

# PEMNA Technical Launch Workshop



**TREASURY COP:  
INTEGRATED FINANCIAL MANAGEMENT  
INFORMATION SYSTEMS (IFMIS)  
IMPLEMENTATION :**

**"TRANSITION TOWARDS ACCRUAL ACCOUNTING"**

Presented by : Accountant General Department  
Malaysia

# Objective



"Transition towards Accrual Accounting"

The Malaysian Government intends to improve public service delivery and accountability through the adoption of International Public Sector Accounting Standards (IPSAS) of full accrual accounting

# What is Accrual Accounting?



## **Definition**

A method of accounting that recognizes expenses when incurred and revenue when earned rather than when payment is made or received.

Cash Accounting which is currently being practiced by the Malaysian government is done completely the opposite.

# Why Accrual Accounting ?

## Key Benefits

- 1) The quality of financial management can be greatly improved**
- 2) More comprehensive information about costs that will better support results-based management.**
- 3) More efficient and effective use of resources**
- 4) Provides a government with the opportunity to demonstrate successful management of its resources**
- 5) Useful in evaluating a government's performance in terms of its service costs, efficiency and accomplishments**

**Cash  
Accounting**

**Accrual  
Accounting**

# Challenges with Cash Accounting



- **Information on assets and liabilities is not available.**
- **Impact of consumption of stock of net assets held by government is not known.**
- **Cash accounting focuses solely on the cash flows of the current period.**
- **Accountability of government for use of its resources becomes difficult.**
- **Reporting of receipts and payments in great detail may lead to problems in understanding the information.**
- **There is no system of reporting of contingent liabilities which may have significant impact on future revenues.**
- **Matching of costs and benefits is not possible.**

# What is the expected outcome of this approach and adoption Accrual Accounting



**Online Web Portal User  
Access Nationwide**

**Online Budget  
Check and  
Commitment**

**Online Requisition  
and Order**

**Complete Audit Trail and  
Superior Access Control**

**3 Ways Matching for  
better internal control**

**Full integration between  
the Purchasing and  
Financial system**

**Online Approval for PO and  
Invoice for better check and  
balance**

**Central Repository for  
Stock Items and use  
of MRP for accurate  
replenishment**

**Central Repository  
for  
Asset Register**

**Online and Timely  
Realtime Reporting**

**Systematic Ageing of  
Debtors and Vendors  
Ageing for each ministry**

**Periodic Allocation of  
cost for better and  
accurate cross-charge  
and cost distribution**

**Future capability in asset  
tagging and barcoding**

**Enable Depreciation of Assets  
in a systematic and periodic  
manner**

# Challenges or Lessons learnt in countries that have adopted Accrual Accounting



- The redesigning of the Chart of Accounts.
- Collecting accurate information on Capital Assets and their value.
- Establishing long-term liabilities.
- Recognizing and accounting for Government's receivables
- Drafting new legislation and standards for the accrual budgeting system.
- Reporting debt and debt management.
- Intensive training for users of the system at all levels of Government; that is, political, legislative and the Public Sector.
- The acceptance of the new system by users

# Implementation Structure

The implementation structure is divided into 4 key aspects of:

1. Standards and accounting policies
2. Laws and regulation
3. Process and Technology
4. People

The first 2 aspects set the platform in which accrual accounting should operate. The last 2 aspects are the enabling levers to operate accrual accounting.

- Mapped existing financial statements to IPSAS requirements
- Gap analysis of 31 IPSAS standards covering disclosure of financial statements
- Map out Federal government financial statements including items of assets and liabilities in the balance sheet as well as items of revenue and expenditure
- Identify governance structure of standards setting

## Standards & Policies

## Laws & Regulations

- Identify relevant legislations for review including Federal Constitution, Financial Procedures Act 1957, Development Fund Act 1966, Loan Acts, Housing Loan Fund Act 1971.
- Liaise with AG Chambers for advice

- Project management – Identify the core team structure and resource plans
- Capacity building – Identify human resource needs for 15 Non-SADs to SAD and Human Resources Development for the 4,365 responsibility centres (22,000 persons)
- Effective communication through online publications and circulars.

