# TURKISH COURT OF ACCOUNTS FINANCIAL STATISTICS EVALUATION REPORT- 2018 (SUMMARY)

## 1. SUBJECT MATTER OF AUDIT

The subject matter of 2018 Financial Statistics Evaluation Report is the general management financial statistics tables listed in Article 10 of Financial Statistics By-Law. The prepared set includes the consolidated financial statements, which are formed 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 internationals 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 2872 public entities including the central government, local administrations and social security institutions .

### 2.1 Financial Statistics Tables

Financial statistics set covers the tables that are stipulated to be published in Article 10 of the By-Law. These are the tables 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 Management Financial Statement Sizes

Financial statistics include the tables designed to measure and analyze the financial sizes of general management sector. These sizes are incomes, expenses, the deficits 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 2018, in the General Management Activity Table; total income was 1.189.423,87 million TL, and total expense was 1.283.589,41 million TL. In 2018, incomes increased by 23% compared to 2017, and expenses and expenditures increased by 28% and 22% respectively.

Total assets increased by 10% compared to the previous year and realized at 4.885.195,59 million TL. In 2018, liabilities increased by 20% compared to the previous year and realized at 1.222.659,22 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 Table. It indicates to what extent the incomes cover the expenses. In 2018, gross activity balance had a surplus of 51.700,31 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 2018, net borrowing requirement increased by 12,5% and realized at 97.572,21 million TL.

• Net value enables the making of the analyses regarding the asset and liability status of the general management sector. In 2017-2018, net value increased by 3%.

• Net financial value indicates how much liquid resource the general management sector has vis-à-vis its debts (cash, deposit, receivable, share etc.). In 2018, it decreased by 38% and realized at -696.093,00 million TL. 20% of the decrease in net financial value derived from the increase in liabilities.

• 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 2018, this balance increased to -81.725,00 million TL. A cash deficit emerged because the cash outflow originating from the investments in nonfinancial assets was high.

• Net change in cash stock is an indicator used for evaluating the state's liquidity. In 2017, net change in cash stock was positive with 31.100,35 million TL; in 2018 it decreased by 186% and became -26.456,89 million TL.

## 4. EVALUATION OF 2018 GENERAL MANAGEMENT FINANCIAL STATISTICS

As per Article 54 of Law no. 5018, the TCA evaluated the 2018 General Management 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 management 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. Information was not given about the statistical methods that were used**

a) Metadata did not include sufficient and explanatory information,

b) Due to cash adaptation, the tax and social security premium income accrual amounts, which were removed from the Income and Activity Tables, were not disclosed,

**4.1.2. Table explanatory notes included imperfect information,**

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

**4.1.4. Routine revision measurement tables did not include sufficient information.**

### 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 removing statistical errors from Financial Statistics Tables**

Statistical error amount is calculated by finding the difference between "Net Borrowing/Net Lending Equality" and "Financial Asset and Liability Transactions (Financing Balance)" in the Activity Table. This difference derives from the accounts, which do not have an equivalent in GFSM, and the records used incorrectly in the equity account group within the year by entities.

The ministry tries to identify the quality of the transactions coded as statistical error and counterpart accounts and then performs corrections for the entity records, which are deemed incorrect. In this scope, 92% of the statistical error amounting to 2.735,58 million TL, which corresponds to 2% of the in-year change in equities in 2018, were removed from the tables with the corrections that were made.

The By-Law states that the issues, which are considered to affect the accuracy and reliability of tables, shall be corrected in the framework of principles and international standards by receiving information from the entities. GFSM does not include an explanation regarding the method and methodology for correcting the statistical errors.

Therefore, the basic principles to be applied are not determined by the Ministry, so each sector performs transactions according to the data compliers' opinion and level of accessing detailed information.

Determining the framework of the said corrections, their monetary limits, basic principles regarding corroborative documents, implementing control mechanisms for the accounts that generate errors are all important for ensuring that financial statistics provide accurate and reliable information.

**4.2.2. Findings and evaluation regarding the transactions made in the scope of adapting tables into the valid reporting framework**

Entity's trial balances, which are formed in the framework of accounting legislation and detailed account plans, are adapted to the code structure of GFS methodology, which is accepted as the international standard while preparing the consolidated financial statements, and adaptation transactions are made on source data. These transactions are realized by removing the transactions, which the entities recorded incorrectly, from the relevant table and by reflecting them to different tables; by adding the transactions, which are not included in accounting records, to financial statistics tables; or by taking collection figures as the basis in some income items, which are deemed to be recorded incorrectly.

