



**TURKISH COURT OF ACCOUNTS  
FINANCIAL STATISTICS  
EVALUATION REPORT- 2020**

**(SUMMARY)**





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## (SUMMARY)

### 1. SUBJECT MATTER OF AUDIT

The subject matter of 2020 Financial Statistics Evaluation Report is the general government financial statistic tables listed in Article 10 of Financial Statistics By-Law. The set includes the consolidated financial statements, which are prepared based on the data in accounting records and by using statistical methods.

Financial Statistics By-Law is based on the Government Financial Statistics Manual (GFSM) 2014 published by International Monetary Fund (IMF) as the international standard to be used while preparing the financial statistics.

### 2. SCOPE OF FINANCIAL STATISTICS

The scope identified by Ministry of Treasury and Finance (MoTF) for compiling financial statistics consists of 2903 public entities including the central government, local administrations and social security institutions<sup>1</sup>.

#### 2.1 Financial statistic tables

Financial statistics set covers the statements that are stipulated to be published in Article 10 of the By-Law. These are the statements for: Activity, Cash Resource and Uses, Stock Status and Flow, Total Changes in Equity, Incomes, Expenses, Transactions in Assets and Liabilities, Assets and Liabilities Retention Earnings and Losses, Other Value Changes in Assets and Liabilities, Financial Status, Functional Classification of Expenditure, Total Other Economic Flows in Assets and Liabilities.

#### 2.2 General Government Financial Statement Sizes

Financial statistics include the statements designed to measure and analyze the financial sizes of general government sector. These sizes are incomes, expenses, the deficits

<sup>1</sup> Central Government: General Budget Entities, Special Budget Entities, Regulatory and Supervisory Institutions (except for Banking Regulation and Supervision Agency and Capital Markets Board) Extra-budgetary Funds, Revolving Funds, Social Facilities, Other Institutions  
Local governments: Provincial Special Administrations, Municipalities, Development Agencies, Provincial Directorates of Youth and Sports, Local Unions of Administrations, Investment Monitoring and Coordination Units  
Social Security Institutions: Social Security Institution, Unemployment Insurance Fund, Turkish Employment Agency

or surplus emerging as a result of them (activity balance), net values indicating the difference between assets and liabilities (equities) and net debt position.

In 2020, in the General Government Activity Statement; total income was 1.590.731,9 million TL, and total expense was 1.739.914,2 million TL. In 2020, incomes increased by 15,7% compared to 2019, and expenses and expenditures increased by 11,4% and 20,2% respectively.

Total assets increased by 6,8% compared to the previous year and realized at 5.295.963.4 million TL. In 2020, liabilities increased by 41,5% compared to the previous year and realized at 2.273.470,9 million TL.

### **3. ANALYSIS OF MAIN INDICATORS AND EQUALITIES**

Financial statistic tables give us significant indicators such as gross activity balance, net borrowing requirement, net value, cash deficit/surplus. These indicators enable the making of macroeconomic evaluations, and contribute to evaluating national performance and international comparability.

- Gross activity balance is calculated from the Activity Statement. It indicates to what extent the incomes cover the expenses. In 2020, gross activity balance decreased by 294,9% compared to the previous year and realized at -31.631,47 million TL.
- Net borrowing/lending requirement indicates to what extent the state incomes cover the current expenses and investments and the resulting borrowing requirement or lending capacity. In 2020, net borrowing requirement increased by 69,6% and realized at 214.189,0 million TL.
- Net value enables the making of the analyses regarding the asset and liability status of the general government sector. In 2020, net value decreased by 9,8% and realized at 3.022.492,5 million TL.
- Net financial value indicates how much liquid resource the general government sector has vis-à-vis its debts (cash, deposit, receivable, share etc.). In 2020, it decreased by 40,4% and realized at -135.083.508,8 million TL.
- If negative, cash balance, indicates the amount that the state has to borrow from the market to finance its activities. If positive, cash balance indicates the amount of resource that the state can provide in cash for market use. In 2020, this balance increased by 61,4% and rose to 169.417,52 million TL.



- Net change in cash stock is an indicator used for evaluating the state's liquidity. In 2019, net change in cash stock was 32.018,10 million TL. In 2020, it increased by 242,2% and became 122.547,41 million TL.

#### **4. EVALUATION OF 2020 GENERAL GOVERNMENT FINANCIAL STATISTICS**

As per Article 54 of Law no. 5018, the TCA evaluated the 2019 General Government Financial Statistics in terms of preparation, publication, accuracy, reliability, and compliance with predetermined standards.

##### **4.1 Evaluation in terms of Preparation and Publication**

When we evaluated general government financial statistics in terms of publication, we saw that they were published in compliance with the calendar and procedure stipulated in legislation. Evaluation in terms of preparation criteria found the following shortcomings and insufficiencies.