## People

## Process and Technology

- Gaps analysis of system & processes – Existing vs new requirement
- Drawn up system architecture for both cash and accrual system
- Developed implementation roadmap
- Solution landscape – a single platform with centralize database





# Current System Architecture

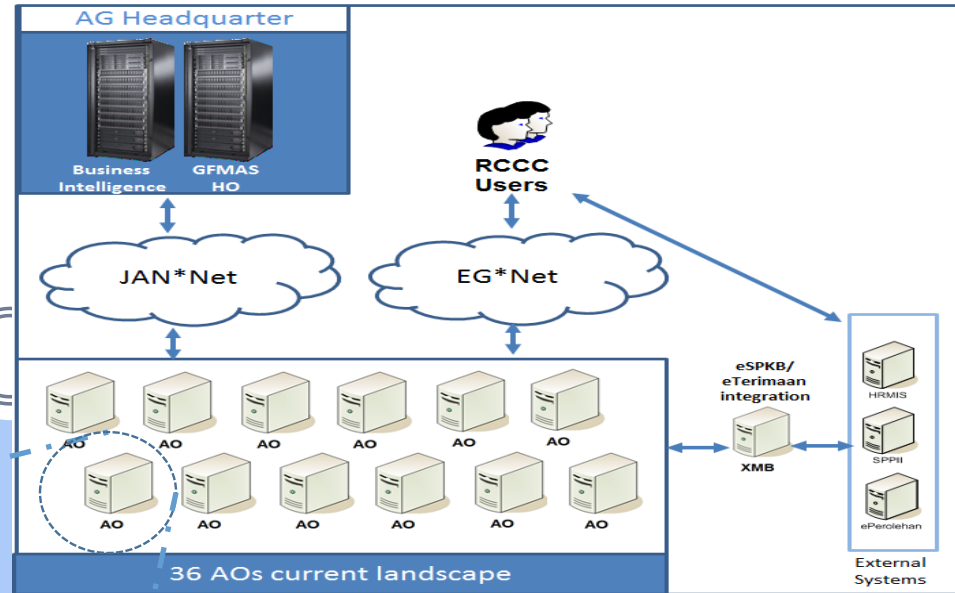
Operating in a distributed environment with each of the 36 AO's/ SADs (25 AGOs and 11 SADs) running its ICT operations.

The RCs will capture their transactions into eSPKB of the respective AOs. The eSPKB data is then transferred to GFMAS via Enterprise Application Integration (EAI) to GFMAS database in each AGOs /SADs.

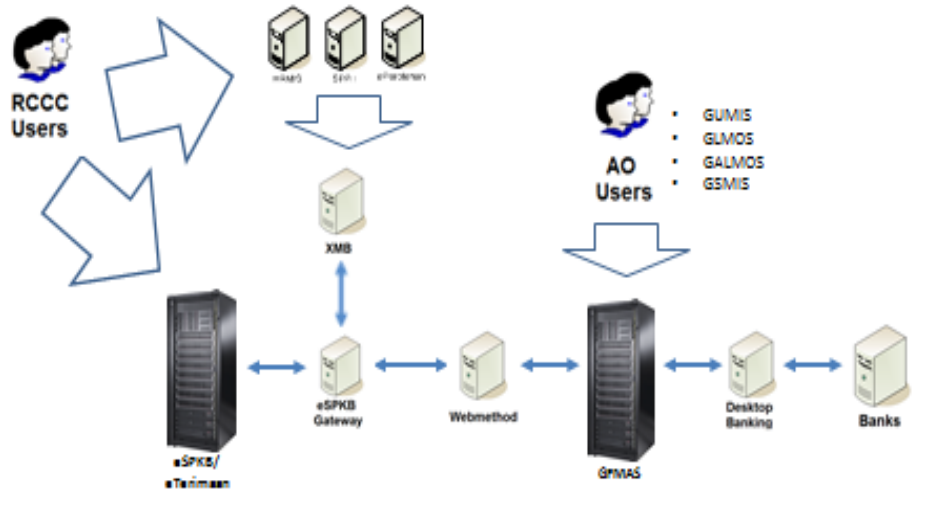
The GFMAS data in the AGOs/SADs is then consolidated to the central database in the HO via SAP Application Link Enabling (ALE).

