institution must be made compulsory by law. However, internal audit should have the power to sanction for public administration. Unless internal audit is compulsory, it will not be possible to gain operability.

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