



**TURKISH COURT OF ACCOUNTS
FINANCIAL STATISTICS EVALUATION
REPORT- 2017
(SUMMARY)**

GENERAL FRAMEWORK

The 2017 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

Since there are significant differences between financial reporting and statistical basis of financial reporting in terms of purpose, scope and output, the most common practice in the world is primarily preparation of consolidated financial statements within the scope of IPSAS and then preparation of financial reports based on statistics through the implementation of the analytical framework of the selected statistical system (SNA/ESA/GFS).

The legal arrangements allowing for the implementation of these standards and systems in our country are included in the Financial Statistics Regulation. In our country, the standard used for the preparation of financial statistics statements in line with the international standards is the Government Financial Statistics Manual (GFSM 2014) published by the International Monetary Fund.

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. EVALUATION ON GFSM 2014 AS THE BASIS OF PREPARATION OF FINANCIAL STATISTICS SET

In our country, the standard used for the preparation of financial statistics statements in line with the international standards is the Government Financial Statistics Manual (GFSM 2014) published by the International Monetary Fund. This Manual is used for the evaluations made for 2017.

While scope was being determined in relation to GFSM, the basic “General Government Sector” structure created by using the decision tree in the GFSM 2014 was used. In the determination of the public entities included in the sector, criteria of permanence, institutionalism, state control, market generation and being a financial subsidiary institution for the state were used.

Although GFSM 2014 includes cash flow statement based on cash based accounting, it is a framework based on accruals-based accounting. However, differences may occur between the accrued and collected amounts of tax and social security revenues recognized through accrual-based accounting due to problems arising from legislation or taxpayers.

In order to eliminate these differences, GFSM 2014 prescribes two methods. One of them is cash adjustment, which refers to the correction of accrual records with certain coefficients. The other one is time adjustment and in this method, since accrual and collection take place in different months or years, the collected amounts in some types of taxes are shown by switching to the taxation period.

Since the accrual-collection ratios of the accrued taxes and social security premium revenues cannot be clearly determined, cash adjustment is performed and collection figures obtained from the cash-based accounting system are used in the financial statistics statements. Also, time adjustment method is employed in the tax revenues.

In the GFS analytical framework, all flow and stock positions are collected and then as a rule, flow and stock positions arising from the mutual relations between all consolidated units and entities are eliminated. Consolidation is performed first at the level of subsectors of central government, local administrations and social security institutions and then at the level of general government sector. During the consolidation process, the following mutual transactions between the subsectors constituting the general government sector and the units constituting the subsector are eliminated:

- Grants between general government units or entities (current and capital)
- Interest income/expense

- Taxes paid by a government unit or entity to the other government units (except for taxes collected on behalf of the household)
- Purchase/sale of goods and services
- Acquisition/disposal of non-financial assets

4. EVALUATION OF THE 2017 FINANCIAL STATISTICS STATEMENTS

With the adoption of the Financial Statistics Regulation in 2018, now 12 financial statistics statements fully compatible with the GFSM 2014 are published. These are as follows:

- a. Statement of Operations
- b. Statement of Sources and Uses of Cash,
- c. Statement of Stock Position and Flows,
- d. Statement of Total Changes in Equity,
- e. Income Statement
- f. Expense Statement
- g. Statement of Operations in Assets and Liabilities,
- h. Statement of Holding Gains and Losses in Assets and Liabilities,
- i. Statement of Other Changes in the Volume of Assets and Liabilities,
- j. Balance Sheet,
- k. Statement of Functional Classification of Expenses
- l. Statement of Other Total Economic Flows in Assets and Liabilities

The GFS analytical framework basically prescribes four main statements. These are *Statement of Operations*, *Balance Sheet*, *Statement of Other Economic Flows* and *Statement of Sources and Uses of Cash*. In addition, two more statements are included in the framework. These are *Statement of Total Changes in Net Worth* and *Summary Statement of Explicit Contingent Liabilities and Net Implicit Obligations for Future Social Security Benefits*.

When the set of statements envisaged in the legislation and listed above is examined, it is seen that the four main statements and, out of additional statements, the Statement of Total Changes in Net Worth are included in the set of statements to be published while the Summary Statement of Explicit Contingent Liabilities and Net Implicit Obligations for Future Social Security Benefits where explicit and some implicit contingent liabilities are reported is not included. Although the stock position concerning the contingent liabilities is shown in summary in the explanatory notes of the balance sheet, the figures in the balance sheet do not contain the detailed information as envisaged by the analytical framework of GFSM 2014.

Improving the balance sheet to incorporate the required detailed information or updating the set of statements given in the legislation to include the deficient Summary Statement of Explicit Contingent Liabilities and Net Implicit Obligations for Future Social Security Benefits will contribute to the integrity of the statements and their compliance with international standards.

1- 2017 Statement of Operations and Constituent Statements of Income, Expense and Operations

- a. Other taxes on use of goods and permission to use goods:** Classifying certain types of incomes such as Public Share from Oil and Passport Sales Price in this group is erroneous due to the characteristics of these incomes.
- b. Social Security Premium Incomes:** In the income statement, premium incomes and employee and employer contributions were separated depending on the premium ratios in the Law no. 5510 but contributions of self-employed and unemployed persons were not.
- c. Grants and transfers not elsewhere classified:** For these two types of transfers in the GFSM classification, the distinctive criterion is whether the other party is within the scope of general government sector. However, while the transactions were being distinguished as grant or transfer, whether they were eliminated or not was taken as basis instead of inclusion in the sector. Therefore, transactions, which could not be eliminated due to reasons such as accounting plan inconsistency, were not coded as transfers even if they were within the scope of the sector.
- d. Interest Incomes:** Since interests were not detected in the sectors other than the subsector of social security institutions for interest incomes and expenses in the income statements, elimination was not performed. Loan interests that

the Undersecretariat of Treasury accrued for the municipalities or social security institutions should be indicated as interests obtained from the general government.