The 36 AGOs/SADs are connected to the HO via JAN\*NET running on IPVPN WAN technology with bandwidth varying from 256 Kbps to 1 Mbps and DSL lines as backup.

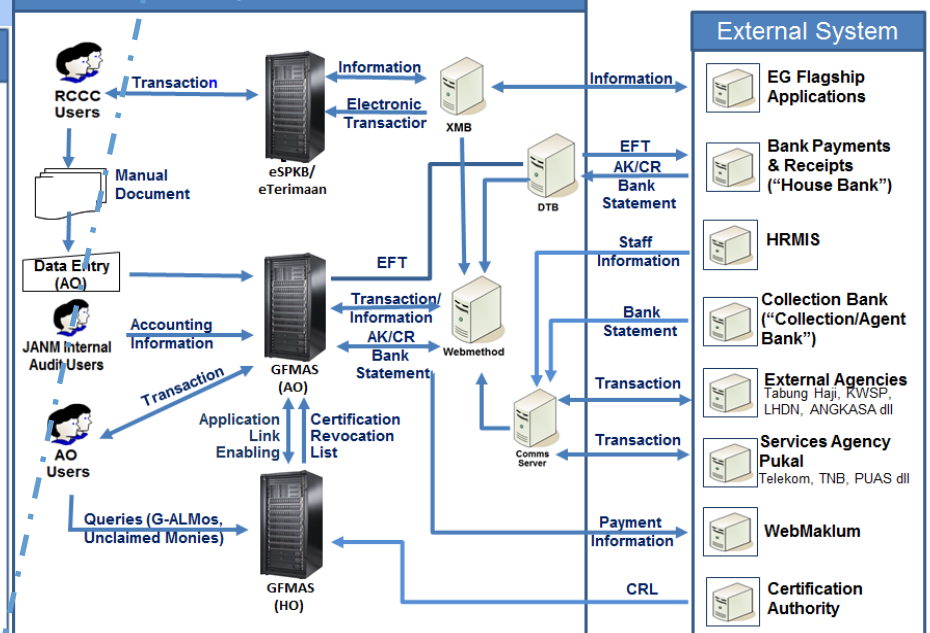
The RCs are connected to AOs via EG\*Net.



AO current landscape



Current System Architecture



# SYSTEM AND PROCESS

## Issues

### Distributed Processing and Disparate Systems

- Interface between eSPKB, GFMAS and external system
- Redundancy of data and work process (eSPKB running on java & Oracle and GFMAS running on SAP & DB2)

### High maintenance

- Software and hardware license
- Preventive and curative maintenance on the infrastructure
- Duplication of work eg backup

