

GOVERNMENT ACCOUNTING APPLICATIONS IN TURKEY: FROM PAST TO FUTURE

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Abstract

In order to be made accurate and conformable decisions by directors been active in public sector, financial tables prepared have to contain information that is appropriate to the needs of public sector and both recognized and reported in an accurate and transparent way. Within this context, government accounting comprises of the activities such as the recognition, reporting, and analyzing of financial transactions that belongs to the state sector. The main purpose of the government accounting is to report the required and budgeted incomes and expenses belonging to a single fiscal year for planning and managing of national economy and also reporting assets and liabilities of public sector. Also another purpose is being a guide in the preparation of appropriate budgets by using these reports. Government accounting and its applications are considerably important topics for Turkey. In this study cash basis, modified cash basis, accrual basis, and modified accrual basis of government accounting topics will be examined. Also both historical process of government accounting in Turkey and in the future in terms of government accounting what Turkey will encounter will be mentioned.

Key words: government accounting, cash basis, accrual basis, government accounting standards, Turkey

1. INTRODUCTION

It is possible to define government accounting as recording, classifying, reporting and analyzing of financially qualified events of state sector that can be defined with money. In the historical development of government accounting, political and economic development levels of countries play a significant role. It is possible to say that government accounting systems of developed countries in terms of such mentioned aspects, are forward in comparison with other countries. Austria, USA and Canada can be given as example of such countries.

Today, depending on the increase of the share of state sector in economy, economic activities of state have begun to be diversified and increased. Thus, financial data related with such activities have also increased. Also their recording, reporting, analyzing have become a more important issue and have to be actualized in a more detailed way and studiously.

Along with increasing state activities how the state uses sources and also financial and economic situation have become important within the aspects of transparency and accountability. Thus, the public sector has the liability to report all financial data related with these issues have to be reported in the most accurate way. At the same time, for planning and administrating of national economy, data of government accounting are needed. Due to this and other similar reasons, financial data related with state activities have become extremely important. Briefly, the importance of government accounting has increased.

By years, all over the world government accounting system has experienced major changes and improvements. Among these, the most important aspect and that causes the emergence of several changes and differences are the methods used in the records of government accounting. These methods are as follows; (1) cash based government accounting, (2) modified cash based government accounting, (3) accrual based government accounting and (4) modified accrual based government accounting.

In the cash based government accounting, cash flow based activities are being reported. In other words, what is important in this method is the accounting of cash flows that are subject to economic transactions when they are collected and paid. The emergence date of the events has no importance. Although it is easy to understand and apply, since this approach only involves the recording for the

realization of cash movements, it does not provide adequate accounting data since it does not provide information on other activities.

Modified cash based government accounting is very much similar to cash based government accounting. The difference is that, in modified cash based government accounting, the accounting records at the end of accounting period are not closed and left open until the first month of the following period. In the both mentioned methods, different from the accrual methods, material assets, liabilities, commitments, warranties and transactions related with debt management are ignored. In the accrual based government accounting, without considering the emergence time of cash flows, events (economic transactions) are recorded at the moment of emergence, meaning the moment of accrual.

Modified accrual based government accounting has generally similar characteristics with accrual based government accounting. The main difference among them is that, in accrual based government accounting, transactions related with property, plant and equipment are not taken into consideration.

Government accounting systems have long years been applied on cash based. In comparison with today, it is observed that economic activities of governments had been less diversified and limited. Thus, the government accounting had dealt with only income and expenses of the budget and had kept records of income and expenses. Thus, it is possible to say that cash based government accounting has formed the starting point of the government accounting.

Along with globalization, need of restructuring in the government accounting systems occurred. Until the beginning of 1990's, many countries had applied cash based government accounting systems. After that, there had been a transition from cash based government accounting system to accrual based government accounting system (OECD 2000 p.3-4; Gothrie 1998 p.2). The main reason of this transition was although cash based government accounting system had been simple to exercise, it was not sufficient enough to meet the needs of public administration and also it was not provided enough accounting data. Among the basic deficiencies of cash based government accounting within the framework of accounting data, they were not able to explain economic results properly, could not fulfill its transparency and accountability duties (Montesimos & Bargues 1996 p.21-23). With the accrual based government accounting system, such deficiencies have been removed.

Changes in the methods used in the records of government accounting, caused the change of government accounting system. In the study, process of government accounting in Turkey had gone through was evaluated and information was given about the recent situation in Turkey. Within this context, the changes and application of government accounting systems from 1800's to today have been examined.

