



## IPSAS ADOPTION EXPERIENCE

### *Introduction*

*The International Public Sector Accounting Standards Board (IPSASB) is dedicated to promoting the acceptance of and the international convergence to International Public Sector Accounting Standards (IPSASs). As part of that effort, it is detailing the challenges and benefits of adopting IPSASs and accrual accounting.*

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— **Devantri Kaur**

*Director, Accrual Accounting Accountant General's Office, Government of Malaysia*

### **Background:**

Malaysia is in the midst of making final preparations in a journey towards adopting accrual accounting. It began in 2011, when it was announced and agreed that the Government of Malaysia should adopt accrual accounting for better fiscal discipline management.

At the federal level, we are adopting accrual-based Malaysia Public Sector Accounting Standards (MPSAS) drawn primarily from International Public Sector Accounting Standards (IPSASs). With the agreement of the International Federation of Accountants, we have made some very minor changes to adapt to our specific national circumstances.

The federal government (all federal ministries and departments) will be moving to accrual in 2015. This will be closely followed by the state governments in 2016.

The local authorities and statutory bodies are already on either modified accrual or accrual basis of accounting and, thus, are not part of this adoption exercise for this phase.

### **Early Adoption:**

While the transition to accrual accounting started in 2011, in reality efforts to attain to better financial management actually started six years earlier, when the Malaysian Federal Government adopted the cash basis IPSASs from the year ended December 31, 2005. Adopting the cash basis IPSAS was beneficial in creating some discipline around our procedures and was a positive transitional step for us.

Early in 2013, the Ministry of Finance issued a Treasury Circular explaining the move to accrual accounting. It detailed the inherent benefits, particularly in providing a comprehensive and accurate picture of government financial position that can enhance transparency and accountability of the public sector finances leading to enhanced public sector financial management.

Also outlined in detail within the Treasury Circular are the responsibilities of the secretary general of each line ministry (LM). This is intended to get high-level commitment from the LM.

We have also set up some very high-profile committees to closely administer and monitor this project. Some are chaired by the Secretary General of Treasury Tan Sri Dr. Mohd Irwan Serigar bin Abdullah and some by our Accountant General, Datuk Wan Selamah binti Wan Sulaiman, who is also a member of the IPSASB. So, we have the support of high-level officials and this has been important in ensuring the project maintains momentum.

We have also created a high level timeline which indicates the critical activities and completion and end dates along with detailed tasks under each of these critical activities, forming an action plan.

### **Main Areas of Focus:**

We identified four main areas/aspects to focus on to successfully make this transition to accrual accounting in 2015. They are:

#### **1. Policies and Standards**

We established a Government Accounting Standards Advisory Committee (GASAC), which has a diverse membership. The committee reviews and drafts accounting standards and policies, which are based on MPSAS, developed from IPSASs.

#### **2. Laws and Regulations**

In addition to setting policies and standards, the GASAC identifies and proposes amendments to relevant laws and regulations, in particular, the Financial Procedure Act 1957.

#### **3. Process and Technology**

In order to adopt accrual accounting, it has been necessary to undertake a gap fit analysis of present processes and technology that will be required. Based on this analysis, we had to design and develop new information technology systems, which we did with the help of two consultants.

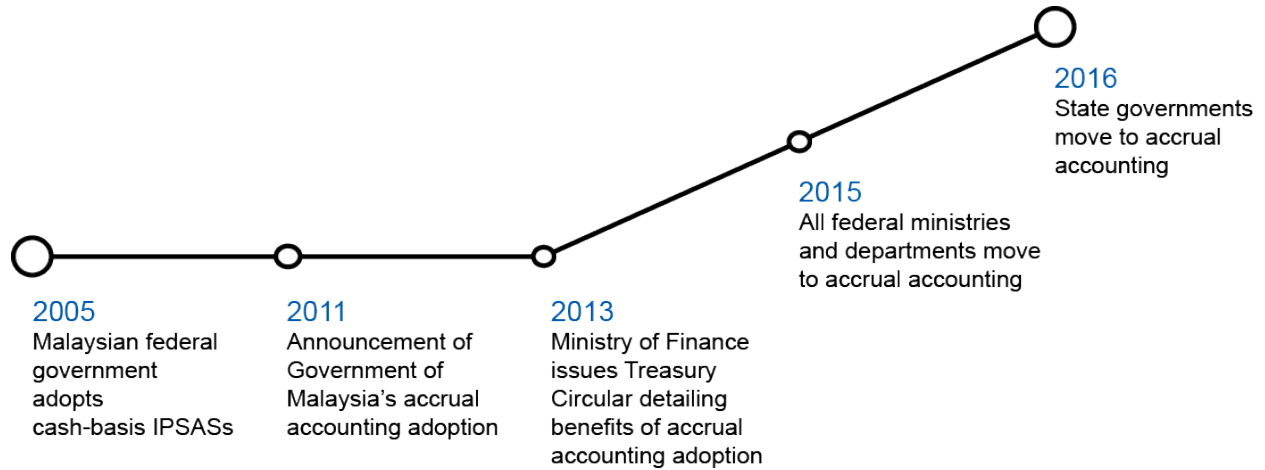
The Business Blueprint is almost finalized. The data collection of assets and liabilities for opening balances is in progress. This activity is posing a huge challenge due to lack of or inadequate information as well as its sheer volume.

#### **4. Human Resources**

One of the biggest challenges has been related to human resources, specifically two aspects - change management and training programs to build capacity.

We established "Change Ambassadors" to assist with the transition management that must take place. But an even bigger challenge is that we have an estimated 65,000 to 70,000 personnel who need to be trained, most with little or no accounting knowledge.

To assist with the human resource challenges, we have set up accounts divisions in the line ministries and worked towards strengthening of the Responsibility Centres Cost Centres with accounting personnel.



## Transition Plan:

Taking into account the tight timeline and International Monetary Fund recommendations, we have drawn up a transition plan. There is some uncertainty as to whether we will use the transition plan because our top management would like us to fully implement accrual accounting in 2015. With that in mind, we are trying to assess this plan.

Our transition plan has been developed whereby the opening balances of assets and liabilities will be taken in progressively from 2015 to 2019. Assets and liabilities involving public-private partnerships and concessions will be also taken in from 2015 to 2019.

Revenue from taxes will also be recognized on an accrual basis in phases beginning in 2015 to 2019. Some tax revenues may still remain on a cash basis. One example of this is traffic summons.

Employee benefits will initially be disclosed in the notes.

## Conclusion:

Overall, the journey towards accrual accounting has been challenging. However, we are committed to it and believe the benefits it will bring us in terms of financial management will be worth the significant effort required.