



**TURKISH COURT OF ACCOUNTS
FINANCIAL STATISTICS EVALUATION
REPORT- 2016
(SUMMARY)**

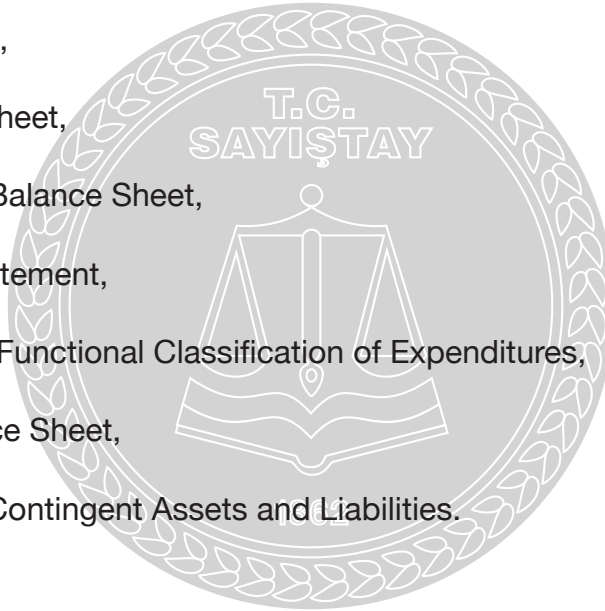
GENERAL FRAMEWORK

The 2016 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 for Functional Classification of Expenditures,
- 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- EVALUATION ON THE PRINCIPLES OF PREPARATION OF THE FINANCIAL STATISTICS SET

Statements included in the financial statistics set were prepared in line with reporting frameworks based on different principles of preparation. Net Balance, Net Financial Balance and Statement for Functional Classification of Expenditures were prepared in accordance with the provisions of GFSM-2014, which is a manual used for public financial statistics, while Balance Sheet, Cash Flow Statement and Budget Balance Statement and Contingent Assets and Liabilities Statement were prepared on the basis of GAS.

There are significant differences between these reporting frameworks in terms of scope, purpose of publication, definition, evaluation and assessment, methodology of preparation and statements included in the set. Therefore, since some of the statements constituting the financial statistics set are based on GAS and some of them are based on GFS, a statements set, which is comparable and consists of complete and consistent financial information, cannot be obtained.

4- EVALUATION OF GENERAL GOVERNMENT FINANCIAL STATISTICS

4.1 Preparation and Publication: General government financial statistics were published in line with the General Communiqué no.46 on the calendar and scope as envisaged in the legislation.

4.2 Accuracy and Reliability: General government financial statistics are prepared as a result of the consolidation of the individual financial statements and trial balances of the entities by the Ministry of Finance. In line with the principles of consolidation, elimination should be made on the basis of matching and corresponding accounting records and equal amounts related to the transaction. However, in practice, the following issues complicate the consolidation process:

- 1) Since the accounting system is not designed for generating consolidated financial statements and detail account plans do not allow for a sectoral-extrasectoral distinction, they are not suitable for consolidation,
- 2) Due to schedule inconsistency, accounting data on which financial statistics are based are obtained from financial statements without an external audit opinion,

- 3) Lack of adequate awareness and responsibility in the entities,
- 4) Inadequacy of the control mechanisms, which aim to prevent entities from recording their mutual transactions in an incompatible manner.

According to the amounts declared by the Ministry, 8.180.890.218, 00 TL could not be consolidated in total in the assets and expenditures items while 12.686.516.748,00 TL could be consolidated in the resources and revenues.

The points that we detected during our examinations on the 2016 Balance Sheets are as follows:

1. The total of 91.193.168,00 TL, which could not be eliminated in the central government budget, was actually out of the scope of elimination.
2. The amount eliminated for the share of the Defence Industry Support Fund in the elimination of receivables, was higher than the records of the entity in the amount of 41.699.309,65 TL.
3. 567.089.560,16 TL, which was recorded by the Undersecretariat of Treasury as receivable from the Directorate of Privatisation Administration, was eliminated from the Accounts of the Privatisation Fund despite maturity and entity mismatch.
- 4- 40.444.011,80 TL in the balance sheet of the budgetary entities could not be eliminated since the Turkish Radio and Television Association (TRT) as the corresponding entity did not have a record.
- 5- A total of 433.610.411,56 TL recorded as receivables from revenues, prosecuted receivables, deferred and postponed receivables in the Development Agencies Consolidated Balance Sheet, despite being an intra-sectoral receivable in nature, could not be eliminated due to account plan inadequacy and lack of corresponding records in the debited entities.
- 6- A total of 13.840.721,03 TL recorded in the “other shares pertaining to local administrations” in the Local Administrative Unions Balance Sheet could not be eliminated from the account no.363 of the relevant entities.
- 7- A total of 181.617.342,58 TL recorded for being transferred from the entities within the scope of general budget to the local administrations and Social Security Institution could not be eliminated from the receivables accounts of the relevant entities.