2. GOVERNMENT ACCOUNTING JOURNEY IN TURKEY

There is no need to go so much back to evaluate the historical development of government accounting in Turkey. In the Ottoman Empire period, it is possible to state that, the accounting records related with state activities had started to be kept accurately in 1882 by the Ministry of Finance which had been established in 1839 (Karaarslan 2004 p.46). Beginning with 1920's, important steps were taken in terms of development of government accounting system. One of the most important of those was the approval of 1050 numbered General Accounting Code on 26.05.1927. Such legislation had been applied for 76 years and constituted the legal infrastructure of government accounting in Turkey. In these years, cash based government accounting system had been applied in Turkey.

In 1920's, there were difficulties in keeping records of government accounting due to the lack of qualified personnel. In order to overcome this obstacle, in 1928, a Regulation on Treasury Accounting Methods had been published and number of accounts had been decreased and some accounts had been removed. But this simplification hindered the explosion of real situation in Treasury. In order to avoid this, many numbers of regulations had been published between 1948 and 1989 (Yıldırım & Çetinkaya 1999 p.64). Changes in regulations made the situation more complicated in comparison with previous periods. In order to bring out a solution to this complicated situation and to follow the changing

legislation, regulations on all government accountings have been united and on 01.01.1990 came into force with the name "Government Accounting Regulation".

With this arrangement in 1990, the government accounting system in Turkey has become somewhere between modified cash based accounting system and modified accrual based government accounting system. The reason why government accounting system applied in Turkey for that period was close to modified cash based government system, was cash based budget applications and a period of one month was granted for the completion of budget transactions. Furthermore, the reason why government accounting system applied in Turkey for such period was close to modified accrual based government system was that, like income accruals, transactions that were not subject to cash based were also being accounted (Karaarslan 2005 p.24).

In Turkey, especially with 1990's, a need of reform emerged in government accounting system. The reasons of this need was since the records had been kept for cash based, they did not provide adequate information, it was budget oriented, only certain state activities were able to be kept under record, there was no unity of accounting and not adequate data base. Thus, in Turkey, beginning with 1990's, there were efforts and changes observed for transition to accrual based government accounting applications (Kerimoğlu 2006 p.22). Among such changes, which state offices and institutions would be considered within the framework of government accounting and accounting recording methods would tried to be determined.

Since there was not any standard in government accounting system applications in Turkey, the problems began to be noticed especially with globalization. In order to provide standardization, "Decision on Application, Coordination and Monitoring of Turkey National Program for Undertaking EU Acquis Communautaire" had been released which was published on Official Gazette on 24.03.2001. "Accounting Plan" had been prepared within the scope of principles and objectives of such decision (Çetinkaya 2004 p.93).

In 2002, a pilot application had been initiated in 2002 in order to test the accrual based government accounting (MGM 2002 p.7). "Uniform Accounting System Application General Communique", which came to force on 01.01.1994, had played a significant role in determining contents of financial reports prepared by offices and institutions in which government accounting was applied and became effective in application of accrual based.

On 19.11.2003, new Government Accounting General Regulation had been published. This Regulation has still been applied today, and it involves information related with basic accounting concepts and principles, financial reporting, accounting policies and mistakes, frame calculation plan, end of period transactions and application of government accounting standards.

As General Accounting Law (No. 1050) does not respond the needs anymore, in 2003 Public Financial Management and Control Law (No. 5018) has been published. This law entered into force with all provisions in the year 2006. In the second article of Law No. 5018 it is mentioned that;

Article 2 - "This Law covers the financial management and control of public administrations within the scope of general government, encompassing public administrations within the scope of central government, social security institutions, and local administrations."

5018 numbered Law, basically, deals with public incomes and expenses, accountability liability, transparency and financial transactions, accounting and reporting standards and gives information on budget. Besides, it also involves date of registration, state financial statistics, internal control statistics and external auditing.

With 5018 numbered Law came into force, accrual based government accounting system had tried to be applied completely in Turkey (Civan & Özdemir 2011 p.32). Within this purpose, all government activities are begun to be kept under record. In Turkey, for the budget transactions, cash base is being applied while accrual based records are being kept for all other activities. In other words, while preparing accounting reports in accrual base, budget reports are prepared in cash base. Here, projection technique is being used. Budget income and expenses are turned into income and expenses related with approved accounting standards via projection accounts.

It is possible to examine the general administrative system in Turkey under three main headings. These are (1) central government, (2) social security institutions and (3) local administrations. Within central government, departments subject to general budget, departments with special budgets and auditing institutions are involved. Social security institutions are composed of Turkish Labor Institution Directorate General and Social Security Institution. Within the scope of local administrations provincial special administrations, municipalities, related administrations, local administration unions can be defined. As of 2006, in such mentioned institutions, government accounting system in which certain standards of accrual based have been applied.