However, the said transactions exceed the scope of the adaptations included in the reporting framework in terms of quality. This is because GFS conceptual framework and guidelines, which are accepted as international standards, state that adaptation transactions shall basically be performed for valuation, clarification and grossing up of stock and flows, time inconsistencies and classification.

Financial Statistics By-Law states that the issues, which are found to be incorrect, shall be corrected in the framework of basic principles and internationals standards by receiving information from the relevant entity. In practice, transactions are generally made according to the opinion, which is attained as a result of interpreting the accounting records; while some corrections reflect the real situation, some corrections can be incorrect.

Therefore, it is important to perform the adaptation transactions, which are made in the source data, after receiving a confirmation from the data-owner entities in a way that complies with the valid reporting framework and that does not weaken the relationship between the individual financial statements and financial statistics tables.

**4.2.3. Evaluation regarding the numeric consistency of Stock Status and Flow Table**

As per the By-law, if the opening stock status and total flows within the period are not equal to year-end stock status, the difference between them should be disclosed in the footnotes to tables. However, despite the failure to ensure the table consistency stipulated in the By-law, the footnotes to tables did not explain the difference and its reason.

**4.2.4. Evaluation regarding the numeric consistency of Total Changes in Equity Table**

The By-law states that the total of the amount of equities in the opening and flows affecting equities within the period should be equal to the amount of year-end equities, otherwise the difference between them should be disclosed in the footnotes to tables. However, despite the failure to ensure the table consistency stipulated in the By-law, the footnotes to tables did not explain the difference and its reason.

**4.2.5. Amounts regarding the immovable properties, which were used with allocation, were reflected incorrectly to the financial statistics tables**

The immovable properties, which belong to a public entity and which are allocated to another public entity, are put into the accounting records so as to be shown in the financial statements of both entities. Entities open these accounts to record them reciprocally with equal amounts and not to give a balance in consolidated tables. However, since the entities recorded these accounts incorrectly, the records did not match. In this situation, although the remaining balance amounts were not an investment, they were reflected to the tables as asset acquisition or outflow, and they affected the net investment amount.

**4.2.6. 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 tables 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.

### 4.2.7. Findings and Evaluation regarding the Consolidation and Elimination Transactions

a) Contradictory accounting 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 an 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) Transactions, on which statistical methods were applied, were not reflected to the funds statements: Corrections carried out to eliminate the differences between the administrative records should be immediately reported to the TCA to ensure that they are reflected to the financial statements of the entity in question. However, the TCA was informed only with respect to some small-scale record errors throughout the year.

c) Findings regarding Consolidation and Elimination Errors

1) The amounts concerning the purchase of goods and services within and between the sectors were not eliminated in the published statements.

2) Reporting framework states that all transfers accepted as intra-sector grants should be eliminated. However, in practice, since the other party could not be detected to ensure that the intra-sector grants were displayed as zero, intra-sector transfer amounts were coded as other transfers instead of grants and thus, were not eliminated.

3) While aligning revolving fund account plans with the general budget entities account plan, certain accounting codes in the revolving fund enterprise account plan were ignored. Therefore, the said transactions could not be eliminated.

4) During consolidation, transactions resulting in mutual revenues, expenses, debts and receivables between the public entities are eliminated. However, the relevant examination found that the inter-sectoral transactions amounting to 3.695,47 million TL were not eliminated in the activity tables.

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

GFSM reporting framework states that it is appropriate to display the publicly guaranteed debts along with the type of debt instrument, maturity information and nominal value. However, the item of publicly guaranteed debts included in the explanatory notes section of the statement of financial situation does not contain the detailed information envisaged.

## 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 2018 General Government Financial Statistics were assessed in terms of preparation, publication, accuracy, reliability and compliance with predetermined standards, and 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 statistics tables included accurate and reliable information,

• In terms of compliance with predetermined standards, financial statistics tables were consistent with the applicable reporting framework and international standards.

However, the following recommendations are made to ensure that the end users of tables 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:

• The deficiencies in the explanatory notes, metadata and footnotes published along with the financial statistics tables should be eliminated;

• Since the size of the statistical error is important for the quality and consistency of the data forming the basis of the statements, the Ministry should lead other entities in taking the necessary measures by examining the reasons of the occurrence of the error and ensure that the corrections that need to be done are reflected to the funds statements of the entities;

• While statements are formed, the adaptation processes carried out on the source data should comply with the international standards and should not weaken the relation between individual financial statements and financial statistics tables;

• Reasons of the discrepancy between the totals of opening amounts and in-year amounts and the year-end amounts in the statements should be examined, and consistency should be achieved within and between the statements;

• Effectiveness of the accounting and internal control systems used by the entities covered should be increased;

• 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.