### Exorbitant cost for hot DRC

Difficulty in developing expertise

Inconsistency of data

RCs document status is not real time

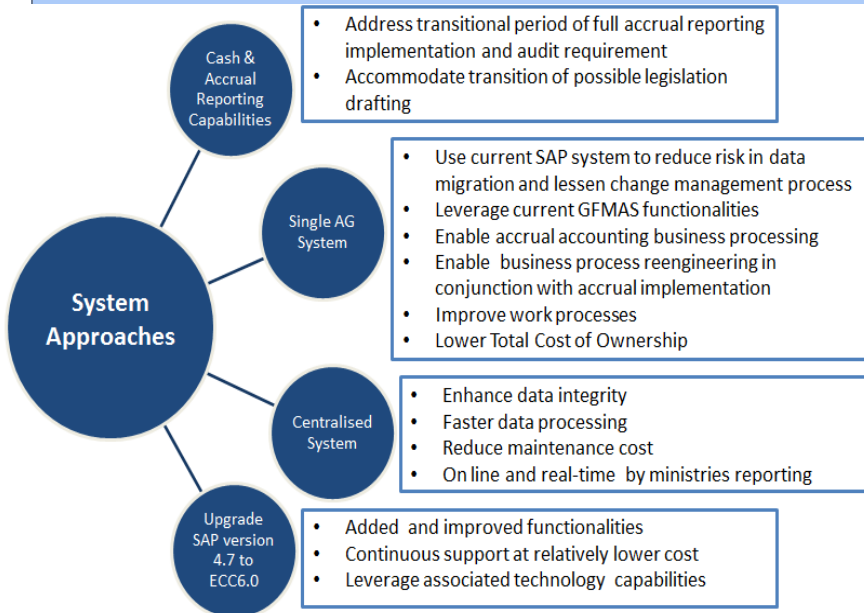
Reconciliation of data

## MOVING FORWARD

**1GFMAS**  
a single integrated  
centralized  
environment

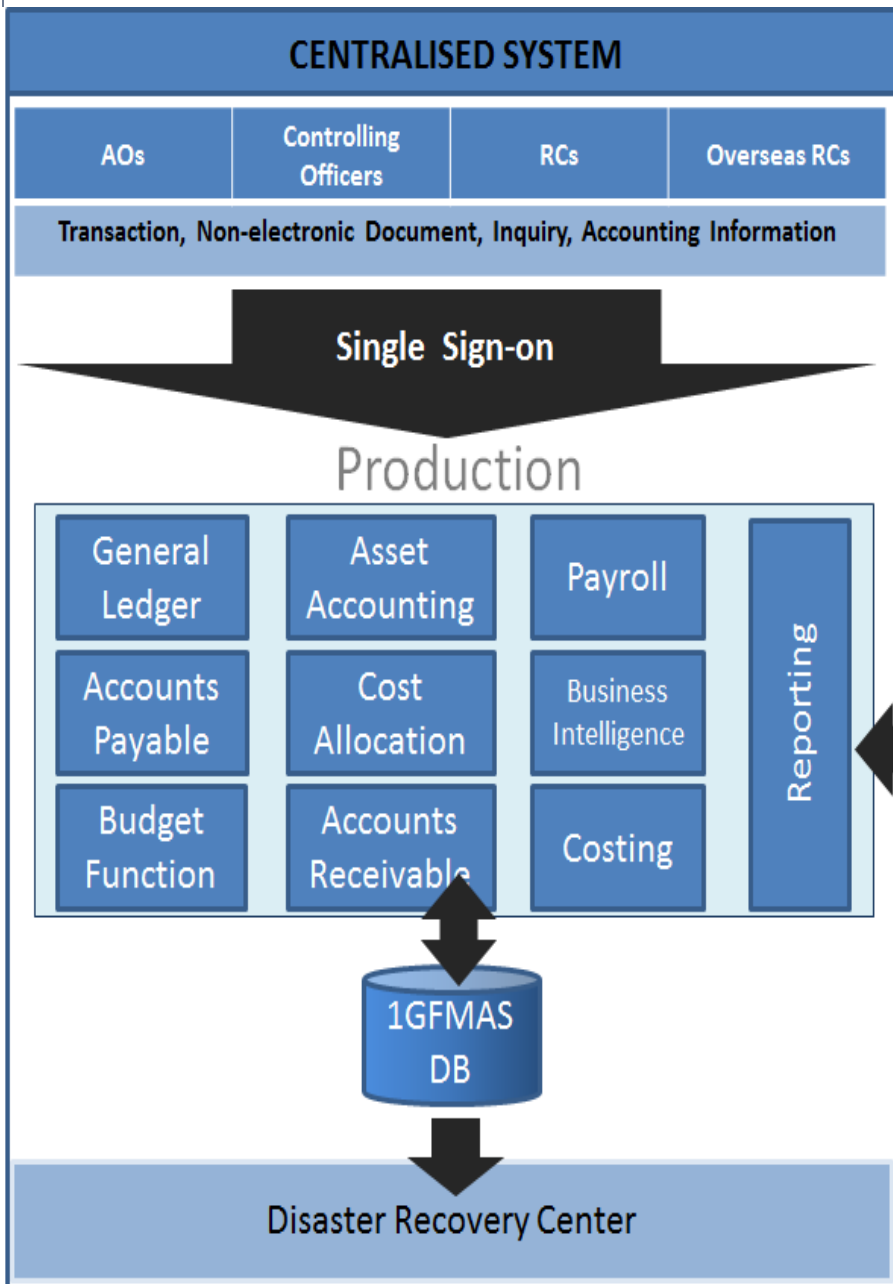
## SYSTEM DEVELOPMENT STRATEGY

## OPERATIONAL FRAMEWORK



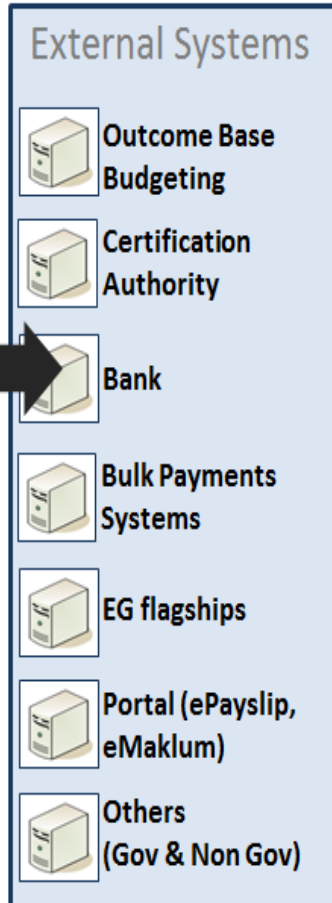
Stage	Expenses	Revenues	Assets	Liabilities	Contingent Liabilities
As Is	Payments	Receipts	Financial assets	Balance of Public Borrowings Not Transferred To Development Fund & Housing Loan Fund	Guarantees