- 8- 33.734.510,84 TL, which was the prosecuted receivable of the Undersecretariat of Treasury from the municipalities, was eliminated with the current debts of the municipalities.
- 9- 658.884.093,28 TL emerging as a result of the consolidation of the receivables of the Undersecretariat of Treasury from the municipalities arising from the lending of external debt was eliminated with the accounts where overdue tax and premium debt amounts are recorded in defiance of the nature of the transaction.
- 10- 2.132.556.211,18 TL within the scope of the overdue, delayed or restructured social security withholding debts of the local administrations was eliminated with the current receivables of the Social Security Institution (SSI). Delayed or restructured long-term tax debt in the amount of 721.796.870,62 TL was eliminated with short-term receivables.
- 11- The local administration shares deducted by the administrations under central government in the amount of 32.567.549,02 TL were not eliminated.
- 12- 1.801.091.274,50 TL recorded as the receivable of the entities within the scope of Central Government from the subway projects was not eliminated with the debt accounts of municipalities while 5.998.736,03 TL as the amount of receivable from the SSI was not eliminated with the SSI accounts.
- 13- 1.071.471.627,16 TL recorded in the 333.Deposits account of the local administrations and central government balance sheet was not eliminated since the corresponding transactions were unknown although they were transfers from the entities under general government.
- 14- The amount of 108.611.831,73 TL, which referred to the collection made on behalf of the intra-sectoral entities in the Local Administrations Balance Sheet, could not be eliminated with the receivable accounts of the relevant entities.

4.3 Conformity to the pre-determined standards: 28 GAS have come into effect so far within the scope of works of harmonisation with IPSAS. Although GGAB implements these accounting and reporting standards, it is considered that arrangements are required in the following areas:

- 1- As per GAS-1, explanatory notes are one of the elements constituting a complete financial statements set but the financial reporting framework of GGAB does not include them.
- 2- GAS-6 determines the principles concerning the preparation and presentation of consolidated financial statements of the entity controlling and the entity being controlled. However, accounting regulations do not include a provision on this issue.
- 3- Accounting regulations do not include provisions on the cases where corrections are required due to events taking place after the date of reporting as specified in GAS-14.
- 4- GGAR does not have a provision in relation to the principle of reporting the impact of positive and negative exchange rate differences in the cash flow statements as specified in GAS-2.
- 5- As per GAS-19, reserve should be allocated to the part of contingent liabilities where there is possibility for resource outflow. However, this is not addressed in GGAB.

5- EVALUATION OF THE 2016 FINANCIAL STATISTICS STATEMENTS

5.1 2016 GENERAL GOVERNMENT BALANCE SHEET

- a) **Determination of principles and procedures related to the changes in the data on which financial statistics statements set is based:** The administrative fine in the amount of 326.113.551.084,65 TL included in the source data was not reflected by the Ministry on the balance sheet accounts in the financial statistics set since it was not found realistic in economic terms and also the receivable in the amount of 11.511.000.000,00 TL was not reflected on the balance sheet as well since it was accepted as a contingent asset. Provided that the limits, scope and principles of such changes that can be made by the Ministry are determined beforehand and made available to public, quality of financial reporting and financial statistics will be enhanced.
- b) **Deficiencies in the adjusting process:** It was determined that transactions for transferring assets and liabilities from long-term to short-term were deficient.

- c) **Failure to complete inventory and valuation processes:** Deficiencies were detected in the reporting of immovable property inventories.
- d) **Transfer of the amounts related to the risk account to other accounts of the balance sheet:** During the production of the Central Government Balance Sheet, accounts used specifically for the Risk Account are set to zero and the amounts related to the Risk Account within the Undersecretariat of Treasury are added to the accounts of receivables, income accruals and equities. Therefore, users of financial statements cannot see the results of the processes related to the Risk Account through the balance sheet.

5.2 2016 GENERAL GOVERNMENT NET BALANCE STATEMENT

- a) Transactions carried out through the single entry method are not reflected on the source statements: Single entry method refers to the correction of the erroneous or deficient records in the financial transaction accounts of one party in cases where a financial transaction recognized as debt/expenditure in one entity is not seen as receivable/revenue in the other entity. If the Ministry reports such transactions to the TCA, the quality of financial reporting and financial statistics will be enhanced.
- b) **Revenues recorded in the deposit accounts are presented as liability:** Ministry reserved the deposit amount having the characteristics of revenue in the 333-Deposits Account and removed it from liabilities while the Net Balance and Net Financial Balance Statement for the social security sector were being generated. The implementation of a similar practice in the entities like Revenue Administration and Ministry of Finance, which keep such deposit records, will ensure methodological consistency.

