FROM CASH TO ACCRUAL ACCOUNTING IN PUBLIC SECTOR: RATIONALE AND IMPACT TO ACCOUNTANTS AND GOVERNMENT FINANCIAL MANAGEMENT

NATIONAL AUDIT DEPARTMENT SEMINAR 2017

DATE: 23RD OCTOBER 2017 (MONDAY)
TIME: 1400 – 1430
TEMPAT: PUTRAJAYA MARRIOTT HOTEL
Accountant General is the Chief Accountant of the Federal Government and Chief of a Division of the Federal Treasury with the authority in all accounting matters and procedures relating to Federal and State Government accounts.

Head of Service

Accountant General is the Head of Service for Accountants, Assistant Accountants and Book keepers (Accounting Technician).

Registrar of the Unclaimed Moneys

Accountant General has been appointed by the Minister of Finance as the Registrar of Unclaimed Moneys under the Unclaimed Moneys Act 1965 effective from 1 Jun 1975.
BIG PICTURE: ACCRUAL ACCOUNTING IMPLEMENTATION NEED TO BE PART OF A WIDER FINANCE REFORM

CONNECTING THE DOTS: ACCRUAL ACCOUNTING IS NOT AN END IN ITSELF BUT AN ESSENTIAL FIRST STEP FOR IMPROVED PUBLIC FINANCE
NEW ECONOMIC MODEL

POLICY MEASURES FOR PUBLIC SECTOR TRANSFORMATION

BUREAUCRATIC REFORMS

FISCAL DISCIPLINE AND REFORMS

STRENGTHENING NATIONAL POLICY FORMULATION IN ECONOMIC GOVERNANCE

IMPROVING THE QUALITY OF HUMAN RESOURCES IN CIVIL SERVICE

Adopting Accrual Accounting for prudent fiscal management.

Implement efficient broad-based tax.

Strengthen expenditure control.

Improve fiscal policy institutions and processes.

Institute use of non-oil balance for fiscal policy formulation.

Introduce value management in expenditure planning to get value for money.

Extend transparent procurement policy and procedures for better price discovery.
WHY MALAYSIA NEEDS THE FINANCIAL REFORM

- In accordance to the Public Sector Transformation Policy in the NEM for Malaysia
- Improve Public Resources Management
- Facilitates Informed Decision-Making
- Promotes transparency and accountability
EVOLUTION - MALAYSIA

Before (< 2006)
- Modified Cash Basis
- Branch Accounting System/Manual
- IPSAS Cash

Current
- Modified Cash Basis
- GFMAS
- IPSAS Cash (Revised)

Future (> 2018)
- Accrual Basis
- 1GFMAS
- MPSAS Accrual
How Can Accrual Accounting Benefit the Public Sector in Malaysia?

- Costing data of output enables more effective evaluation of alternatives to achieve the outcomes – **Cost Savings**
- Information on assets facilitate unlocking of values – **Revenue Generation**
- Assets listing provide a database for infrastructure management leading to better maintenance of assets – **Better Service Delivery**

**Accountability**
- Accounting for consumption of resources
- Improve performance and financial management of each agency

**Sustainability**
- Facilitate revenue management by each agency
- Promotes intergenerational equity of public policies
- Completeness of accountability of resources

**Better Measure of Policies Effect**
- More effective measure in complimenting results framework of OBB
- Better accountability of executive government

**Organizational Efficiency and Effectiveness**
- Compliment results framework of OBB
- Costing of outputs and measured against outcomes

**Promote Greater Integrity**
- Curbs teeming and lading of expenditure
- Promotes transparency
- Minimizes year-end shopping
- Compatibility with developed economies
IMPLEMENTATION STRATEGY

- Setting of Accounting Policies.
- IPSAS Gap Analysis.
- Setting of Accounting Standards (MPSAS).
- Change Management, buy-in from all relevant parties
- Involvement of all personnel in the Public Sector accounting service.
- Human Capital Development
- Liaise with AG Chambers’ for advice
- System and Processes Gap Analysis
- Design and develop accounting system - Centralized system with single database
GOVERNANCE STRUCTURE

OBB Implementation Steering Committee
[Chairman : KSP]

Steering Committee PEMANDU Public Finance
[Chairman : YAB PM]

Public Finance Working Committee
[Chairman : KSP]

Accrual Accounting Implementation Committee for OBB
[Chairman : ANM]

Accrual Accounting Steering Committee
[Chairman : ANM]

Ministry Accrual Accounting Implementation Committee

Government Accounting Standard Advisory Committee (GASAC)

System Development Working Committee

Accrual Accounting Implementation Working Committee
Members:
- Ministries (Chief Accountant);
- Auditor General;
- State Treasurers;
- Statutory Bodies;
- Professional Accounting Bodies; and
- Universities.

