THE PRESENTATION OF FINANCIAL STATEMENTS WITHIN THE FRAMEWORK OF THE PUBLIC SECTOR ACCOUNTING STANDARDS: A COMPARISON OF DMS, EPSAS, AND IPSAS

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This study examines Türkiye's compliance with the European Public Sector Accounting Standards (EPSAS) in the context of its European Union (EU) membership process. While Türkiye has already aligned its public accounting system with International Public Sector Accounting Standards (IPSAS), the potential adoption of EPSAS introduces new regulatory challenges. The study analyzes the conceptual framework of public sector accounting standards, comparing EPSAS, IPSAS, and Türkiye's existing regulations. A case study on a municipal financial reporting system is used to highlight practical differences. Findings indicate that while Türkiye's IPSAS-based framework provides a strong foundation, full EPSAS alignment requires additional modifications to comply with EU-specific fiscal rules such as the Maastricht Criteria and the European System of Accounts. The study contributes to the discussion on international accounting harmonization and its implications for candidate countries.

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1 Introduction

Türkiye's European Union (EU) accession process requires the alignment of its economic and financial structures with EU standards. In this context, although Türkiye has adopted the International Public Sector Accounting Standards (IPSAS) in its public financial management, compliance with the European Public Sector Accounting Standards (EPSAS), which are implemented at the EU level, remains a critical issue in the accession process (European Commission, 2021). EPSAS aims to enhance transparency, accountability, and comparability in public finance reporting across EU member and candidate countries while ensuring alignment with the Maastricht Criteria and the European System of Accounts (ESA 2010) (Eurostat, 2020). While Türkiye's IPSAS-based accounting reforms represent significant progress, the official adoption of EPSAS within the EU may necessitate Türkiye's compliance with this framework.

Significant reforms have been implemented to improve Türkiye's public accounting system, particularly with the adoption of Law No. 5018 on Public Financial Management and Control, which introduced fundamental changes based on the principles of fiscal transparency and accountability (T.C. Official Gazette, 2003). Türkiye has modernized its accounting system in line with IPSAS; however, as the development of EPSAS is still ongoing, its impact on Türkiye's EU accession remains uncertain (Brusca & Montesinos, 2018). The transition from a cash-based to an accrual-based accounting system, as outlined in EPSAS, is a crucial step toward ensuring consistency and standardization in financial reporting. Although Türkiye's IPSAS-compliant framework shares similarities with EPSAS, there are specific differences related to EU regulations and the Maastricht Criteria (IFAC, 2020). Therefore, the necessity of full compliance with EPSAS and its potential implications for Türkiye's public financial management should be thoroughly assessed.

This study aims to analyze Türkiye's alignment with EPSAS and evaluate the potential opportunities and challenges associated with this transition. First, the general development of public sector accounting standards is examined, followed by an analysis of the fundamental principles of EPSAS and Türkiye's current situation. Finally, the necessary adjustments for Türkiye's compliance with EPSAS and the potential impact of this process on its EU accession are discussed. Aligning public financial management reforms with EU accounting standards and international best practices will strengthen Türkiye's fiscal discipline and enhance its integration into global reporting frameworks. Compliance with EPSAS will contribute significantly to Türkiye's EU accession process by advancing fiscal transparency and public accountability.

2 Theoretical Background / Literature Review

2.1 Public Accounting Standards and Presentation of Financial Statements

Public accounting standards are a set of rules designed to ensure transparency, reliability, and comparability in public sector financial reporting (IFAC, 2020). In order to improve financial management and accountability in the public sector, financial statements must be prepared within certain standards. In this context, the International Public Sector Accounting Standards (IPSAS) and the European Public Sector Accounting Standards (EPSAS) stand out as regulatory frameworks in public accounting (Brusca & Montesinos, 2018). Türkiye has aligned its public accounting system with IPSAS through the Public Financial Management and Control Law No. 5018, and the potential for alignment with EPSAS is also an issue to be considered in the context of its EU accession process (T.C. Official Gazette, 2003).