- e. Incomes from sales of goods and services to the market:** According to GFSM 2014, rents of produced assets such as buildings and sales of goods and services made by units such as public corporations on the market value are included in this group. However, the classification of easement granted for the use of a land for period as long as 49 years for investment purposes in this group is not consistent with GFSM 2014.
- f. Financial statistics statements are published along with explanatory notes concerning the items in the statement. However, it is seen that the explanatory note sections of Income and Expense Statements are blank to a large extent.
- g. In principle, net lending/net borrowing balance is equal to the difference between the net changes of financial assets and liabilities. According to the Financial Statistics Regulation, if case of inequality, the difference is explained in the footnotes. However, only the difference is stated in the footnotes with no explanation regarding the reason of difference.

2) 2017 Statement of Sources and Uses of Cash

- a. According to GFSM 2014, the item of inventories listed under the cash flows from transactions in nonfinancial assets should include only “strategic stocks”. However, since legislation does not provide a separate code for distinguishing strategic stocks from other stocks in the accounting records, this item includes all inventories. In case of such a separation, the “net cash flow obtained from the transactions” specified in the statement would be lower.
- b. Although GFSM 2014 states that “non-interest cash surplus/deficit” should be given in the explanatory notes of this statement, these data are not available in the statements.

3) 2017 Statement of Stock Positions and Flows

- a. As per horizontal equity prescribed in the GFS analytical framework, for each account, the total of the amount in the opening balance sheet and the flows within the period should be equal to the amount in the closing balance sheet. In this

statement presenting the stock flow movements, the horizontal equity envisaged in the GFS analytical framework could not be achieved.

- b. The explanatory notes of the statement do not include figures concerning the debt liabilities.

4) 2017 Statement of Total Changes in Net Worth

- a. According to the Financial Statistics Regulation, in case the total of opening net worth amount and flows within the period is not equal to the amount of net worth at the end of the period, the difference should be explained in the footnotes of the statement. However, although such a balance could not be achieved, it was not explained in the footnotes.

5) 2017 Balance Sheet

- a. It was seen that the amounts recorded in Scanning, Data Collection and Monitoring Systems and Other Facilities and Systems out of Movable Properties were recognized erroneously with the GFS code of “3111 Building” instead of “3112 Machines and Equipment”.
- b. While the financial asset and liability figures in the Balance Sheet were being generated within the scope of central government-budgetary subsector, calculations compatible with the GFSM 2014 were made by receiving a separate opinion from the Debits and Credits Units of the Undersecretariat of Treasury, not from the administrative accounting records differently from the general data compilation method. The reasons of this situation, which goes beyond the general data compilation method, were not explained in the metadata.
- c. It was seen in the explanatory notes of the Balance Sheet that a calculation on the debt burden was not performed and any explanation was not made in the metadata regarding the failure to make this calculation.
- d. According to the GFSM 2014, debt securities presented in the financial assets and liabilities items should be calculated on the basis of market value, but the accounting system implemented in our country is not compatible with GFSM 2014. Only central government budgetary debt securities and those of the Unemployment Insurance Fund under the social security institutions are valued

from the Undersecretariat of Treasury on the basis of market value and reflected on the Balance Sheet. Nevertheless, in the other sectors, for instance in the balances of the local administrations, debt securities under the category of financial assets are not valued on the basis of market value.

6) 2017 Statement of Functional Classification of Expenses

- a. The formula for calculation of acquisition of net nonfinancial assets given in the metadata is erroneous, and the calculation in question does not give a result compatible with the amount included in the Statement of Transactions in Assets and Liabilities.

7) 2017 Statement of Other Economic Flows in Assets and Liabilities

- a) It is seen that the borrowing items (D1, D2, D3 and D4), which show the change caused by the other economic flows in the liability structure of the general government sector and are included in the explanatory notes of the statement, were not calculated.

7- GENERAL EVALUATION AND CONCLUSION

Production of financial information on the basis of statistics with the aim of presenting the performance of the general government sector and explaining its impact on economy is carried out in line with the Government Financial Statistics Manual (GFSM) in our country. Increasing reliability of general government financial statistics will ensure providing the public with accurate information and also make the analyses to be carried out and strategies to be determined for the ensuing period sound.

In this scope, as emphasized in the relevant parts of the report, the following points are important for ensuring that users of statements and decision makers reach sound information:

- Explanatory notes, which are published along with financial statistics statements and are of paramount importance for ensuring financial transparency, should be completed for all statements and presented in full together with figures.

- Detailed information should be provided in the metadata concerning the situations going beyond the general data compilation method and asset and liability items for which a different valuation method is used,
- Errors emerging during the transformation of account codes in the accounting records into GFS classification should be corrected and accuracy of the financial statistics statements should be increased. In this manner, records are made suitable for elimination.
- “Statement of Explicit Contingent Liabilities and Net Implicit Obligations for Future Social Security Benefits”, which summarizes the implicit and explicit liabilities of public entities, should be prepared and published in line with the requirements of the GFS conceptual framework.
- Consistency should be ensured in the statements and between the statements in accordance with horizontal and vertical equity envisaged in the GFS analytical framework.

