

# PROCEDURES AND PRINCIPLES ON INTERNAL CONTROL AND EX-ANTE FINANCIAL CONTROL

## SECTION ONE

### Purpose, Scope, Basis and Definitions

#### Purpose and scope

**Article 1-** The purpose of this Procedures and Principles is to determine principles, works, transactions and processes regarding internal control and ex-ante financial control activities of the public administrations within the scope of general government excluding regulatory and supervisory agencies.

#### Basis

**Article 2 -** This Procedures and Principles has been prepared based on Article 55, 56, 57 and 58 of the Public Financial Management and Control Law dated 10.12.2003 and numbered 5018.

#### Definitions

**Article 3 -** The following terms included in this Procedures and Principles are defined as follows;

**Ministry:** Ministry of Finance,

**Law:** Public Financial Management and Control Law dated 10.12.2003 and numbered 5018,

**Administration:** Each public administration within the scope of general government, excluding regulatory and supervisory agencies,

**Head of Public Administration:** Respectively, in ministries the undersecretary, in the Ministry of National Defense the Minister, in other public administrations the highest administrator, in special provincial administrations the governor and in municipalities the mayor,

**Internal Control:** Entire financial and other controls covering the organization, method, process and internal audit established by the administration in order to ensure that the activities are carried out in an effective, economic and efficient manner in compliance with the purposes of the administration and determined policies and the legislation, the assets and resources are protected, accounting records are kept in an accurate and complete manner and financial and management information is produced in time and in a reliable manner,

**Ex-ante financial control:** Control of the financial decisions and transactions of the public administrations related to the revenue, expenditure, assets and liabilities concerning their compliance with the budget, budget item, available appropriation amount, expenditure program, financing program of the administration, the central government budget law and other financial legislation provisions and in terms of the utilization of the resources in an effective, economic and efficient manner.

**Letter of opinion:** Opinion in writing or annotation written on the baseline document appropriate which is delivered as a result of ex-ante financial control regarding whether the financial decisions and transactions of the public administrations are deemed appropriate,

**Financial services unit:** The unit in public administrations which fulfills the duties set forth in Article 60 of the Law No 5018,

**The Procedures and Principles:** This Procedures and Principles.

## **SECTION TWO**

### **Internal Control**

#### **Objectives of internal control**

**Article 4-** Objectives of internal control are to ensure that

a) public revenues, expenditures, assets and liabilities are managed in an effective, economic and efficient way,

b) public administrations operate in accordance with the laws and other regulations

c) irregularities and frauds are prevented in all kinds of financial decisions and transactions,

d) regular, timely and reliable reporting and acquisition of information are assured for decision-taking and monitoring

e) the assets are protected against any abuse, prodigality and loss.

#### **Internal control standards**

**Article 5-** Internal control standards shall be defined and published by the Ministry within the framework of the central harmonization duty. The administrations are obliged to abide by and fulfill these standards in all their financial and non-financial transactions.

Provided they are not violating the law and internal control standards, standards regarding all kinds of methods, processes and specific transactions may be determined by the administrations within the framework of their duty fields.

#### **Basic principles of internal control**

**Article 6-** Basic principles of internal control are as follows:

a) Internal control activities shall be carried out within the framework of managerial responsibility of the administration.

b) Primarily the risky areas shall be taken into consideration in internal control activities and arrangements.

c) The responsibility concerning internal control shall cover all officials involved in the transaction process.

d) Internal control shall cover all financial and non-financial transactions.

e) Internal control system shall be evaluated at least once in a year and the measures to be taken shall be determined.

f) In internal control arrangements and implementations, sound financial management principles such as compliance with the legislation, transparency, accountability and economy, efficiency and effectiveness shall be taken as basis.

### **Components and general conditions of internal control**

**Article 7-** Components and general conditions of internal control are as follows:

a) Control environment: It is essential that administrators and employees of the administration ensure a positive view towards internal control and possess ethical values and an honest management approach. Within the framework of performance based management approach, it is ensured that duties, authority and responsibilities are assigned to knowledgeable and competent persons through attaching importance to expertise and the performance of the personnel is evaluated. Organizational structure of the administration and the duties, authority and responsibilities of the personnel shall be determined clearly.

b) Risk assessment: Risk assessment is an activity which is performed by taking into account the changes occurred under the existing conditions and which presents continuity. In order to achieve the objectives and targets set forth in its strategic plan and performance program, the administration shall evaluate the risks caused by both internal and external reasons.

c) Control activities: All kinds of preventive, detective and corrective control activities shall be determined and applied.

d) Information and communication: All kinds of information which will be required by the administration should be recorded and classified appropriately and should be forwarded in a format and period of time that will allow the concerned persons to fulfill internal control and other responsibilities.

e) Monitoring: Internal control systems and activities shall be monitored, reviewed and evaluated continuously.