The Purpose and Key Principles of Public Accounting Standards

The main objective of public accounting standards is to ensure accountability and financial transparency in the public sector (OECD, 2019). These standards allow public institutions to report on their financial position and performance reliably. The key principles used in public accounting are as follows:

- Accrual Basis: Refers to recognizing financial transactions when they occur, independent of cash flows. IPSAS and EPSAS are based on accrual-based reporting (Eurostat, 2020).
- Transparency: Information related to public finances must be reported in a clear and understandable manner (European Commission, 2021).

- Comparability: A standard framework is required to compare financial data across different periods and countries. EPSAS is developed to ensure that financial data within the EU is compatible (Brusca et al., 2021).
- Accountability: Refers to reporting how public resources have been used to relevant stakeholders accurately and completely (IFAC, 2020).

Conceptual Framework for the Presentation of Financial Statements

Public sector financial statements are key tools providing basic information for evaluating the effective use of public resources. Public sector financial reporting under IPSAS and EPSAS is based on a specific conceptual framework. IPSAS 1 and the proposed structure of EPSAS include elements such as the balance sheet, statement of financial performance, cash flow statement, and statement of changes in equity (Eurostat, 2020).

EPSAS aims to create a structure compatible with the European System of Accounts (ESA 2010) to ensure financial transparency within EU member states (European Commission, 2021). While the current financial reporting structure in Türkiye is IPSAS-based, if EPSAS is officially adopted, Türkiye may need to make changes to its financial statement presentation. In this context, it is important to analyze the differences between EPSAS and IPSAS during Türkiye's EU accession process (Brusca et al., 2021).

Harmonization of Accounting Standards in the Public Sector

Harmonizing public accounting standards at the international level increases financial transparency and ensures more effective management of public finances (OECD, 2019). While EPSAS allows for the integrated evaluation of financial data among EU member states, IPSAS has a broader global perspective (IFAC, 2020). Aligning Türkiye's public accounting standards with EPSAS can strengthen financial integration with the EU and provide an important advantage in the accession process (Eurostat, 2020).

However, the development process of EPSAS is not yet complete, and it has not been fully implemented across EU member states (European Commission, 2021). Türkiye's alignment with IPSAS may ease the transition to EPSAS; however, additional regulations may be required within the Maastricht Criteria and ESA 2010 framework (Brusca & Montesinos, 2018). Particularly, full compliance with EU standards regarding budget deficits, public debt management, and fiscal discipline will be crucial factors shaping Türkiye's transition to EPSAS.

In conclusion, the process of harmonizing public accounting standards should be addressed as a strategic issue within the framework of Türkiye's EU membership perspective. If EPSAS is implemented, the transformation of Türkiye's current accounting system and its effects on public finance should be evaluated in detail.

3 Applied Analysis Using a Municipality Example

3.1 Example Municipality and Accounting Processes

To examine the applicability of public sector accounting standards, one of the large municipalities in Türkiye has been selected as a case study. Municipalities are required to manage their accounting systems in accordance with specific standards to ensure the effective, economic, and efficient use of public resources (Brusca et al., 2019). In Türkiye, municipalities prepare financial reports in accordance with the Government Accounting Standards=Devlet Muhasebesi Standartları (DMS=GAS) under the Law No. 5018 on Public Financial Management and Control (T.C. Court of Accounts, 2021).

3.2 Accounting Standards Used by the Municipality

In Türkiye, municipalities are transitioning from a cash-based accounting system to an accrual-based accounting system. The Government Accounting Standards applied by municipalities are designed to be compatible with the International Public Sector Accounting Standards (IPSAS) (IFAC, 2020). However, in the context of the European Union (EU) alignment process, the European Public Sector Accounting Standards (EPSAS) should also be considered (European Commission, 2022).

