



# **TURKISH COURT OF ACCOUNTS (TCA)**

## **PLANNING AND CONDUCTING AUDIT ON CONTINGENT LIABILITIES (CLs)**

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**Sevda Akman  
Senior Auditor  
Turkish Court of Accounts**



## OUTLINE (QUESTIONS TO BE ANSWERED)

- × Why CLs should be audited?
- × What are the must-haves during the audit process of CLs?
- × What is the expected outcome from these audits?



## WHY CLS SHOULD BE AUDITED ?

- × They are not new but more common.
- × There is uncertainty with regard to the timing and quantity of the liability.
- × They may result in fiscal risks which are unlikely at all.



# WHAT ARE THE MUST-HAVES DURING THE AUDIT PROCESS OF CLS?

- × Definition
- × Classification
- × Assessment



## DEFINITION

- × Accurate definition for CLs
- × The same terminology with the relevant entities
- × Adoption of a common definition of contingent liabilities including its scope and coverage to provide guidance and consistency in reporting total CLs



# CLASSIFICATION

Making a proper classification of  
contingent liabilities

- × Explicit CLs
- × Implicit CLs



## EXPLICIT CLS-1

- × Legal or contractual commitment by the Government
- × Liabilities that the government deliberately chooses to take on (with few exceptions)
- × It is written on legal documents or contracts

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## EXPLICIT CLS-2

- × Loan guarantees
- × Export guarantees
- × Other financial guarantees
- × Government insurance programs
- × Legal claims against the government
- × Indemnities
- × Uncalled capital





## IMPLICIT CLS-1

- × Political or moral obligations
- × Arise from expectations that government would intervene in the event of a crisis or a disaster
- × The opportunity cost of not intervening is considered to be unacceptable.



# IMPLICIT CLS-2

- × Bailouts
- × Natural disaster relief
- × Environmental cleanup spending



## ASSESSMENT-1

The auditor should assess:

- × Whether the administration has the required core skills in CLs management
- × The disclosure of the stock in terms of completeness
- × The identification and classification of CLs



## ASSESSMENT-2

- × The potential likelihood and severity of their occurrence
- × The implementation and adequacy of the controls
- × The use of risk management tools
- × The expected costs and risks associated with CLs



# WHAT IS THE EXPECTED OUTCOME FROM THESE AUDITS?

- × Raise awareness of the topic among the financial system decision makers
- × Ensure oversight of and the timely provision for contingencies, and effective risk management
- × Avoid fiscal instability



# WHAT IS THE EXPECTED OUTCOME FROM THESE AUDITS?

- × Promote government credibility by more directly recognising the potential costs of these liabilities
- × Improve transparency
- × Encourage best practice for dealing with risk

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**THANK YOU  
FOR YOUR ATTENTION!**