### **Authority and responsibilities regarding internal control**

**Article 8-** Heads of public administrations shall be responsible for the establishment and supervision of internal control system and the authorizing officers, within the framework of their duty and authority fields, shall be responsible for the functioning of internal control system related to financial decisions and transactions.

Financial services units of the administrations shall work as regards the establishment of internal control system and the implementation and development of standards and shall carry out the ex-ante financial control activity. Accounting officers shall be responsible for keeping the accounting records in accordance with the relevant procedure and standards, in a transparent and accessible manner.

Heads of public administrations, authorizing officers and other administrators, within the framework of their duties and authority, shall be responsible for building professional values and an honest management approach; assigning financial authorities and responsibilities to knowledgeable and qualified administrators and personnel; ensuring that defined standards are followed; avoiding activities that contradict the legislation; and ensuring a suitable work environment and transparency with a comprehensive management approach.

Heads of public administrations and authorizing officers who are allocated appropriation through the budget shall issue, annually, an internal control assurance declaration which states that works and transactions have been realized in accordance with sound management principles, control arrangements and the legislation and shall attach them to the unit accountability reports and administration accountability reports.

Internal control arrangements and functioning of internal control system shall be subject to evaluation at least once a year and necessary measures shall be taken through taking into account the opinions of the administrators, requests and complaints of the persons and/or administrations and the reports issued upon internal and external audit.

### **Central harmonization duty**

**Article 9-** Standards and methods related to internal control shall be determined, developed and harmonized by the Ministry. In this framework, the Ministry;

a) shall determine internal control standards and monitor whether these standards are abided by,

b) shall determine standards and methods on ex-ante financial control as well as the financial decisions and transactions that are subject to ex-ante financial control and their control principles and procedures,

c) shall ensure coordination among administrations and provide guidance services for administrations in the field of internal control,

d) shall establish cooperation with the administrations for general and specific arrangements related to internal control and ex-ante financial control, organize study meetings,

e) shall monitor the functioning of the systems through taking reports and information from the administrations about internal control and ex-ante financial control arrangements and implementations,

f) shall determine working principles and procedures of the financial services units of the administrations,

g) shall search national and international good practice examples, carry out activities for their implementation,

h) shall prepare training programs related to internal control and financial management and control system.

### **SECTION THREE** **Ex-ante Financial Control**

#### **Scope of ex-ante financial control**

**Article 10-** Ex-ante financial control duty shall be carried out by the spending units and financial services unit within the framework of managerial responsibility of the administrations.

Ex-ante financial control consists of the controls carried out by the spending units and controls carried out by the financial services unit. The ex-ante financial control to be performed by the financial services unit consists of the controls determined by the Procedures and Principles and controls foreseen to be performed by this unit within the framework of the arrangements to be made by the administrations.

Financial decisions and transactions related to the revenue, expenditure, assets and liabilities shall be controlled by the spending units and financial services unit in terms of their compliance with the budget, budget item, available appropriation amount, detailed expenditure program or financing programs of the administration, the central government budget law and other financial legislation provisions. Furthermore, financial decisions and transactions shall also be controlled by the spending units in terms of utilization of the resources in an effective, economic and efficient manner.

#### **Quality of ex-ante financial control**

**Article 11-** Whether a positive opinion has been granted or not as a result of ex-ante financial control shall have an advisory and preventive characteristic, it shall not be binding in the implementation of financial decisions and transactions by the authorizing officer.

That financial decisions and transactions are subject to ex-ante financial control and that positive opinion is granted as a result of ex-ante financial control shall not remove the responsibility of authorizing officers and realization officers.

