

GENERAL FRAMEWORK

The aim of the Activity General Evaluation Report is to give assurance about the accuracy of financial information and performance information disclosed by senior managers to the public by giving a statement of assurance in the context of the strategic plan, performance program and budget information.

According to Article 41 of Law no.5018 and Article 39 of Law no.6085 and Activity Reports Evaluation Manual, 2016 Activity General Evaluation Report was prepared by detecting whether the information included in:

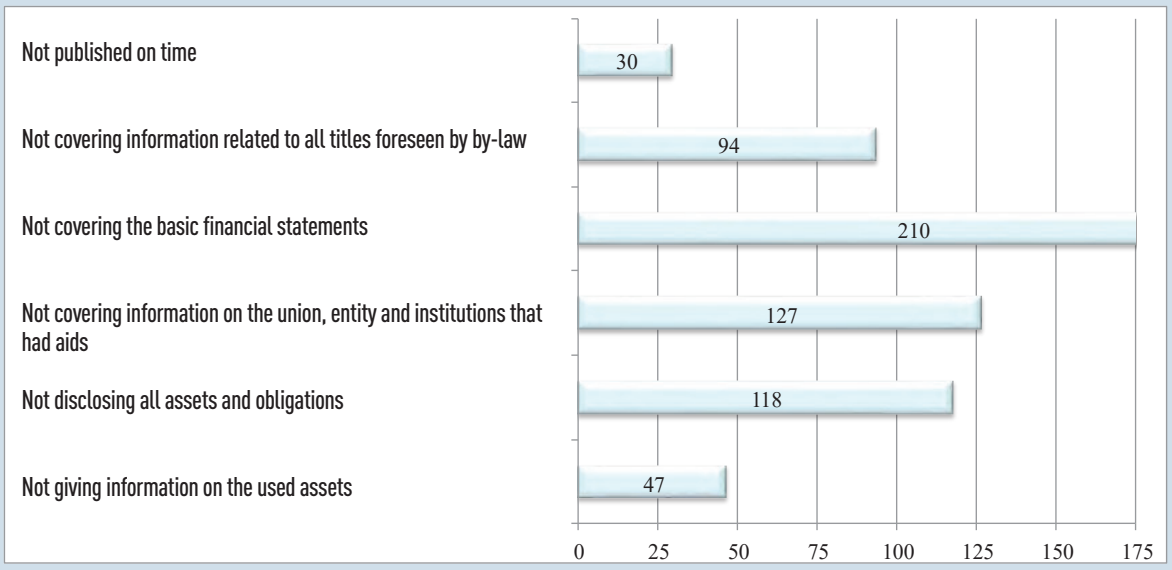
- 2016 Administrative Activity Reports, which were prepared by the senior managers of public entities to show their activity results within the framework of accountability,
- 2016 General Activity Report, which was prepared by the Ministry of Finance to include the general evaluations regarding the financial structures of local administrations and the 2016 activity results of the social security institutions and administrations under central government,
- 2016 Local Administrations General Activity Report, which was prepared by the Ministry of Interior to indicate the general status of local administrations based on the activity reports prepared by local administrations,

met the process requirements and the presentation criteria identified by laws and other legal regulations and by evaluating the accuracy and reliability of the information in the relevant reports by considering the results of the 2016 external audits.

