



## IPSAS ADOPTION EXPERIENCE

### *Introduction*

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

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— **Paul Mason**

*Technical Manager,  
IPSASB*

### **Background:**

In 2013, the Government of Malta embarked on a project that will lead to the implementation of International Public Sector Accounting Standard (IPSAS)-compliant accrual accounts for all government departments and ministries by 2019.

A lack of experience in public sector accrual accounting within the finance teams across government led the Treasury Department, together with the Financial Policy and Management Directorate of the Finance Ministry, to engage the UK-based Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a scoping study on the transition to accrual accounting. Ian Carruthers, CIPFA's Policy and Technical Director and a member of the International Public Sector Accounting Standards Board, led the study, assisted by Paul Mason and Manj Kalar.

### **First Steps**

Originally, Malta's journey towards accrual accounting began in 1999, when the Ministry of Finance issued its first circular on government accrual accounting. In this circular, the Ministry emphasized that the desire to adopt accrual accounting "stems from the desire to generate more meaningful financial information that will lead to a better understanding of the overall financial health of the Government, thereby providing the basis for constructive long term financial projections and planning."

Further circulars followed, and ministries and departments were required to provide accrual based information to the Treasury. Eventually, this allowed the existing cash accounting reports to be supplemented by additional accrual based information. However, this information was not particularly robust, and fell short of the full accrual accounting that Malta's Accountant General considered necessary to provide the more meaningful financial information highlighted in the initial circular.

## European Dimension

During 2012, the European Commission began considering implementing harmonized public sector accounting standards in Member States. This included producing a report, “Towards Implementing Harmonised Public Sector Accounting Standards in Member States: The Suitability of IPSAS for Member States,” which concluded that IPSAS represent “an indisputable reference” for potential harmonized public sector accounts across the European Union. This project provided a further impetus for Malta to complete its journey towards full accrual accounting.

Evidence from other countries suggested, however, that political engagement could be a problem. The appointment of Professor Edward Scicluna (an economist and former vice-chairman of the European Parliament’s Economic and Monetary Affairs Committee) as Minister for Finance following a change in Government in March 2013 provided a further opportunity to accelerate the work related to the accrual accounting project.

Indeed, the Finance Minister expressed himself in favor of working towards using IPSAS as a proxy for future European Public Sector Accounting Standards (EPSAS) requirements, recognizing this as a long-term corporate project that will impact people, processes, and government systems while also strengthening Malta’s public sector accounting processes.

## Recommended Timeline



## Initial Workshops

From the beginning of the scoping study, Malta recognized that a successful implementation would require the engagement of all those affected by the introduction of accrual accounting. It was particularly important to engage with those who did not work in finance departments, but would nevertheless be affected by the project.

The study began with two workshops held during April 2013, involving officials from within and outside the finance community. These workshops explored the impact that accrual accounting would have. In his opening remarks at the workshops, Minister for Finance Edward Scicluna said that "greater efficiency and effectiveness is only possible if the groundwork is solid," explaining that this could only be achieved if the government’s finances and its accounting standards were strengthened.

During the workshops, the CIPFA team presented the high-level requirements of IPSAS-based accrual accounting and highlighted the practical issues likely to be encountered by the Government of Malta, drawing on their experience of the UK government's adoption of accrual accounting as well as the IPSASB publication Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*.

Delegates discussed these issues in small groups, providing feedback about which issues were most likely to be significant for Malta. The open discussions provided useful feedback for the CIPFA team.

The workshops proved very successful. Not only did they help to identify the key issues that Malta would need to address, but the involvement of the Minister for Finance and experts from CIPFA clearly demonstrated the government's commitment to introducing full accrual accounting. This was reinforced by the press coverage of the Minister of Finance's speech, all of which had the beneficial effect of creating an expectation amongst the participants that progress would be made. Indeed, the Treasury received a number of questions from participants over the following weeks about the next stage of the study, and when this would take place.

## **Data-Gathering**

Given this level of interest, maintaining the momentum established by the workshops was crucial. This was achieved by ensuring the data-gathering phase began in June. The two-month gap between the workshops and the data-gathering phase allowed sufficient time to analyze the findings from the workshops without participants' memories of them fading.

The data-gathering phase involved the CIPFA team, ably assisted by Treasury officials led by Michael Zammit Munro (project leader), holding discussions with small groups of officials from across government. Approximately 100 officials took part in these meetings. Additionally, a key meeting was held with Alfred Camilleri, Permanent Secretary at the Ministry for Finance, whose support for the accrual accounting project will be essential in the future as legislative changes are likely to be required.

Because a significant proportion of the participants originated from outside the finance function, the CIPFA team set aside time at the start of each meeting to explain the benefits of accrual accounting and how this would affect the whole of government, not just finance officials. Although the purpose of the meetings was to identify gaps in accounting practices and information, the meetings also focused on the processes the participants used and the information available to them.

In this way, the participants were made to feel comfortable, yet the team was able to ask the questions needed to identify all the relevant information. This inclusive approach was well-received, with participants indicating they had enjoyed the meetings and wanted to remain involved—an encouraging sign for the future.

An additional benefit of these interviews was that they identified a number of financial management issues, which allowed the government to address some of these issues immediately, generating savings and improving the delivery of services. These "quick wins" have ensured a favorable perception of the accrual accounting project, and help to demonstrate the financial management benefits that accrual accounting can bring.

## Scoping Study Report

Following a meeting in October 2013 to discuss the provisional findings with the Minister for Finance and the Accountant General, the CIPFA team delivered the final scoping study report in November.

This report emphasized the need for a dedicated project team, with the appropriate financial and non-financial skills. A communications strategy will also be vital to ensuring officials across all ministries and departments are aware of what is required and that successes and challenges are reported back to the project team.

As is the case with many other countries, few officials have any accountancy qualifications, and the finance function in some ministries and departments is already stretched. Capacity building is required, and recruitment and training will need to be coordinated across government.

The report also identified some politically sensitive issues that the implementation of accrual accounting will highlight. Ensuring there is political buy-in across the board early in the project is therefore important.

Inevitably, there is much work to be done. For many assets and liabilities, the information available is often incomplete and the information that is available may not be reliable. For example, fixed asset registers will need to be compiled and provisions identified.

The scoping study also highlighted those areas where Malta has good information and that as a result there is less work required than initially expected. The Treasury (a department of the Ministry for Finance) already collects all the information required for its debt management and investment functions to produce accrual accounting information based on IPSAS pronouncements, and is one of the few departments to have qualified accountants.

This has enabled the Ministry for Finance to lead the accrual accounting project in Malta from the front. The Ministry will be the first to produce accrual accounts (for 2016), using this as the opportunity to test the processes and procedures that are being developed and to ensure that the new systems that are currently being procured operate as planned.

By 2018, pilot departments and ministries will join the Ministry for Finance in producing accrual accounts, with the remaining departments and ministries producing accrual accounts the subsequent year. This phased approach will enable any problems to be identified and resolved without having to spread limited resources too thinly.

## Conclusion

Malta's timetable for implementing full accrual accounting is challenging but achievable. The process of producing a scoping study has already enabled improvements in public financial management to be made. Further benefits will follow as the implementation proceeds.

Obtaining the commitment of officials and politicians to a change program of this scale is always vital. The inclusive approach being adopted by the Treasury has brought success so far. With the Accountant General planning to hold meetings to update officials on the findings of the scoping study, this looks set to continue.