

**Transition to New System  
“from Inspection to Internal Audit”  
TURKEY Case**

**Burhanettin AKTAS  
Ahmet BASPINAR**

---

**IA CHU Member  
Head of Department for IA CHU**

# Presentation Plan

- Change in management
- Existing audit system
- Deficiencies in existing audit system
- Need for change in audit
- New audit system: “internal audit”
- Approach-related barriers in front of transition to new audit system
- Overlap in Inspection and Internal Audit
- Suggestions for solution

# Change in management

- From “hierarchical bureaucracy” to “good governance”
- From “management” to “governance”
- Competitive environment compel the organizations to change
- Being part of management, change in audit is also inevitable

# Existing audit system

- Administrative Audit; including inspection, examination, hierarchical audit and guardianship supervision
- Political Audit; including preliminary session, motion, parliamentary research, parliamentary investigation, inquiry and right to petition
- Public Opinion Audit; including media, NGOs and right to knowledge
- Judicial Audit; which is used by independent courts and which is also the most effective audit tool

# Deficiencies in existing audit system

- Sometimes subjective and punitive approach is followed within the scope of “so-called discretion”
- Since inspection planning is not performed together with head of administration, findings of inspection may sometimes not meet the expectations of the management
- As it focuses on compliance audit, system audit is ignored. As a result, adequate contribution can not be ensured with regard to liquidation of the systems susceptible to corruption
- Generally accepted inspection standards and relevant inspection guides are not in place. Hence, modern audit approaches and techniques can not be used

# Deficiencies in existing audit system (cont'd)

- Central Harmonization Unit, assigned the duties of monitoring and harmonizing the inspection practices as well as disseminating best practices, is not in place
- Since external assessment of inspection units is not performed within the scope of quality assurance services, quality of inspections can not be determined and can not be improved, either
- Results of inspections are rarely publicized
- Apart from few inspection boards, adequate and standardized training is not provided aiming at in-service improvement of inspectors

# Need for change in audit

- Working orders of audit units should be grounded in sound legal basis through determining the common rules with regard to organizational structure and operation in audit
- It should be ensured that auditing duties are performed within the framework of general standards
- Technical level of audit should be increased; in this regard, efficiency of audit should be increased through using CAAT widely
- Efficiency and system audit should be attached importance

# **New audit system: “internal audit”**

- Value added to the organization
- Assurance
- Consultancy service
- Compliance with international standards
- Functionally independency
- Risk-oriented approach in auditing activity
- Professional code of ethics



# New audit system: “internal audit” (cont’d)

## Internal Audit;

- is performed by certified internal auditors
- is performed in accordance with generally accepted internal audit standards
- is performed according to risk based audit plans and programs prepared by the Internal Audit Unit and endorsed by the head of public administrations
- is performed with a systematic and disciplined approach
- is performed in accordance with functional independency principle
- covers all financial and non-financial transactions

# New audit system: “internal audit” (cont’d)

- Internal Audit Coordination Board having inter-ministerial structure has been established in 2004
- Internal Audit by-laws have been published:
  - By-Law On The Working Procedures and Principles of The Internal Audit Coordination Board (in October 2005)
  - By-Law On The Selection, Training and Certification Of Internal Auditor Candidates (in October 2005)
  - By-Law On The Working Procedures and Principles Of Internal Auditors (in July 2006)
- Communiqués on Internal Auditor Assignment Procedure has been published (in September and December 2006)
- For harmonization of PIFC system with the international standards and EU norms; a Twinning Project has been jointly executed by Turkish and French Ministries of Finance (between March 2005 and December 2006)
- To be used in Internal Audit; (CAAT) software has been opened to tender (in January 2006). It is almost done
- 550 internal auditors from 175 public institutions have been subjected to training

# New audit system: “internal audit” (cont’d)

- Internal control and internal audit guide for top managers
- Internal audit standards
- Internal auditor code of ethics
- Internal audit charter
- Internal audit reporting standards
- Procedures and principles on grading certificates of internal auditors
- Common working procedures and principles of internal auditors
- Internal audit plan and program preparation guide
- Risk assessment guide
- Internal audit strategy paper (2008-2010)

