



**TURKISH COURT OF ACCOUNTS  
FINANCIAL STATISTICS EVALUATION  
REPORT- 2015  
(SUMMARY)**

## GENERAL FRAMEWORK

The 2015 Financial Statistics Evaluation Report was prepared based on the evaluation of the financial statistics of the public entities within the scope of the general government in terms of preparation, publication, reliability and conformity to the predetermined standards as envisaged in legislation.

### 1- INFORMATION ABOUT FINANCIAL STATISTICS

General Government Accounting By-law (GGAB) presents the basic principles related to the scope, preparation and consolidation of financial statistics and prescribes that the following financial statistics tables are prepared and made public by the Ministry of Finance.

- a. Balance Sheet,
- b. Net Balance Sheet,
- c. Net Financial Balance Sheet,
- d. Cash Flow Statement,
- e. Statement of Functional Classification of Expenses,
- f. Budget Balance Sheet,
- g. Statement of Contingent Assets and Liabilities.

### 2- SCOPE OF FINANCIAL STATISTICS

Classification of the public entities determined by the Ministry of Finance for the compilation of financial statistics in line with the international classifications is as follows:

- General government: General Budget Entities, Special Budget Entities, Regulatory and Supervisory Institutions (except for Banking Regulation and Supervision Agency and Capital Markets Board), Extrabudgetary Funds, Revolving Funds, Social Facilities, Other Institutions
- Local governments: Provincial Special Administrations, Development Agencies, Provincial Directorates of Youth and Sports, Local Unions of Administrations
- Social Security Institutions: Social Security Institution, Unemployment Insurance Fund, Turkish Employment Agency

### 3- PREPARATION OF GENERAL GOVERNMENT FINANCIAL STATISTICS

General government financial statistics are prepared by way of the consolidation of the individual financial statements and trial balances of the entities within this scope by the Ministry of Finance. The consolidation is made first at the level of sub-sectors such as central government, local governments and social security institutions and then at the level of general government.

Elimination of these relations on the basis of sectors in an accurate and reliable manner significantly affects the accuracy and reliability of both sub-sector financial statements and general government financial statements. Issues, which were detected during the evaluation and are thought to have made the consolidation process difficult, are listed below:

- 1) As the detail account plans used do not allow a differentiation between intra-sectoral and extra-sectoral transactions, financial transactions realized by the entities covered between themselves cannot be determined in detail,
- 2) Since the system is designed for the generation of individual financial statements, it is not suitable for the generation of consolidated financial statements,
- 3) Due to schedule inconsistency, accounting data, on which financial statistics are based, are obtained from the financial statements for which an external audit opinion has yet to be obtained,
- 4) Entities do not have awareness about and responsibility for being a part of the General Government Balance Sheet,
- 5) Lack of control mechanisms to ensure that entities within the scope of financial statistics evaluation report can record all sectoral mutual financial transactions in a consistent manner,

It seems that a complete elimination of all sectoral relations by the Ministry on the basis of accurate amounts is not possible until the necessary measures are taken for the resolution of these structural problems. It is considered that the following points are important for making the system more suitable for the generation of financial statistics:

- 1) Detecting all financial relations in the form of mutual debits-credits and revenues-expenditures between the entities under general government, creating a “financial relations matrix” where all financial relations of each entity with the sub-sectors and general government sector and updating this matrix in case of need,
- 2) Describing these relations in the detail account plans of the entities and ensuring

that the realized transactions are recognized in the accounting records in full and are reflected in the financial statements,

- 3) As part of the internal control processes of public entities, designing a system, which assures that the financial relations included in the matrix are reconciled between the entities on the basis of amount, account and financial year.

#### **4- EVALUATION ON THE PRINCIPLES OF PREPARATION OF THE FINANCIAL STATISTICS SET**

The 2015 financial statistics set includes financial statements prepared on the basis of both Government Accounting Standards (GAS) and Government Financial Statistics (GFS). While Net Balance Sheet, Net Financial Balance Sheet and Statement of Functional Classification of Expenditures were prepared on the basis of GFS classification, Balance Sheet, Cash Flow Statement, Budget Balance Sheet and Contingent Assets and Liabilities Statement were prepared on the basis of GAS. Since some of the statements are based on GAS and some on GFS, a comparable set of statements including complete and consistent financial information could not be developed.

There are significant conceptual differences between the two reporting frameworks mentioned above. For instance, different from the statements based on GAS, the statements drafted on the basis of GFS allow time and cash adaptation, and data can be edited through retrospective changes and error corrections. Also, in GFS, it is expected that the current market value is used in the recognition of assets and liabilities instead of “fair value”, “cost value” and other valuation methods set forth in the GAS.

#### **5- EVALUATION OF THE HARMONIZATION OF GOVERNMENT ACCOUNTING STANDARDS**

Government Accounting Standards Board decided to adopt and harmonize the International Public Sector Accounting Standards (IPSAS), and so far, 25 Government Accounting Standards have been published in the Official Journal and have entered into force. However, it is considered that the accounting by-laws fail to comply with the standards in the following aspects:

- In the General Government Accounting By-law, with respect to financial reporting, “Explanatory notes concerning accounting policies and financial statements” are

not included. (GAS-1)

- The Accounting By-law does not include provisions on the principles and procedures for preparing consolidated financial statements. (GAS-6)
- Although memorandum items where contingent liabilities are followed are specified in the GGAB, there is no provision explaining the conditions under which reserves are allocated for these off-balance sheet liabilities and in which accounts these reserves are followed. (GAS-19)
- There is no provision explaining the situations in which corrections will be required due to “events occurring after the date of reporting”. (GAS-14)

## **6- EVALUATION OF THE 2015 FINANCIAL STATISTICS STATEMENTS**

External audit opinions delivered by the TCA on the financial statements of the entities within the scope are important in the assessment of reliability and accuracy of the general government financial statistics. However, there is a schedule inconsistency between preparation of financial statistics, finalisation of external audit opinions delivered by the TCA and their submission to the TGNA. Therefore, the MoF consolidates financial statements not including external audit opinion in the preparation and compilation of the financial statistics.