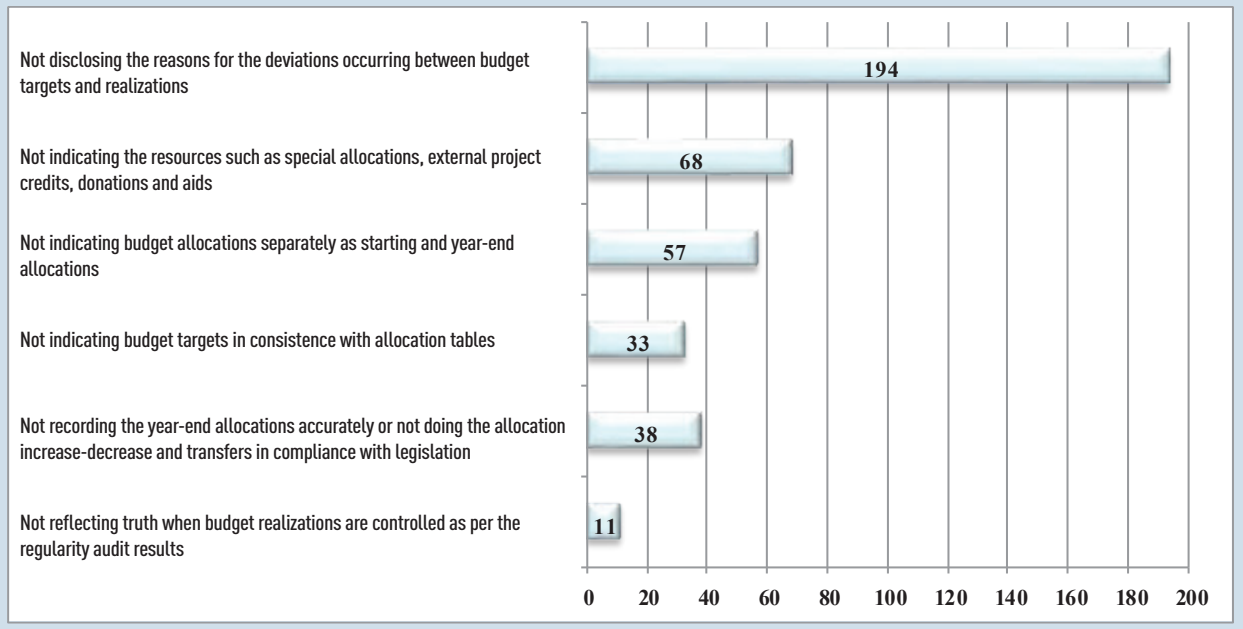
EVALUATION OF ADMINISTRATION ACTIVITY REPORTS

As indicated in the graph below, the evaluations were made by considering the audit results and activity report evaluations of 323 public entities including: 44 administrations with general budget, 75 administrations with special budget (higher education council, universities and high technology institutes), 36 other administrations with special budget, 2 social security institutions, 31 provincial special administrations, 134 municipalities, 1 local administration union.

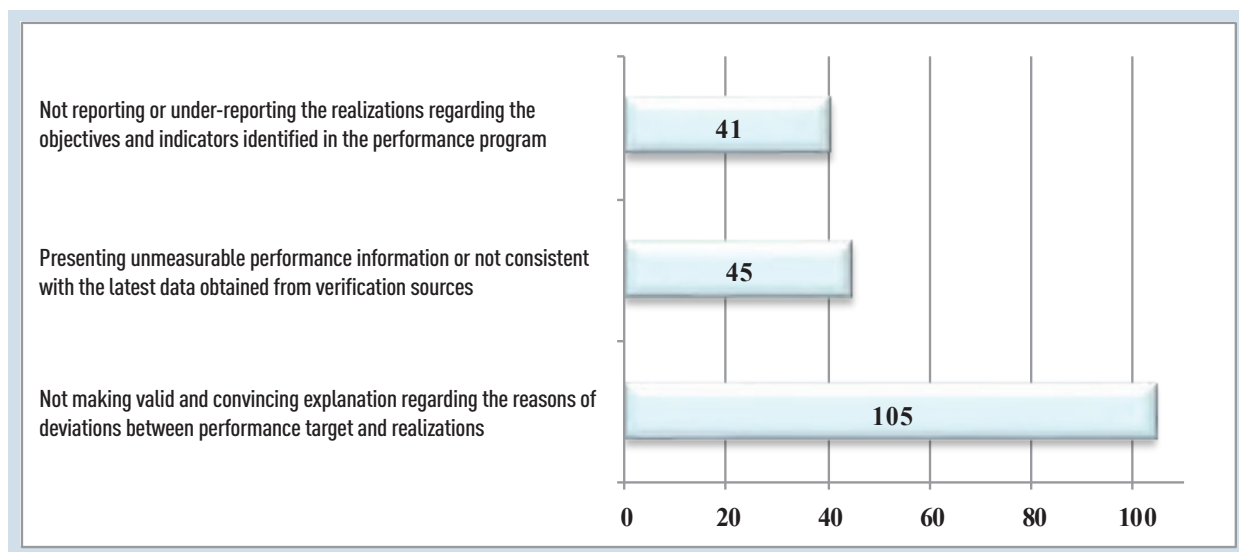
Graph 1: Number of activity reports, which did not comply with presentation and content criteria



Graph 2: Number of activity reports, which under-reported the budget execution results



Graph 3: Number of activity reports, which did not report performance information in accordance with legislation



EVALUATION OF GENERAL ACTIVITY REPORTS

Evaluation of Budget Targets and Realizations

Law no.5018 foresees that public policies shall be determined in the development plan, medium-term program and medium-term financial plan, and resource allocation shall be made through the budget prepared on the basis of these policy documents. Article 17 of this law clearly rules that expense proposals shall be prepared by considering the principles and procedures defined in the medium term program and financial plan.