3.3 Analysis of Financial Statements within the Framework of GAS, EPSAS, and IPSAS

The primary financial statements prepared by municipalities include the statement of financial position, the statement of financial performance (income statement), and the cash flow statement. The differences between GAS, EPSAS, and IPSAS have been evaluated based on these financial statements.

3.3.1 Statement of Financial Position (Balance Sheet)

The statement of financial position shows the municipality's assets, liabilities, and net assets at a specific point in time. IPSAS and EPSAS recommend that municipalities report their assets at fair value, while GAS records certain assets based on historical cost (PwC, 2021). For example, a municipality's buildings are updated at market value according to IPSAS, while they may be recorded at historical cost under GAS (OECD, 2023).

Table 1: Comparative Balance Sheet of a Municipality According to IPSAS and EPSAS (As of 31 December 2023)

Balance Sheet Item	IPSAS (TRY)	EPSAS (TRY)	Explanation
Current Assets	18,000,000	18,000,000	Structurally similar; EPSAS requires more detailed disclosures.
- Cash and Cash Equivalents	10,000,000	10,000,000	Essential for liquidity management.
- Tax and Fee Receivables	4,000,000	4,000,000	Collection risk is assessed for public receivables.
- Other Current Assets	4,000,000	4,000,000	EPSAS mandates transparent reporting of such assets.
Non-Current Assets	132,000,000	132,000,000	EPSAS emphasizes service capacity and long-term public value.
- Tangible/Intangible Fixed Assets	115,000,000	115,000,000	EPSAS includes revaluation and useful life considerations.
- Construction in Progress	15,000,000	15,000,000	EPSAS includes social value impact in assessment.
- Long-Term Receivables	2,000,000	2,000,000	
Total Assets	**150,000,000**	**150,000,000**	EPSAS requires higher transparency and harmonization with EU reporting.

Balance Sheet Item	IPSAS (TRY)	EPSAS (TRY)	Explanation
Current Liabilities	9,000,000	9,000,000	EPSAS demands classification by maturity and nature.
Non-Current Liabilities	30,000,000	30,000,000	Maastricht criteria compliance is considered under EPSAS.
- Long-Term Loans	20,000,000	20,000,000	Debt is categorized based on EU statistical requirements.
- Pension and Social Liabilities	10,000,000	10,000,000	EPSAS requires actuarial assumptions and disclosure of pension gaps.
Total Liabilities	**39,000,000**	**39,000,000**	
Net Assets / Net Worth	111,000,000	111,000,000	EPSAS highlights service capacity and financial sustainability.
- Government Contributions / Capital	80,000,000	80,000,000	
- Surplus of the Current Period	31,000,000	31,000,000	Under EPSAS, must be linked to performance reports.
TOTAL LIABILITIES AND NET ASSETS	**150,000,000**	**150,000,000**	

This table compares the structure and reporting requirements of International Public Sector Accounting Standards (IPSAS) and European Public Sector Accounting Standards (EPSAS) for a hypothetical municipality. While the numerical presentation remains largely consistent, EPSAS mandates more comprehensive disclosures, alignment with EU fiscal frameworks, and statistical reporting obligations (European Commission, 2023; IPSASB, 2022).

3.3.2 Income Statement

Municipalities' revenues typically consist of tax revenues, transfers from central government, and service revenues. IPSAS and EPSAS recommend that revenues be recorded on an accrual basis, while under GAS, some revenues are recorded on a cash basis (IFAC, 2020). For instance, property tax revenue due in 2023 but collected in 2024 should be reported as 2023 revenue according to IPSAS and EPSAS, but it may be recorded in 2024 under GAS (European Commission, 2022).