Review and setting of the Accrual Accounting Standards and Policies.
Financial Procedure Act 1957 and other Relevant Acts

- To be table to the Parliament on the date to be determined

Accrual Accounting Implementation Guidelines

- 1/2013 – Assets
- 1/2014 – Inventory
- 2/2014 – Accounts Receivable

Review of the Treasury Circulars and Instructions

- In progress
PROCESS & TECHNOLOGY

- CENTRALISED
- INTEGRATED
- UPGRADED
- HARMONISED

- Complexity - FGOM
- Dual ledger
- System Integrator’s Commitment
- System Readiness to Interface
- Legacy system ‘accrual enabled’
- Single ID Implementation
- Policy Change – MAMPU data center
HUMAN RESOURCES

STRENGTHENING THE ACCOUNTS DIVISION IN MINISTRIES

NEW FUNCTIONS OF MINISTRY’S ACCOUNTS DIVISION

ACCOUNTS DIVISION

MANAGEMENT ACCOUNTING
- COST ACCOUNTING
- FINANCIAL ANALYSIS
- INVESTMENT

CONSULTATION
- ACCRUAL ACCOUNTING
- CONSULTANCY

FINANCIAL ACCOUNTING
- AP & AR
- PREPARATION OF FS
- ASSETS & INVENTORY MANAGEMENT
- OTHER ASSETS & LIABILITIES ACCOUNTING

MONITORING
- ASSET VERIFICATION
- RISK MANAGEMENT (FINANCE)
- AP & AR MANAGEMENT

ADMINISTRATION & FINANCE

PROJECT TEAM & CONSULTANTS

10 SADs + 15 new SADs = 25 SADs
## Change Management

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<tr>
<th>Activity</th>
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<tr>
<td>Public Accounts Committee (PAC) – Briefing, Reports</td>
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<td>Briefing – Top Management of Public Administration</td>
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<td>Seminars – NAPSAC, Thought Leadership</td>
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<td>Town hall with Accountant General</td>
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<td>Engagement with Auditor General</td>
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<tr>
<td>Promotion - Bulletin, Flyers, Banners, Email Blasts, Knowledge Portal,</td>
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<td>Videos</td>
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## Trainings

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<td>Courses – Financial Management, CFO, Soft Skills</td>
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<td>Workshop – CIPFA, Data Collection, Process To Be</td>
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<td>Financial Documents</td>
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<td>Concepts of Accrual Accounting</td>
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<td>Chart of Accounts</td>
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<td>System Training – 1GFMAS</td>
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**LIAISON CHANGE AGENT**
FGOM’S ORGANIZATIONAL HIERARCHY

Federal Government of Malaysia

Ministries / State

(Accounting Office)

Controlling Office

PTJ Group Code

SAP Field

Company code

Cost Center Group

Business Area

Segment

Cost Center Group

JABATAN AKAUNTAN NEGARA MALAYSIA
FINANCIAL STATEMENTS OF FEDERAL GOVT

MODIFIED CASH BASIS VS ACCRUAL BASIS

CASH BASIS

Modified Cash

Statement of Financial Position

Statement of Cash Receipts and Payments

Statement of Financial Performance

Memorandum Account Statement

Notes to the Accounts

VS

ACCRUAL BASIS

Accrual Accounting

Statement of Financial Position

Statement of Financial Performance

Cash Flow Statement

Statement of Net Assets/Equity

Statement of Budget Performance

Notes to the Accounts
IMPACT ACCRUAL ACCOUNTING TO GOVERNMENT FINANCIAL MANAGEMENT

FINANCIAL STATEMENT

A complete set of financial statements:
1. Statement of Financial Position
2. Statement of Financial Performance
3. Cash Flow Statements
4. Statement of Net Assets/Equity
5. Statement of Budget Performance
6. Notes to the Accounts
Accrual accounting together with Activity Based Costing will transform existing data to information and eventually to knowledge where better informed based actions can be taken.

- Fully integrated with Outcome Based Budgeting (OBB)
- More effective measure in complimenting results framework of OBB
- Compliment results framework of OBB
- Costing of outputs and measured against outcomes

Data → Information → Knowledge → Action
CRITICAL SUCCESS FACTORS

Commitment from Top Management
- Ministry’s KPI
- Strengthening the Account Division and Responsibility Centre

Accounting System
- 1GFMAS development
- Commitment of System Integrator
- Interface with External System
- Sufficient fund
- Legacy system accrual enabled

Data Collection
- Ministries commitment.
- Complete record of assets.
- Accurate opening balance of assets and liabilities.

Change Management
- Awareness Programme
- Comprehensive Capacity building
- Training Programme

Involvement of Auditor General
- Setting of MPSAS
- Amendment of legislation and rules
- System development
- Endorsement of assets and liabilities opening balance
THANK YOU