#### **Ex-ante financial control process**

**Article 12-** Financial decisions and transactions that are subject to ex-ante financial control of the financial services unit shall be sent to financial services unit to be controlled. A letter of opinion shall be issued and sent to the concerned unit for the transactions controlled by the financial services unit. In the event that letters of opinion are issued as a result of ex-ante financial control, they should be detailed, clear and accompanied by statement of

reasons. Letter of opinion of the financial services unit shall be kept in the relevant operation file and one copy shall be attached to the payment order document.

Process control shall be performed in spending units. In process control, each transaction shall be designed and implemented so as to include the control of the previous transactions. Those who assume duties in the execution of financial transactions shall control the transactions concluded prior to the transaction they are to make. In order to ensure process control, process flow chart of the financial transactions shall be prepared and put into effect upon the approval of the head public administration.

Authorizing officers shall assign their deputies or one or more realization officers who are hierarchically closest to their level to issue payment order documents. Realization officers that are assigned with the duty of issuing payment order document shall apply ex-ante financial control on the payment order document and the documents attached thereto. As a result of the control performed by these realization officers, the payment order document shall be annotated with “Controlled and deemed appropriate” and signed.

### **Control procedure**

**Article 13–** Following controls performed in the spending units and financial services units, provided the financial decisions and transactions are deemed appropriate, the annotation of “Controlled and deemed appropriate” shall be written on the baseline document or a letter of opinion shall be issued.

In the event that the financial decisions and transactions are not deemed appropriate, a letter of opinion clearly stating the reasons shall be written and sent to the relevant unit by attaching the documents of the financial decisions and transactions that are subject to control.

In the controls performed by financial services units pursuant to the articles 17 and 26 of the Procedures and Principles, it is obligatory that a letter of opinion is issued. In this letter, whether the financial decisions and transactions are deemed appropriate or not after the control performed and if not deemed appropriate, its reasons shall be stated clearly. Regarding the decisions and transactions found to have deficiencies which can be corrected in line with its relevant legislation, provided that these deficiencies and how they can be corrected are stated and on condition that these are corrected, a letter of opinion indicating the transaction is deemed appropriate may be issued.

### **Control authority**

**Article 14–** Ex-ante financial control authority belongs to the head of financial services unit. Letter of opinion and control annotations issued as a result of the control shall be signed by the head of financial services unit. Head of financial services unit may delegate this authority in writing to his deputy or to the head of internal control division of the unit on condition that he clearly defines the limits. In the event that head of financial services unit has become the authorizing officer, duty of ex-ante financial control shall be executed by head of internal control division of the unit.

The control of the financial decisions and transactions that are subject to ex-ante financial control of the financial services unit shall be performed by the internal control division of the unit.

The duty of ex-ante control on payment order documents and its attachments in spending units shall be performed by the realization officer assigned with issuing payment order document.

### **Principle of segregation of duties**

**Article 15-** Duties of the authorizing officer and accounting officer cannot be given to the same person. Those who carry out ex-ante financial control duty in financial services unit shall not be assigned any duty in the processes of preparation and implementation of financial decisions and transactions such as preparation of approval document and its attachments, specifications and draft contracts, documentation of financial decisions and transactions and accepting goods and services and shall not be chairman or member of Tender Commission, Examination and Admission Commission.

## **SECTION FOUR**

### **Financial Decisions and Transactions Subject To Ex-ante Financial Control of Financial Services Unit**

#### **Calculation of financial burden of draft laws**

**Article 16-** Draft laws which will cause a decrease in revenues or an increase in expenditures and which will bring liabilities to the administration shall be sent to the financial services unit which shall ensure the calculation of their financial burdens. The financial burdens of draft laws shall be calculated for a period of at least three years and shall be evaluated within the framework of the medium term program and medium term fiscal plan in terms of its effects on the strategic plan, performance program and the budget of the administration. In draft laws concerning social security, actuarial calculation for at least twenty years shall be performed.

#### **Commitment document and draft contracts**

**Article 17-** Whether subject to or not subject to the procurement laws, administrations' commitment documents and draft contracts which require expenditure and whose price exceeds one million New Turkish Liras for goods and services procurements and two million New Turkish Liras for construction works shall be subject to control. These amounts do not include value added tax.

Works related to the projects included in the annual programs which are approved by the Council of Ministers and included within the scope of article 1 of the Law numbered 3833 and dated 2/7/1992 and commitment documents and draft contracts for all kinds of goods and services to be locally supplied for the needs of the Turkish Armed Forces Units that are dispatched abroad as required by the international agreements and Decree of Council of

Ministers along with the commitment documents regarding the expenditures made within the scope of Expropriation Law numbered 2942 shall not be subject to control regardless of their amounts.