However, when we made an examination by comparing the allocation ceilings defined in the medium-term financial plan (MTFP) and the starting allocations foreseen in the 2016 Central Government Budget Law; we saw that in some entities, the starting allocations were above the defined ceiling. This situation derives from the fact that Treasury aids made from general budget institutions to special budget institutions were not included in the MTFP, and it makes evaluating the plan-budget relation difficult. Therefore, we think that it will be appropriate to include Treasury aids in the allocation ceilings foreseen in the MTFP to improve this evaluation and strengthen accountability.

The expense estimates stated in the budget were evaluated by being examined with the realizations for 2012-2016. In this scope, we found the following:

- Starting allocations of general budget entities were compared with year-end realizations; budgets of some entities constantly remained below the year-end realizations; despite this, the budget estimates of the same entities for the following year were determined lower than the realization;
- Deviations from the starting allocation were examined over the economic classification of expenditure for the general budget as a whole without exception of any entities; the deviation generally derived from capital expenses and transfers.

When we evaluated the entities where starting allocations and realizations had deviations and expenditure types, we saw that deviations happened particularly in investment expenditure and thought that this situation made the budget estimates difficult.

While the General Activity Report included the reasons for the deviations between budget and realization for the economic classification of expenditure, we considered that it did not fully meet the principles of clarity and full disclosure because some of the said disclosures were foreseeable in the budgeting and planning process.

Evaluation of Consolidated Financial Statements

The Balance Sheet and Activity Results Table presented in the General Activity Report are prepared by consolidating the individual financial statements and balances of the entities under central government. The said consolidated financial statements indicate the financial status and performance of those entities after eliminating the transactions bearing mutual income, expense, debits and credits between public entities.

In this context, the Ministry did the elimination transactions, which meant the mutual elimination from accounts of relevant amounts in order to prevent duplication in consolidated statements, for the entities that had transactions with financial results with each other.

However, the Balance Sheet and Activity Results Table had a footnote saying *“The details of the consolidation applied by central government entities to the transactions among themselves are included in the consolidated/non-consolidated amounts table, which is an annex to the balance/activity results table”*, and stated that information was given regarding the transactions made in the scope of elimination, but the Report did not include the “consolidated/non-consolidated amounts table” mentioned in the footnote; so we could not confirm whether the information included in the Balance Sheet and Activity Results Table was cleared of duplicate records through consolidation.

In order to enable the said confirmation, the General Activity report should include the “consolidated/non-consolidated amounts table”.

EVALUATION OF LOCAL ADMINISTRATIONS GENERAL ACTIVITY REPORT

Here are our findings after evaluating the financial information included in the 2016 Local Administrations General Activity Report:

1) The consolidated financial statements of the local administrations published in the report are incorrect in scope. Pursuant to Law no.5018, local administrations consist of: provincial special administrations, municipalities, affiliated administrations and local administration unions. Therefore, the consolidated financial statements should cover the financial data of the relevant administrations. However, the published “Local Administrations Balance Sheet” and “Local Administrations’ Contingent Assets and Liabilities” and “Local Administrations Sub-sector Cash Flow” tables did not include the financial data of affiliated administrations; and included the financial data of the development agencies and provincial youth and sports directorates, which are not in the scope. The scope, which includes the development agencies and provincial youth and sports directorates and excludes the affiliated administrations, is the scope of the local administrations sector included in financial statistics tables and it is defined by Article 52 of Law no.5018. However, the consolidated financial

statements, which are foreseen to be included in the report, are prepared in the scope of Article 2 of Law no.5018.

2) Pursuant to the By-Law on Accountability Reports to be prepared by Public Entities, the published report shall cover information and evaluations regarding the internal and external debts of local administrations, affiliated institutions and enterprises and municipality partnerships. However, we detected the following mistakes regarding the said issue:

- There was no information and evaluation regarding the debts of the institutions and enterprises affiliated to local administrations and municipality partnerships.
- The published debt distributions of local administrations are merely the presentation of financial information, and they do not include any evaluations.