In the evaluation of the statements in terms of accuracy and reliability criteria, findings, which were included in the 2015 TCA audit reports and were thought to significantly affect general government financial statistics in terms of quality and quantity, were used as well.

### **1- 2015 General Government Balance Sheet**

#### **a. Inventory Transactions and Valuation Differences:**

As stated in the 2015 TCA audit reports, the failure of the entities to properly keep the inventories of the immovable properties they possess at home and abroad affects accuracy and reliability of the tangible fixed assets account of the General Government Balance Sheet. Also, although the actual method used in the determination of the value of the tangible fixed asset is cost value or fair value, immovable properties could be temporarily registered on the basis of property tax value. This practice is against GFS, GAS and GGAR.

#### b. Details of 25-Tangible Fixed Asset Account Group

Purchase of all kinds of materials as well as craftsmanship and general expenditures made for the completed tangible fixed assets are kept in the Ongoing Investments Account and are not transferred to the relevant tangible fixed assets accounts, a fair and accurate presentation of the assets cannot be made within the scope of financial statistics.

### **2- 2015 General Government Net Balance Sheet**

#### a. Revenues recorded in the deposit accounts were shown as liability

In the conceptual framework of GAS and GFS, revenue is defined as all kinds of transactions increasing net value. However, accounting by-laws contain certain provisions enabling that some transactions that should be considered as revenue can be recorded in 333-Deposits Account. This causes some revenue items to be reported as liability.

#### b. Cash adjustment was not made in the tax revenues of the local governments sector

For the tax revenues item, while cash and time adjustment is applied for reporting fair value in the central government sector, this method is not applied in the local governments sector.

#### c. Corrections made with single party method were not reflected on the source statements

In case of inconsistency between the debit/credit or revenue/expenditure transactions between the entities, the party, which fails to show the financial transaction in the accounts, should correct the records. However, correction is made only in the financial statistics statements, and errors are retained in the source statements forming the basis of the financial statistics.

### **3- 2015 General Government Net Financial Balance Sheet**

According to the GFS conceptual framework, financial statistics statements should not contain the mutual transactions of the entities covered. However, it was observed that the Net Financial Balance Sheet could not be made completely free from intra-sectoral transactions.

### **4- 2015 General Government Statement of Contingent Assets and Liabilities**

a. The published statement did not not include stock data

The Statement of Contingent Assets and Liabilities shows the changes occurring in the contingent assets and liabilities within the reporting period, or flow data. Considering that stock data are shown in the memorandum items of the balance sheet, making the legislative amendment, which will ensure that the statement in question contains stock data, is important in terms of accountability, financial transparency and financial analysis.

b. Statement was not consistent with the balance sheet

In the current Statement of Contingent Assets and Liabilities, annual changes in the contingent assets and liabilities are reported. However, it was observed that the amounts corresponding to the relevant accounts were not equal to the balance difference in the balance sheets.

c. Difficulties experienced in the use of statistical methods

It is thought that the conversion of an amount accepted as receivable by the entity into a contingent asset cannot be assessed within the framework of the revision authority granted to the Ministry.

d. The account of guarantees given did not reflect the real situation

The item of "Guarantees Given" included in the statement contains only the records of the Undersecretariat of Treasury but does not contain the guarantees related to the projects undertaken by the Directorate General for Highways and the Ministry of Transport, Maritime Affairs and Communication.

e. The Statement did not include the Social Security Actuarial Accounts

According to the GFSM, the Statement of Contingent Assets and Liabilities should contain social security contributions payable in the future with their present values as well as the actuarial (technical) balance sheet information including the present values of the future social security payments, as well.

## **5- Recommendations for the 2015 Financial Statistics Statement Set**

- a. Provision of detailed information in the revenue and expenditure items
- b. Publication of the Statement of Other Economic Flows
- c. Inclusion of indicators and analysis in the financial statistics set
- d. Inclusion of additional tables and explanatory notes

## **7- GENERAL ASSESSMENT AND CONCLUSION**

GGAB defines financial statistics, provides basic principles related to scope, preparation and consolidation and accordingly, the financial statistics set is determined. The published set includes statements based on GFS and GAS. However, statements based on GFS and GAS have significant differences in terms of purpose of publication, scope, recognition, preparation method and content. Thus, the following assessments are made:

- Publication of a financial statements set based on the same reporting framework and conceptual framework will be more appropriate for ensuring coherence and transition between the statements,
- The presentation of an analysis, which will support the decision making processes of the policymakers and inform the public, along with the financial statements set will be useful,
- The purpose of the GAS is to assess financial performance and situation on the basis of accountability. However, preparation of the statements by using such methods as “revision policy” or “single party rule”, which allow for amendments on the finalized data, will prevent the published statements set from fully serving this purpose,
- Since the purposes of the statements prepared on the basis of GFS or GAS reporting frameworks are different, using a single conceptual framework as basis will significantly contribute to both purposes.

In addition to these, the following points are considered to be important to ensure that the financial statistics rest upon a sounder data set:

- The efficiencies of the accounting and internal control mechanisms, which will guarantee that the individual financial statements of the entities within the scope of general government generate accurate and reliable data, are increased by the public entities,



• Arrangements required by the accounting and reporting standards, to which all reporting units within the scope of general government are subjected, are harmonized and deficiencies are eliminated.