Commitment documents and draft contracts that are subject to control shall be brought together in an operation file which will include all the related information and documents and shall be sent to the financial services unit by the authorizing officer.

Commitment documents and draft contracts shall be controlled latest within ten workdays. Letter of opinion to be issued as a result of the control shall be sent to the concerned authorizing officer together with the operation file.

### **Appropriation dispatch documents**

**Article 18**– Distribution of budget appropriations shall be performed via appropriation dispatch documents. Appropriation dispatch documents shall be sent to financial services unit to be controlled after being signed by the authorizing officer. Appropriation dispatch documents, which are controlled and deemed appropriate in terms of their compliance with the central government budget law or budget, budget item, detailed expenditure or financing program and the procedures and principles on the distribution and utilization of budget appropriations, shall be finalized latest within three workdays. Appropriation dispatch documents that are not deemed appropriate shall be forwarded to the authorizing officer accompanied by a statement of reasons.

### **Appropriation transfer transactions**

**Article 19**– Appropriation transfers which the public administrations within the scope of central government will make within their budgets in accordance with the Law and the central government budget law and the transfers which the other administrations shall make within their budgets and upon the request of the spending agencies the framework of the related arrangements shall be prepared by budget and performance program division of financial services unit and shall be controlled by internal control division prior to being submitted to the approval of the head of public administration. Such transfers shall be finalized latest within two workdays after being controlled within the framework of the Law, central government budget law and the arrangements related to the budget transactions according to their references.

Requests of transfers which are found in contradiction with the related legislation shall be sent to the authorizing officer accompanied by a statement of reasons.

### **Cadre distribution charts**

**Article 20**– Cadre distribution charts of the administrations that are subject to the Decree Law on General Cadre and Procedures numbered 190 shall be subject to control upon the assurance of conformity with the Ministry and State Personnel Presidency within the framework of the said Decree Law and Regulation on the Procedures and Principles of Cadre Creating, Release, Cadre Change and Use of Cadres.

Cadre distribution charts of the administrations that are subject to the Decree Law on the Cadres of the Academicians of the Higher Education Institutions numbered 78 shall be subject to control upon the approval of the Higher Education Board.

Cadre distribution charts shall be controlled latest within five days. Payments to be made to the relevant parties shall be according to these approved cadre distribution charts. Any change on these charts shall be subject to control as well.

Creations and changes of cadre in the administrations that are not subject to Decree Law numbered 190 shall be subject to control within the same period.

The provisions of this article shall not apply to the cadres of the Turkish Armed Forces personnel and the cadres to be kept confidential due to national security reasons.

### **Travel card lists**

**Article 21-** The list of the personnel to be given free travel card in accordance with Article 48 of the Travel Allowance Law numbered 6245 within the framework of the principles to be defined jointly by the Ministries of Interior, Finance and Transport shall be controlled by financial services unit following the evaluation of the unit proposals. Relevant requests shall be controlled latest within three workdays after being controlled in terms of their compliance with the principles stated above and the arrangements done by the Ministry and also in terms of the adequacy of the budget appropriation. Requests that are not deemed appropriate shall be sent to the relevant unit accompanied by a statement of reasons.

### **Mobile duty compensation charts**

**Article 22-** According to the institutional structures and necessities of administrations mobile duty distribution lists to be prepared for each unit, region, province and district shall be controlled by the financial services unit. These distribution charts shall be controlled latest within three workdays after being controlled in terms of their compliance with the Travel Allowance Law No 6245, the arrangements made based on this Law, appropriations included in the budget for this purpose and the charts visaed by the Ministry. Requests that are not deemed appropriate shall be sent to the relevant unit accompanied by a statement of reasons.

### **Temporary worker positions**

**Article 23-** Within the framework of the authority determined in the central government budget law, distribution in monthly and unit basis of the number of the temporary personnel positions (person/month) to be employed in the administrations within the scope of general budget, administrations with a special budget and social security institutions shall be subject to control.

After the visa of the monthly distribution of the number of temporary worker positions by the Ministry of Interior (person/month) to be employed in the local administrations that have not launched norm-cadre implementation, the charts indicating the distribution of the temporary workers as to the units shall be subject to control.