Table 2: Comparative Statement of Financial Performance of a Municipality According to IPSAS and EPSAS (For the Year Ended 31 December 2023)

Statement Item	IPSAS (TRY)	EPSAS (TRY)	Explanation
Revenue	88,000,000	88,000,000	Revenue categories are similar, but EPSAS requires linking to budget and output performance.
- Tax Revenues	35,000,000	35,000,000	Local taxes such as property and environmental taxes.
- Transfers from Central Government	28,000,000	28,000,000	Intergovernmental fiscal transfers. EPSAS may require statistical reporting.
- Fees and Charges for Services	18,000,000	18,000,000	Fees collected from public services.
- Other Operating Revenue	7,000,000	7,000,000	Includes fines, penalties, and rental income.
Expenses	57,000,000	57,000,000	Expense recognition under EPSAS is based on accruals with detailed function-based classification.
- Personnel Costs	20,000,000	20,000,000	EPSAS also includes disclosure on pension obligations and long-term liabilities.
- Goods and Services	16,000,000	16,000,000	Includes operating and administrative expenditures.
- Depreciation and Amortization	5,000,000	5,000,000	EPSAS may include service potential disclosures.
- Social Benefits	6,000,000	6,000,000	Paid social transfers.
- Other Expenses	10,000,000	10,000,000	Includes interest, grants, and contingencies.
Surplus for the Period	**31,000,000**	**31,000,000**	EPSAS links surplus/deficit to key performance indicators and statistical data.

3.3.3 Cash Flow Statement

The cash flow statement shows the municipality's cash inflows and outflows. IPSAS and EPSAS suggest separating cash flows into operating, investing, and financing activities to enhance transparency, whereas GAS provides less detail in this separation (Brusca et al., 2019).

Table 3: Comparative Cash Flow Statement of a Municipality According to IPSAS and EPSAS (For the Year Ended 31 December 2023)

Cash Flow Category	IPSAS (TRY)	EPSAS (TRY)	Explanation
Cash Flows from Operating Activities	35,000,000	35,000,000	EPSAS aligns with ESA 2010 principles; both use indirect or direct method.
- Cash Inflows from Taxes and Transfers	55,000,000	55,000,000	Includes local tax collections and government grants.
- Payments to Employees and Suppliers	(20,000,000)	(20,000,000)	Operating payments including wages, goods, and services.
Cash Flows from Investing Activities	(15,000,000)	(15,000,000)	Both standards include acquisitions and disposals of non-financial assets.
- Purchase of Property, Plant and Equipment	(17,000,000)	(17,000,000)	EPSAS encourages service value and environmental impact disclosures.
- Proceeds from Sale of Assets	2,000,000	2,000,000	Disposal of obsolete municipal assets.
Cash Flows from Financing Activities	(5,000,000)	(5,000,000)	EPSAS may require classification of borrowing by EU statistical codes.
- Loan Repayments	(5,000,000)	(5,000,000)	Reflects debt servicing.
Net Increase/(Decrease) in Cash	**15,000,000**	**15,000,000**	EPSAS requires reconciliation with budget execution and treasury data.
Cash and Cash Equivalents at Beginning	5,000,000	5,000,000	
Cash and Cash Equivalents at End	**20,000,000**	**20,000,000**	

3.4 Applicability of Accounting Standards in Municipalities and Challenges Encountered

The implementation of GAS, EPSAS, and IPSAS-compliant accounting systems in municipalities faces several challenges. One of the major issues is that municipalities lack sufficient technical infrastructure and human resources to fully transition to accrual accounting (OECD, 2023). Additionally, the applicability of EPSAS standards remains uncertain for non-EU member countries, and specific alignment mechanisms need to be developed for candidate countries such as Türkiye (European Commission, 2022). Furthermore, the complexity of these standards remains a significant challenge, particularly in municipalities with limited capacity to manage detailed financial reporting systems. According to a study by the OECD (2023), the intricacy of aligning local accounting practices with international standards such as EPSAS and IPSAS often leads to delays and inefficiencies in implementation. This challenge is exacerbated by the lack of standardized procedures across municipalities, further hindering consistent application of these accounting frameworks.