5.3 2016 GENERAL GOVERNMENT NET FINANCIAL BALANCE STATEMENT

It was seen that the 2016 General Government Net Financial Balance Statement included some account balances, which were related to the intra-sectoral transactions and should have been eliminated. The statement also includes the balance of 519-Value Movements Results Account, which gives the results of the collection and payment transactions that cannot be closed by the entities until the end of the year.

5.4 2016 GENERAL GOVERNMENT CASH FLOW STATEMENT

- a) **Differences between amounts in the statement and the corresponding items in the balance sheet:** When the amounts of cash and cash equivalents in the Balance Sheet of the General Government Sector were compared to the amounts in the Cash Flow Statement, it was seen that the reconciliation envisaged in GAS-2 was not performed.
- b) **Statement equation could not be achieved:** As per GGAR, the amount of change within the period should be equal to the amount of “Net Change in the Cash Stock”. However, it was seen that the difference of 326.052.193,53 TL between the two amounts was included into “statistical error” and closed.
- c) **Statement did not present the opening and period-end balances of the elements constituting the cash and cash equivalents:** Although the opening and period-end balances of the cash and cash equivalent assets should be specified separately in the footnotes of the statement along with the amount of change within the period, this information was not given in the footnotes of the statement.
- d) **The statement did not include the data related to the last three reporting periods:** It was seen that the 2016 cash flow statements did not include the data related to the last three reporting periods.

5.5 2016 GENERAL GOVERNMENT CONTINGENT ASSETS AND LIABILITIES STATEMENT

- a) **Statement was not published to include stock data:** This statement shows flow data. However, considering that stock data are shown in the off-balance sheet accounts of the balance sheet, it is considered that inclusion of stock data in this statement too will be more useful in terms of accountability, financial transparency and financial analysis.
- b) **Display errors resulting from the use of statistical methods:** The amount of 11.511.000.000 TL transferred from the Unemployment Insurance Fund to the Treasury was considered as contingent asset and transferred from the balance sheet to the Contingent Assets and Liabilities Statement. However, since the statement in question is prepared on the basis of data flow as per Regulation, this amount cannot be reported in both statements.

6- RECOMMENDATIONS ON THE FINANCIAL STATISTICS STATEMENT SET

- a) Publication of the Statement of Other Economic Flows:** Since GGAR does not mention the Statement of Other Economic Flows, the published statement set is not suitable for providing information on incidental accounting practices such as deleted receivables, exchange differences, inventory transactions etc. Therefore, it is thought that the Statement of Other Economic Flows should be published among the financial statistics statement set.
- b) Indicator and analysis deficiency in the financial statistics set:** In addition to the financial statistics set, analyses or evaluations should be made for sound macroeconomic analyses. This will enable the end users to get more detailed information about the financial situation of the public sector.
- c) Additional tables and explanatory notes should be included:** Although this is not clearly stated in the GGAR, GFS conceptual framework prescribes that the transactions, which form the basis of the accounting records but cannot be recorded in the relevant balance sheet accounts due to their characteristics, will be reported in the additional tables and explanatory notes. Accordingly, reporting of such elements as the nominal and market values of the gross public debt stock and concealed capital transfer arising from privileged borrowing through explanatory notes and additional tables is of importance for harmonisation with the reporting framework mentioned above.

7- GENERAL EVALUATION AND CONCLUSION

Although financial reporting is based on GFSM 2014 as statistical framework in our country, the published set includes statements based on GFS and GAS together. However, these frameworks have significant differences in terms of purpose of publication, scope, recognition, method of preparation and content, together. Therefore, it is considered that:

- Using a single reporting framework and publication of a statements set on the basis of this framework will be more appropriate,

- Considering that the purpose of the GFS framework is to provide a sound analysis supported by macroeconomic indicators for the economic and financial policies, presentation of an analysis, which will support decision making processes and inform the public, along with the financial statements set will be useful,
- Considering that the purpose of GAS is to assess financial performance and situation on the basis of accountability, preparation of the presented GAS statements through statistical methods makes it difficult for the statements to fully serve this purpose,
- Arrangements should be harmonized and deficiencies should be eliminated as required by the accounting and reporting standards to which all reporting units within the scope of general government are subjected,
- 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, should be increased by the public entities.