##### **4.1.1. There were some institutional units which should be include in the general government sector**

Regarding the scope of financial statistics, two basic scope classification are used in macroeconomic data sets. One of them is general management sector that engage in non-market activities, the second one is public sector that include the central bank and other public companies. In our country, according to the first of these, general management level financial statistics are compiled.

During determining the coverage of the general government sector, the decision tree in GFSM 2014, the explanations and the scope criteria in other international guides are taken into account. In this direction, in order to determine which entities belong to the general government sector following criteria's are used;

- Whether it is a resident unit,
- Whether it is an institutional unit,
- Whether it is under state control,
- Whether it is a market producer,
- Whether institutional unit providing financial auxiliary services,

Some institutions, which are not included in the scope of financial statistics, are considered to be resident, state-controlled and non-market units therefore they should be included in the scope of financial statistics.

**4.1.2. Sufficient information was not given about the statistical methods that were used**

- a) Metadata did not include sufficient and explanatory information,
- b) Income and Activity Statements did not disclose cash adaptation amounts made in the income types that are based on cash data instead of accruals.

**4.1.3. Footnotes were not arranged in a sufficient, clear and understandable manner**

**4.1.4. Making incorrect practices during converting of accounting codes to GFS codes**

**4.2. Evaluation in terms of Accuracy and Reliability**

Evaluation in terms of accuracy and reliability found the following shortcomings and insufficiencies:

**4.2.1. Evaluation regarding the transactions made in the scope of adapting statements into GFSM 2014**

Financial statistics are formed by compiling internationally-accepted standards and guidelines and balance data of the covered administrations in compliance with the Regulation. In the scope of the said compilation work; the balances of entities, which are prepared in the framework of the detailed account plans and as per national legislation provisions, are consolidated by harmonizing them to the code structure of the GFSM, which is accepted as the international standard.

The said harmonization process requires the use of various statistical methods such as the reclassification of transactions, their rearrangement according to economic composition and cash and/or time adaptation. At this point, it is important to carry out the transactions in accordance with the basic principles in the Regulation and GFSM 2014.

The unclear organization of methodology for adaptation transactions in the Regulation and the high number of entities cause difficulties. Because of those difficulties, the transactions are performed according to the level of access to detailed information (accounting record etc.) and the opinion of the data compiler in every sector.



Detailed identification in national regulations of basic principles such as the framework of the said statistical methods, monetary application limits, and confirmatory documents will contribute to the accuracy and reliability of statements, materializing the link between application and standard and understanding of statements by stakeholders beyond question.

On the other hand, the transactions that are formed in this scope should be informed to the TCA systematically and immediately. If the statistical methods in use are presented by referring to the standards and if they include information on the correction amounts, their impact on statements and inconsistencies in source data, the TCA can make a more accurate assessment of those methods. In addition, this application, which will ensure the correction of erroneous records in source data, will increase data quality and prevent data compilers from performing the same corrections by years.

#### **4.2.2. Lack of Functional Code on data which based on the table of Functional Classification of Expenditures**

#### **4.2.3. There were differences between sub-sectors in the valuation method of borrowing notes**

According to the reporting framework, the borrowing notes included in financial asset and liability items should be calculated by using the market value. However, in practice, the borrowing notes of the MoTF in central government and the borrowing notes of Unemployment Insurance Fund in social security institutions are reflected to statements by using the market values in the additional information received from Treasury, while the notes included in the financial assets of local administrations are reflected by using the values recorded in accounting.

#### **4.2.4. Findings and Evaluation regarding the Consolidation and Elimination Transactions**

##### **a) There are differences between administrative records**

During the consolidation of the financial statements, inconsistencies occur when a financial transaction, recognized in an entity as debt or expense, is not recorded as a receivable or revenue in the account of the entity, which is the other party of the transaction, or the entities record the same transactions with varying amounts. When the Ministry encounters such inconsistencies, it performs elimination over the amount considered to be accurate by using the statistical methods.

Instead of correcting these inconsistencies only during the preparation of the financial statistics, it is important to implement all principles and rules of accruals-based accounting system and update the information system to include controls preventing errors for the accuracy and reliability of the financial statements.

**b) Procurements of goods and services were not eliminated**

Financial Statistics Regulation indicates that it is necessary to eliminate the mutual goods and service procurements between the subsectors forming the general management sector and the units forming the subsectors. However, as account plans do not have a sector differentiation and information systems cannot fully provide counter-entity information, the amounts for goods and service procurements cannot be identified directly, thus cannot be eliminated. Therefore, it is necessary to make a separate work for the transactions that can be eliminated in goods and service procurements and update the elimination matrixes.