4 Results and Conclusions

The international harmonization of public sector accounting standards is of critical importance for financial transparency and accountability. Türkiye has largely aligned its accounting and reporting processes with IPSAS under the framework of Law No. 5018 on Public Financial Management and Control. However, since the European Public Sector Accounting Standards (EPSAS) process has not been completed, Türkiye's transition to these standards remains uncertain. In this context, the differences encountered in the application of public accounting standards, Türkiye's adaptation to EPSAS and IPSAS, and the challenges faced in the implementation process should be addressed in detail.

Evaluation of Differences in the Application of Public Sector Accounting Standards

The application of public sector accounting standards varies between countries. While IPSAS aims to standardize public sector accounting globally, EPSAS represents a more regional harmonization process developed for European Union (EU) member states (Brusca et al., 2021). In Türkiye, the transition from a cash-based to an accrual-based accounting system in the public sector has shown certain differences. Particularly, the integration of accounting records with budgeting processes varies across different countries (Eurostat, 2020).

On the other hand, although EPSAS is based on IPSAS, it includes specific regulations tailored to the financial systems of EU member states, creating a new transition process for countries like Türkiye (European Commission, 2021). Factors such as the Maastricht Criteria and the European System of Accounts (ESA 2010) must be considered in the EPSAS harmonization process.

Current Status of EPSAS and IPSAS Alignment in Türkiye

Since 2005, Türkiye has implemented various reforms to align public financial management with international standards. Under the framework of Public Accounting and Reporting Standards (KAMUS), regulations based on IPSAS have been adopted, and the transition to accrual-based reporting has been achieved (T.C. Official Gazette, 2006). However, with the entry into force of EPSAS, a reassessment of the differences between Türkiye's current accounting standards and EU regulations will be necessary.

When comparing EPSAS and IPSAS, Türkiye's current accounting structure is largely aligned with IPSAS, but full integration with EPSAS will require additional regulations. For example, the new obligations brought by EPSAS regarding the reporting of public sector debt and budget deficits could necessitate changes to Türkiye's financial reporting system (Brusca & Montesinos, 2018).

Moreover, since the EPSAS process has not yet been fully implemented by the European Commission, the transition to these standards remains uncertain for countries like Türkiye. If EPSAS is implemented, Türkiye will need to adapt its current IPSAS-compliant system to EPSAS, which will bring new financial regulations (Eurostat, 2020).

Challenges in Practice and Recommendations

Various challenges are encountered in the implementation of public accounting standards. Although Türkiye's public accounting system is largely aligned with IPSAS, the main challenges encountered in practice are as follows:

Deficiencies in the Transition to Accrual-Based Accounting: Türkiye has not fully transitioned to accrual-based accounting, and cash-based practices continue in certain areas. This situation may lead to uncertainties regarding the long-term financial management of public finances (OECD, 2019).

Incompatibilities between Budgeting and Financial Reporting: The inability to fully integrate the budgeting system with accounting reporting complicates the comprehensive evaluation of financial statements in the public financial management process (European Commission, 2021).

Uncertainty of EPSAS: The fact that EPSAS has not yet been fully implemented complicates the harmonization process for EU candidate countries like Türkiye. There is no clear framework for the changes required in Türkiye's accounting system should it transition to EPSAS (Eurostat, 2020).

The following solutions are proposed to address these challenges:

Strengthening Accounting Training: In order to ensure that public sector accounting practices are carried out in compliance with standards, financial services experts and internal auditors need to receive more comprehensive training on IPSAS and EPSAS.

Enhancing Budget-Accounting Integration: Efforts should be made to harmonize accrual-based budgeting and reporting systems more effectively in public accounting.

Conducting Pre-Analysis for the EPSAS Transition Process: The potential financial and administrative changes that may arise during Türkiye's transition to EPSAS should be identified in advance, and necessary regulatory arrangements should be planned.

In conclusion, adapting Türkiye's IPSAS-compliant public accounting system to EPSAS will integrate public financial management more closely with international standards in the long term. However, to achieve this, the necessary institutional and legal regulations must be made to address the challenges encountered during the process.

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