have been published

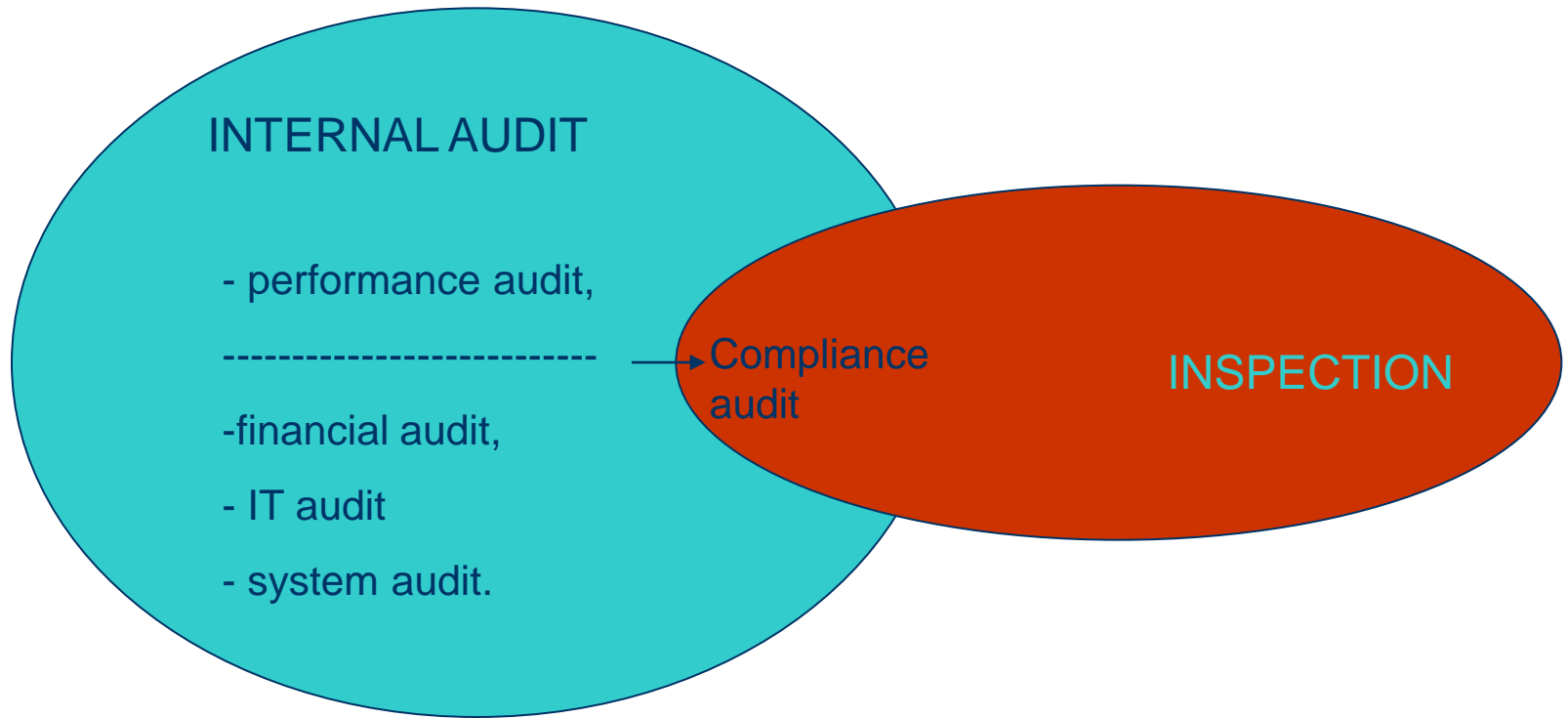
- Internal audit manual
- Internal audit quality assurance manual
- IT auditing guide for internal auditors

have been drafted

# Approach-related barriers in front of transition to new audit system

- Internal auditor candidates' old habits
  - Search for error and guilty
- Administration's inflexible point of view on auditing
  - Concealing the problems
  - Staying distant with the auditor and hands-off communication
  - Not to be in favor of auditing activity. (To be against the idea of being audited)
- Overlap in duty fields of Inspection and Internal Audit

# Overlap in Inspection and Internal Audit



# Suggestions for solutions

- Large-scale informing activity for top managers, managers and the personnel of the audited administrations
- Firm and sound establishment of the links between internal audit- external audit as well as inspection
- Collaboration with the related institutions and organizations
- Making arrangements which will ensure that the internal auditors to perform programmatic audits and the main focus point of inspection is “fight against corruption”

# Conclusion

- If the internal audit system is applied successfully:
  - Managerial responsibility principle shall be realized
  - Assurance on internal control shall be provided to the top managers
  - Value shall be added to corporate activities
  - Reliable information shall be provided for public opinion
  - Harmonization to international standards shall be ensured
  - Efficiency and effectiveness of public institution's activities shall be increased

# Lessons to be learned

- Internal audit model, which is a new concept in public sector, is not a magic potion
- Discredit and poor management which have been spread in the system should be deemed as a functional deficiency
- In this regard, “to improve all the institutional systems in the country” should be accepted as the objective to be reached
- The belief which expresses that
  - “70% of the reform is composed of changing the habits,
  - 20% of it is composed of change in system and
  - 10% of the reform is composed of legislative amendments”is also acceptable for public reform process in Turkey.
- Change in mentality as a whole is necessary



## Related Links for Internal Audit In Public (in Turkey)

- [www.idkk.gov.tr](http://www.idkk.gov.tr)
- [www.bumko.gov.tr](http://www.bumko.gov.tr)
- [www.kidder.org.tr](http://www.kidder.org.tr)
- [www.icdenetim.org](http://www.icdenetim.org)
- [www.denetimnet.net](http://www.denetimnet.net)

A decorative graphic on the left side of the slide, consisting of a light green vertical bar and a white rounded rectangle with a green top-left corner. A thick dark blue horizontal bar extends from the left edge of the white rounded rectangle across the top of the slide.

**THANKS**