**c) Transformation account plans were not suitable for consolidation**

Account plans should be harmonized to be able to consolidate the balances of the entity. Accounts plans of extra-budgetary entities such as revolving funds, extra-budgetary funds and social facilities are transformed to harmonize them with the general budget account plan. When we examined the transformation works, we saw that the accounts that would show the relationship with other sectors were not detailed.

This situation makes it difficult to detect the financial transactions both within the sector and between sectors during the consolidation works. The Ministry should perform additional works on the balances of the entity. It is necessary to revise the transformation account plans of extra-budgetary entities and make them more suitable for consolidation.

**4.2.4.2. Suggestions regarding the Consolidation and Elimination Transactions**

To solve these elimination problems and prevent the reoccurrence of these elimination problems in the future, some suggestions are summarized below:

- A separate study about transactions which can be eliminated in procurements of goods and services should be done for determination of codes subject to elimination.
- Due to the information system have the institutional information of opponent, this information can be used in the elimination processes.
- Elimination matrices of mutual transactions of institutions within the general government sector should be updated regularly





- In order to record the mutual transactions of the institutions over the correct amounts, the accounting information system should be developed and the awareness of institutions on this issue should be increased,
- It is necessary to revise the transformation account plans of extra-budgetary entities and make them more suitable for consolidation.

#### **4.3. ASSESSMENT IN TERMS OF COMPLIANCE WITH PREDETERMINED STANDARDS**

Financial statistics are formed by harmonizing the individual financial statements, which are prepared in the framework of national legislation provisions, with the reporting framework and thus GFSM, which is accepted as the international standard. The relevant sections of the Report include assessments on compliance of the statements, which are prepared and published by the Ministry by applying statistical methods, with GFSM 2014. In addition to the said findings, here are the issues deemed important:

- GFSM 2014 states that it is proper to show the public guaranteed debts by including the debt instrument type, maturity information and nominal value. However, the item of public guaranteed debts, which is in the explanatory notes of financial statement, does not include the said detailed information.
- While GFSM 2014 has the basic principle that all transactions should be valued over market price, the transactions can be subjected to different valuation methods according to national accounting standards. In such cases, it is necessary to do harmonization to closely reflect the market value of assets and liabilities on source data. However, nonfinancial assets cannot be subjected to valuation fully and accurately due to the difficulties in valuation so market value of those assets cannot be fully detected.

#### **5. ASSESSMENT AND RECOMMENDATIONS**

The main objective of publishing financial statistics, which is one of the most important instruments of financial transparency and accountability, is to inform the public about the assets, liabilities, revenues and expenses of the general government sector. The 2020 General Government Financial Statistics were assessed in terms of preparation, publication, accuracy, reliability and compliance with predetermined standards. The following assessments were made apart from those specified in the relevant parts of the Report;

- In terms of preparation and publication, they were prepared in line with the schedule envisaged in the legislation as well as the procedure specified by the reporting framework.
- In terms of accuracy and reliability, financial statistic tables included accurate and reliable information.
- In terms of compliance with predetermined standards, financial statistic tables were consistent with the applicable reporting framework and international standards.

However, the following recommendations are made to ensure that the end-users of statements and decision-makers are provided with information that is more reliable and the analyses to be conducted and the strategies to be determined for the upcoming periods are healthier:

- A detailed study should be done for related institutional unit, mentioned in the report, to determine the scope of the General government sector
- The deficiencies in the explanatory notes, metadata and footnotes, which are published along with the financial statistic tables and important in terms of transparency principle should be eliminated. Detailed information should be given to public on data compilation type, different valuation methods and the statistical methods used,
- Incorrect practices during the conversion of accounting codes to GFS codes should be examined
- The size of the difference disturbing the balance and the vertical and horizontal inequalities in financial statistic tables are important for the quality and consistency of the data forming the basis of the statements. Therefore, the Ministry should guide other entities in taking the necessary measures by examining the reasons of the occurrence of the said difference.
- National regulations should identify in detail the main principles such as the framework of statistical methods, monetary application limits, confirmatory documents, that are applied while forming the statements,
- Effectiveness of the accounting and internal control systems used by the entities covered should be increased to ensure that individual financial statements generate accurate and reliable data.
- To eliminate the elimination errors in the course of the formation of consolidated statements and to prevent the repetition of these errors;



- Accounting information system should be improved to ensure that mutual transactions of the entities within the general government sector are recognized over correct amounts, and the awareness of the entities on this issue should be raised,
- Elimination inequalities should be eliminated by ensuring that a reconciliation process is established among the entities for the inequalities exceeding a certain amount in the mutual transactions,
- The mechanism of informing the TCA, which is foreseen in the Regulation, should be operated timely and in a manner enabling the TCA to perform a healthier evaluation.
- In terms of accuracy and reliability, financial statistic tables included accurate and reliable information.
- In accordance with the basic principle of the GFSM framework, an additional studies should be carry out to evaluate assets and liabilities at current market prices.