Temporary worker positions shall be controlled by the financial services unit latest within five workdays. The charts that are not deemed appropriate after control shall be sent to the relevant unit accompanied by a statement of reasons.

### **Fringe benefit charts**

**Article 24-** Among the civil servants employed in the administrations within the scope of the Civil Servants Law No 657 and the annexed provisional Article 9 thereof, in accordance with the Decree of Council of Ministers which entered in to force basing on the Article 152 of the said Law relating to who will be paid increase and compensation according to the duties they carry out and positions they hold, the amount of the increase and compensation to be paid, payment procedures and principles; the charts prepared over free cadres indicating the duty or cadre titles of the personnel to be paid increase or compensation, classes, grades, numbers and service places, the quantities of increase and compensation in line with these and the lists showing their distribution in terms of units shall be subject to the control of financial services unit. The control operation, process and the approval process of the charts by the head of administration shall be carried out within the framework of procedures and principles stated in the said Council of Ministers Decree.

### **Number of contractual personnel and their contracts**

**Article 25-** The contracts to be made with the personnel to be employed by the public administrations in accordance with the charts and the type contract visaed by the Ministry annually on the basis of each administration and the contracts to be made with the personnel to be employed without the visa of the Ministry as result of the relevant legislation shall be subject to control. These contracts shall be examined in terms of their compliance with the charts and the type contracts visaed by the Ministry, with the relevant laws and other legislation and the arrangements foreseen in their budgets and shall be finalized latest within five workdays. The contracts which are not deemed appropriate shall be sent to the concerned unit accompanied by a statement of reasons.

### **Foreign service rent contribution**

**Article 26-** The operation file including the documents regarding the foreign service rent contribution to be paid to the personnel which are subject to the Civil Servants Law No 657 and Turkish Armed Forces Personnel Law No 926 and to be appointed to the foreign service cadres on a permanent basis shall be prepared by their units and shall be sent to the financial services unit in order to be controlled. The requests shall be examined in accordance with the annual central government budget law in terms of their compliance with the procedures and principles determined by the Ministry and positive opinion shall be granted for the requests deemed appropriate latest within three work days. Requests that are not deemed appropriate shall be sent to the relevant unit accompanied by a statement of reasons.

## **SECTION FIVE**

## **Other Provisions, Final Provisions**

### **Arrangements to be made by the administrations**

**Article 27** –When required by the administrations, arrangements may be made within the framework of same principles and procedures regarding the control of financial decisions and transactions by the financial services unit apart from the financial decisions and transactions set forth in the procures and principles. The arrangements to be made by the administrations in this respect shall be put into force upon the approval of the head of public administration. By taking into consideration the risky fields, financial decisions and transactions which shall be subject to ex-ante financial control of financial services unit shall be determined according to their type, amount and subject in these arrangements and shall be evaluated once every year.

The arrangements regarding internal control and ex-ante financial control shall be notified to the Ministry within ten workdays upon its approval by the head of administration.

### **Financial decisions and transactions which are not granted positive opinion**

**Article 28-** In the event that the transactions not granted positive opinion as a result of ex-ante financial control are realized by the authorizing officers, such transactions shall be recorded by the financial services unit and shall be notified to the head of administration on a monthly basis. The said records shall also be submitted to the auditors during internal and external audits.

### **Control periods**

**Article 29-** Financial services unit are obliged to finalize control and positive opinion processes within the periods specified. In the determination of the starting date of the periods specified in the Procedures and Principles, the workday following the registration date of the incoming document in financial services unit shall be taken as basis. These periods may be increased up to its one fold upon the request of the financial services unit and approval of the head of public administration.

### **Regulation and coordination duty**

**Article 30-** The Ministry, within the framework of the provisions of the Law and Procedures and Principles, shall be assigned and authorized to ensure coordination regarding the methods and standards related to internal control and ex-ante financial control.

### **Elimination of Hesitations**

**Article 31-** The Ministry shall be authorized to eliminate the uncertainties possible to occur in the course of the implementation of this Procedures and Principles.

### **Entry into Force**

**Article 32-** This Procedures and Principles shall enter into force on 1.1.2006.

### **Execution**

**Article 33-** The Minister of Finance shall execute the provisions of this Procedures and Principles.