



Turkish Ministry of Finance
General Directorate of Public Accounts



Accounting Reform (Transition to Accrual-Based Accounting)

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General Government Sector Classification before the Accounting Reform

- There was a consolidated budget concept, covering just general budget and annex budget institutions.
- Local governments, government non-profit institutions, extra budgetary funds, revolving funds and social security institutions used to apply their own financial management and accounting regulations.
- There was no unique institution authorised to impose accounting system framework to all related government institutions, and to compile and produce general public accounts.
- As a consequence, there used to be different accounting applications in public **sector**.

Government Accounting Practices before the Reform

- Accounting systems of public entities were designed and implemented **separately**. It was possible to see cash, accrual, modified cash and modified accrual accounting practices of different government units. There was **no unity** in practice.
- General and annexed budget institutions applied **cash based** accounting system.
- Extra budget institutions had **their own** accounting system in between modified accruals and accruals-based.
- Social security institutions' accounting systems were **different** from each other.
- Some of the local administrations applied **cash based** accounting, some used **private sector** accounting.

Problems Created by Old Accounting Practices

- The government's non-financial assets couldn't be integrated into the accounting process and couldn't be reported.
- Accounting systems didn't provide information about:
 - Payment arrears,
 - Accrued expenses,
 - Incurred liabilities due to accrued expenses such as interest,
 - Accrued revenues other than tax revenues,
 - Claimed receivables due to accrued revenues such as interest, and
 - Contingent liabilities.
- The accounting systems had a narrow spectrum. Detailed information couldn't be generated.
- Compiling the GFS data for all public entities was almost impossible.

Because, accounting system couldn't be used to measure general government's size, public accounts couldn't be managed effectively.

We can find plenty of proof for this conclusion when we analyse 2001 economic crisis.

Accounting Reform: from Cash to Accrual-based

- ✓ In order to compile government accounts in accordance with generally accepted accounting and reporting principles, the Public Financial Management Project (PFMP) supported by the World Bank has been conducted by Turkish Ministry of Finance since 1995.
- ✓ As a legal basis for the reforms, Public Financial Management and Control Law (PFMCL) was enacted in 2003.
- ✓ General government scope was defined according to the generally accepted international principles.
- ✓ Accrual-based accounting system was established by the Ministry of Finance for all general government sector.
- ✓ New system was implemented by general government institutions starting from 2004.
- ✓ The rest of the general government institutions switched their accounting system to the new accrual-based government accounting system in 2006.

Coverage of the New Government Accounting System defined in PFMCL

- ✓ **Central Government**
 - General Budget Institutions
 - Legislative Body
 - Executive Body
 - Judicial Body
 - Special Budget Institutions (118)
 - Universities (85)
 - Others (33)
 - Regulatory and Supervisory Institutions (8)
- ✓ **Social Security Institutions**
 - Social Security Institution
 - Turkish Labour Institution
- ✓ **Local Governments**
 - Municipalities (3225)
 - Provincial Special Institutions (81)
 - Associations Established by Local Governments (1610)

Paces of Public Accounting Reform - 1

- In 1995, an accounting reform in general and annexed budget institutions was commenced to switch from cash based to accruals-based accounting.
- Draft chart of accounts was prepared.
- Decided to enlarge the project to all general government sector.
- In 1999, say2000i automation project was commenced to automatise accounting offices and to establish a centralized public finance database.
- In January 2001, say2000i system was started to be used.
- In 2001, it was decided to resume accounting reform.
- At the end of the 2001, a draft accounting manual for central government was prepared.
- At the beginning of 2002, a pilot implementation of new accounting manual was started in 6 general and annexed budget institutions.

Paces of Public Accounting Reform - 2

- 490 accountants were trained as a trainer in the field by the working group.
- Trainers trained 9000 accounting staff members over the country.
- In 2003, the accounting regulatory framework for the general government was prepared and published in the official gazette by the Cabinet of Ministries.
- In 2003, the accounting manual for general and annexed budget institutions was published in the official gazette by the Ministry of Finance.
- At the beginning of 2004, general and annexed budget institutions started to implement new accounting system.
- Social security institutions, extra budgetary institutions and local governments started to implement new system in 2006.

Automation of Accounting Offices (say2000i system)

- say2000i project for the automation of 1600 accounting offices and units, except the tax offices of the Ministry of Finance, was initiated in 1999 and completed in 2002.
- say2000i Project:
 - Provides the infrastructure for a centralized web-based accounting system in the accounting offices,
 - Makes it possible for the central office to monitor the revenue-expenditure balance of central government daily,
 - Hence, the borrowing needs can be identified daily and costs are reduced since unnecessary borrowing and interest charges are avoided,
 - Is to be used to transfer local administrations' and extra budgetary institutions' finance statistics to the center of Ministry of Finance,
 - Facilitates to compile GFS data for Turkey....

Before say2000i System

- Accounting Offices used to conduct most of their works manually.
- Technological facilities were not commonly used.
- Budget implementation results used to be generated with delay.
- The GDPA headquarters could not receive the desired level of information.
- The working environment in both the GDPA and accounting units was not productive enough.
- There were implementation differences among accounting units.

After say2000i System

- Through the say2000i system, which is easy and low-cost in terms of installation, maintenance and management aspects, accounting offices have been included in the public data processing network.
- The central database contains the personnel data of 1.8 million civil servants. Monthly payrolls can be calculated, controlled, and transferred to the bank accounts of civil servants.
- Fast and high quality services are provided for the citizens.
- Central government's accounts can be monitored daily.
- Saving on public expenditures is ensured.
- Various information and decision making support are provided for economy management.
- Health expenditures can be monitored instantly.
- Accounting offices can access to up-to-date legislation instantly, can keep in touch with the GDPA headquarter and have the answers of their questions.

Data Sources and Data Compilation Methods

- ✓ By using **say2000i** system, the MoF is capable of compiling data for the general and special budget institutions instantly.
- ✓ Regulatory and supervisory institutions send their accounting data monthly.
- ✓ Local Governments enter their data into say2000i system quarterly.
- ✓ Social Security Institutions are obliged to send their data quarterly to the MoF. Because of reconstruction there is no data yet.

MoF disseminates;

Central Government accounts monthly.

General Government accounts quarterly and annually (Social security institutions are in transition).

Financial Reporting

- Budget Execution Results Table
- Balance Sheet
- Operating Results Table
- Cash Flows Statement
- Debt Statistics
- Final Account

Future Plans

In order to increase the institutional capacity of data compilation, MoF commenced a two-year Twinning Project with in October 2006.

On the scope of the Project;

- ✓ General Government (GG) scope will be redefined according to ESA 95,
- ✓ Government accounting system and classifications will be amended according to ESA 95 norms,
- ✓ Accounting and reporting principles will be examined,
- ✓ IT System will be reorganised,
- ✓ 5000 government employees working on government finance statistics will be trained, and
- ✓ At the end of Twinning Project in 2009, Public Accounts will be produced in paralel with ESA 95 norms. As a result, the MoF will be able to converge governments accounts into ESA tables related to GG sector.

THANKS FOR YOUR ATTENTION