Before the approval of Central Government Accounting Regulation in 2006, in 2004, Accounting Regulation on General Budget Departments and Annexed Budget Administrations and in 2005 General Government Accounting Regulation and General Budget Accounting Regulations have been published (Öz 2008 p.34). General Administration Accounting Regulation that was prepared by Ministry of Finance seems more important in comparison with others. Because, this Regulation involves issues related with general rules and principles of basic accounting, frame calculation plans, financial reporting and auditing issues. All these regulations are arranged in order to improve and develop government accounting system in Turkey. Each of them is more understandable and innovative in comparison with other in terms of meeting public needs and current changes.

Works undertaken within the framework of Public Financial Administration Project in 1995 has formed the basis of reformist changes in Government Financial System. Within the context of such project, deficiencies in current coding system have been exposed and need for budget coding system had been determined.

In 1998, a model based on Government Finance Statistics (GFS) had been constituted with the experts of International Monetary Fund (IMF). GFS, is a system that records cash inputs and outputs of government in order to make economic analysis. That model had been tested with pilot applications. Following, in European Union process, by reexamining budget coding, system becomes compatible with both changes in GFS and ESA'95 (European System of Integrated Economic Accounts) that has been applied in European Union (MBB2004 p.7). As a result of these studies, Analytical Budgeting Classification that allows international comparison and where financial data of the government have been kept more properly and suitable for analysis is begun to be applied. According to Analytical Budget Classification, there are three types coding. These are; (1) coding of spending and loans, (2) coding of income, (3) coding of finance. As sub titles of coding of spending and loans, there are four main groups as institutional, functional, finance type and economic coding.

Analytical Budget Classification is completely applied in offices and institutions within the scope of consolidated budget as of date 01.01.2004; in local administrations, social security institutions, arranging and auditing institutions and special budget institutions as of date 01.01.2005, in institutions with circulating capitals and in other offices and institutions (except public economic enterprises) as of date 01.01.2006 (MBB 2004 p.7,8). Since accrual based government accounting system and Analytical Budget Classification are inseparable, in order for accrual base to be applied, transition to Analytical Budgeting Classification plays a significant role.

3. STANDARDS OF GOVERNMENT ACCOUNTING IN TURKEY

International Public Sector Accounting Standards (IPSAS), delivered by International Public Sector Accounting Standards Board (IPSASB) established under International Federation of Accountants (IFAC), aim to constitute standard for common government accounting and reporting and to provide uniform accounting system to be applied to state sector. There are total numbers of 38 standards on accrual base constituted by IPSASB. Thanks to such standards, it is expected globally an increase in transparency and quality in financial reports of public sector and uniformity (IPSASB 2016). It is also possible to consider IPSAS as the International Financial Reporting Standards of private sector to be adopted to public sector.

On the date of 23.06.2006 in Turkey the Government Accounting Standards Board was established and has started to work under the Ministry of Finance. Based on Article 49 of 5018 numbered Law, "Regulation on Organizational Structure and Working Rules and Principles of Government Accounting Standards Board" was published. In the 2nd Article of this Regulation, it is stated that Government Accounting Standards Board has the authority to form the accounting and reporting standards that will be applied in public administrations and to make necessary arrangements. In the 5th Article of the same Regulation, it is stated that Government Accounting Standards Board is composed of 9 members three from Ministry of Finance, one each from Chamber of Accounts, Ministry of Internal Affairs, Board of Higher Education, Directorate of State Planning Institution, Undersecretariat for Treasury and Ministry of Labor and Social Security.

In the forty-ninth article of Law No. 5018 it is mentioned that;

Article 49 - "The accounting and reporting standards to be implemented by the administrations within the scope of the general government, shall be set forth by the State Accounting Standards Board to be established with the participation of the representatives of the Court of Accounts, Ministry of Finance, the Undersecretariat of the State Planning Organization, the Undersecretariat of Treasury and the other related organizations in accordance with the international standards within the organization of the Ministry of Finance. These standards shall be published in the Official Gazette. The structure, working procedures and principles as well as other issues shall be stipulated by a regulation to be issued by the Ministry of Finance."

In order to make government and public sector accounting system comparable internationally, Government Accounting Standards are prepared by the Government Accounting Standards Board based on IPSAS. The first government accounting Standard issued in Turkey on the date of 22.02.2008 is DMS 1 – Presentation of Financial Statements Standard (DMSK 2016). There are totally 25 Government Accounting Standards examined by the Government Accounting Standards Board in Turkey up to now. These standards and their date of publication in the Official Gazette are as mentioned in Table 1.