Stage I (Jan 1 2014)	All Expenses on accrual basis (Assets not capitalized)	All Revenues on accrual basis	Financial assets + Receivables	Balance of Public Borrowings Not Transferred To Development Fund & Housing Loan Fund + Payables	Guarantees
Stage II (Jan 1 2015)	All Expenses on accrual basis	All Revenues on accrual basis	All Assets	All Liabilities	All explicit contingent liabilities

# Proposed System Architecture



## Hardware Architecture

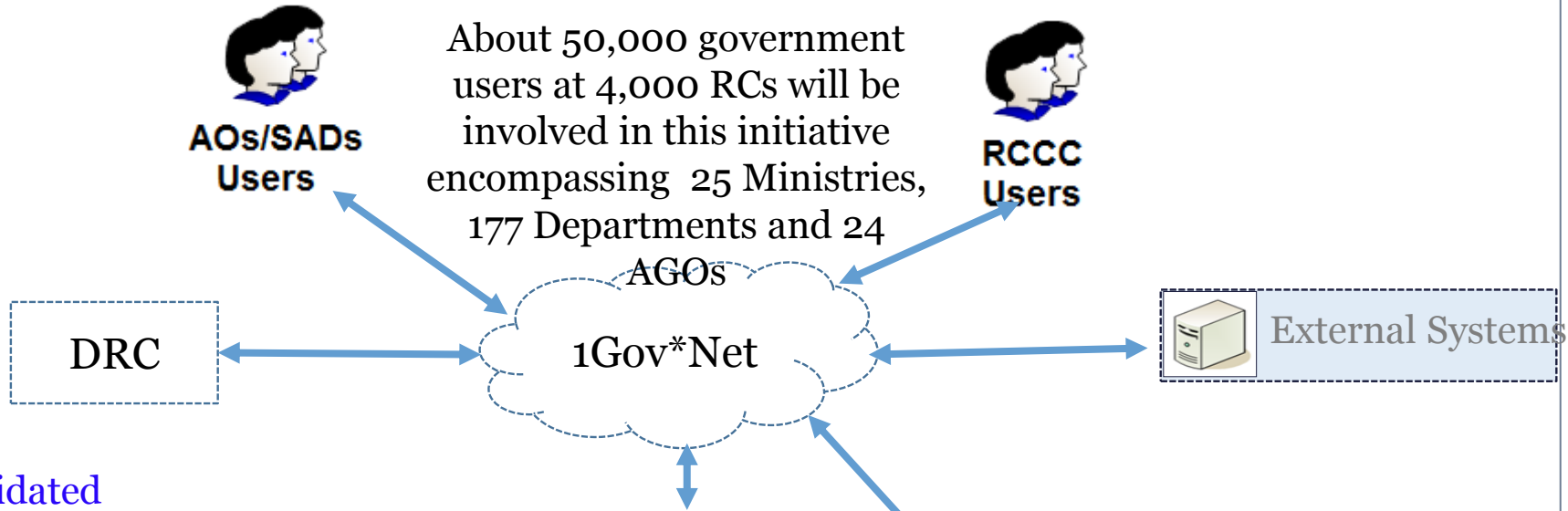
Centralized infrastructure by leveraging on new technologies for cost effectiveness and efficient maintenance and business continuity