Table 1. Government Accounting Standards Prepared in Turkey and their Issue Dates

Title	Issue Date
DMS 1 Presentation of Financial Statements	22.02.2008
DMS 2 Cash Flow Statements	05.04.2008
DMS 3 Accounting Policies, Changes in Accounting Estimates and Errors	01.07.2008
DMS 4 The Effects of Changes in Foreign Exchange Rates	06.12.2008
DMS 5 Borrowing Costs	08.02.2009
DMS 6 Consolidated and Separate Financial Statements	10.07.2009
DMS 7 Investments in Associates	05.03.2010
DMS 8 Investments in Joint Ventures	05.03.2010
DMS 9 Revenue from Exchange Transactions	19.06.2010
DMS 10 Financial Reporting in Hyperinflationary Economies	06.06.2013
DMS 11 Construction Contracts	10.10.2012
DMS 12 Inventories	19.06.2010
DMS 13 Leases	19.06.2010
DMS 14 Events after the Reporting Date	27.08.2010

DMS 16 Investment Property	27.08.2010
DMS 17 Property, Plant and Equipment	27.08.2010
DMS 18 Segment Reporting	16.05.2012
DMS 19 Provisions, Contingent Liabilities, Contingent Assets	10.02.2011
DMS 20 Related Party Disclosures	06.06.2013
DMS 21 Impairment of Noncash- Generating Assets	10.02.2011
DMS 22 Disclosure of Financial Information about the General Government Sector	24.11.2011
DMS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)	26.06.2015
DMS 24 Presentation of Budget Information in Financial Statements	26.06.2015
DMS 31 Intangible Assets	20.04.2011
DMS 32 Service Concession Arrangements	07.05.2014

In addition to the 25 standards listed above, there are exposure drafts for three standards. These are (1) DMS 28 Financial Instruments: Presentation, (2) DMS 29 Financial Instruments: Recognition and Measurement and (3) DMS 30 Financial Instruments: Disclosures.

There are 10 standards issued by IPSASB but have not been taken up by the Government Accounting Standards Board in Turkey yet. These are:

- IPSAS 15 Financial Instruments: Disclosure and Presentation
- IPSAS 25 Employee Benefits
- IPSAS 26 Impairment of Cash-Generating Assets
- IPSAS 27 Agriculture
- IPSAS 33 First-time Adoption of Accrual Basis IPSASs
- IPSAS 34 Separate Financial Statements
- IPSAS 35 Consolidated Financial Statements
- IPSAS 36 Investments in Associates and Joint Ventures
- IPSAS 37 Joint Arrangements
- IPSAS 38 Disclosure of Interests in Other Entities

4. CONCLUSION AND SUGGESTIONS

Government accounting in Turkey went through different stages and finally reached to its current status due to implemented legislative regulations. Today, depending on the increase of the share of public sector in economy, activities of state have begun to be diversified and increased. Thus, financial data related with such activities have also increased, and carefully their recording, reporting, analyzing have become a more important issue. Along with the Public Financial Management and Control Law (No. 5018) came into force, the legal ground of accrual based government accounting, which is supported to provide transparency and accountability of government accounting and is an inseparable part of Analytical Budget Classification in also other countries, has been constituted. Within this framework, in Turkey cash principle is being implemented in budget transactions while for all other activities, records are being kept due to accrual base. Budgets are being prepared on cash principle while budgeted income and expenses are turned into accrual based reports via projection accounts.

Within the context of this system, as of 2006, all public and state institutions except government business enterprises, are transited into analytical budgeting.

For the delivering of principles that will be adopted in forming financial statements that form the basis of accrual based government accounting, in 2006 State Accounting Standards Board has been established and the Board has published 25 Public Accounting Standards so far, drafts documents have also been prepared for 3 standards. Work has been going on for unpublished 10 IPSASB standards. Considering the first State Accounting Standard has been published in 2008, in the long period of 8 years, it is understood that 38 IPSASB standard sets have not been integrated yet. In other words, in Turkey, Government Accounting Standards have not been settled yet.

On the other hand, with the published laws and regulations, the legal ground is ready in Turkey for implementation of Government Accounting Standards. But state does not still prepare balance sheet, income table, equity capital change table with footnotes. Along with this, in Turkey International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS) have been implemented since 2005 (Gençoğlu and others 2013 p.1). Thus, in case the government accounting standards have been applied, there will be adequate number of financial statement users who are familiar with reporting based on IFRS/IAS with necessary experience. Thus, the situation of public sector can be analyzed by users with accounting data that have never been such detailed and accurate before. Therefore, it can be stated that the delay in implementation of Government Accounting standards is more related with the choices of preparers of financial statements rather than users of financial statements. It is declared that Government Accounting System which was supposed to be implemented in 2016, has been postponed to 2018. These delays hinder Turkey to implement a comparable government accounting system with international standards and cause Turkey to stand behind global developments in terms of public auditing and control. With the exact implementation of Government Accounting Standards, public sector will prepare financial statement sets just like private sector.

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