## Proposals

- 1) Centralized System
  - Enhance GL & SL functions
  - Single system for RCs & AOs functions
  - Cash and accrual basis of accounting
  - Financial statement by Ministry
- 2) 1Gov\*Net as Network infrastructure for RCs
  - Redundant lines from multi providers to mitigate downtime
- 3) Standardized interface data description (IDD) and enhanced public sector data dictionary (DDSA)
- 4) External systems to comply with accrual

# Proposed System Infrastructure



## Consolidated

- One System
- Single Database

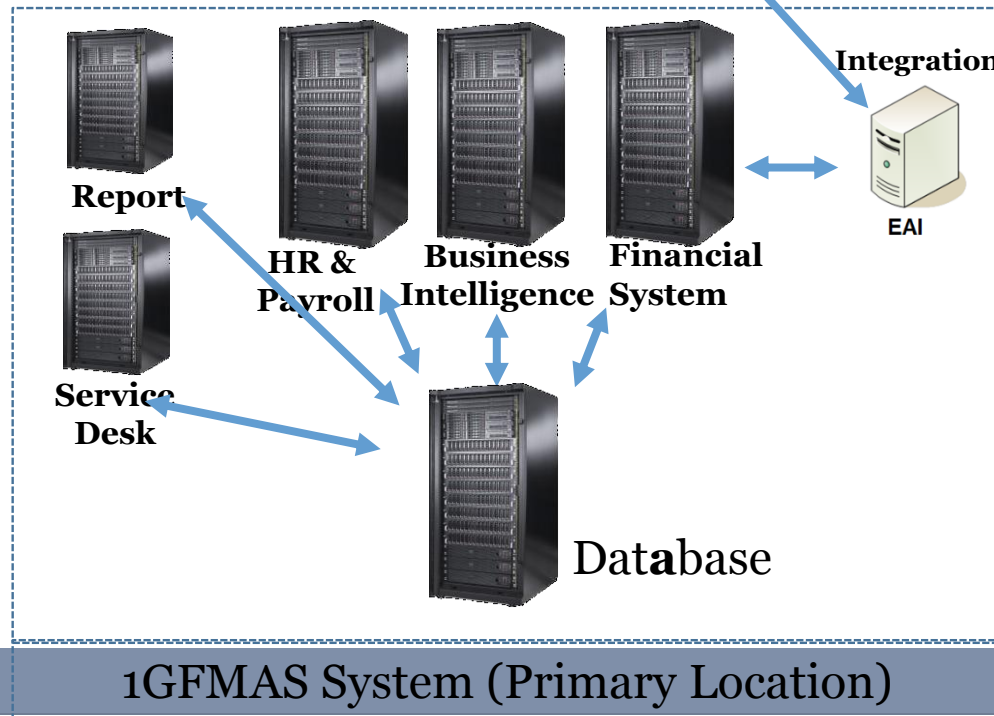
## Centralized Environment

## Leverage new technology

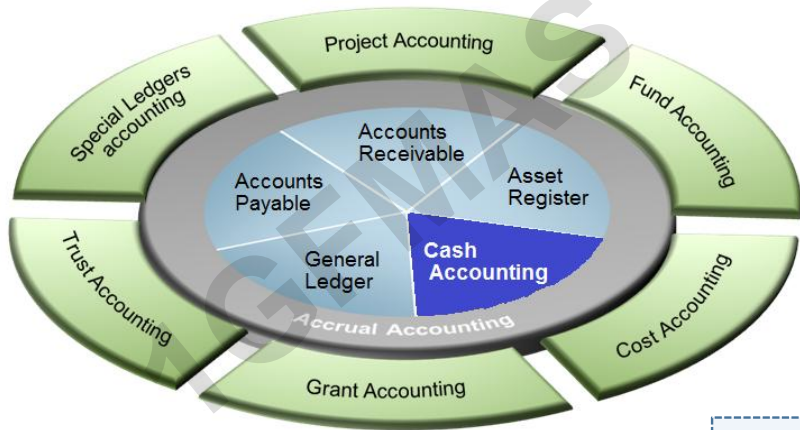
- Virtualization
- Fail-over
- Load Balancing

## High Availability

- Redundancy
- Hot DRC



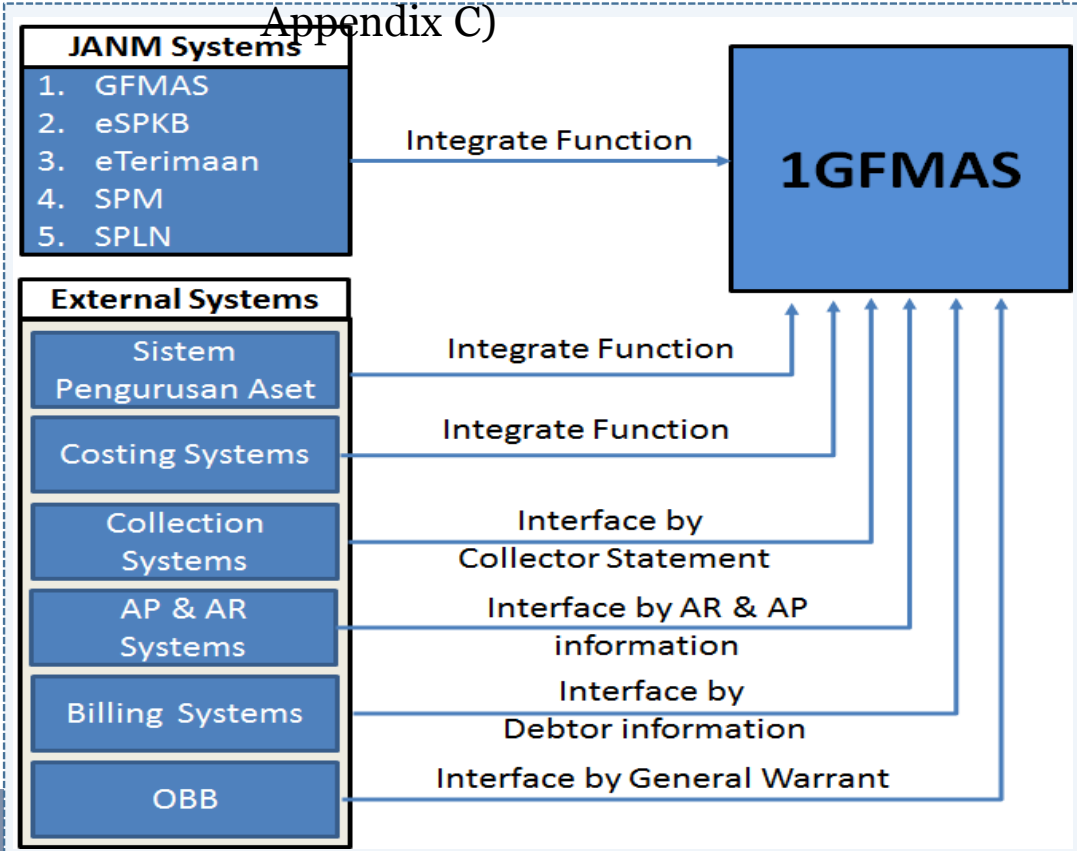
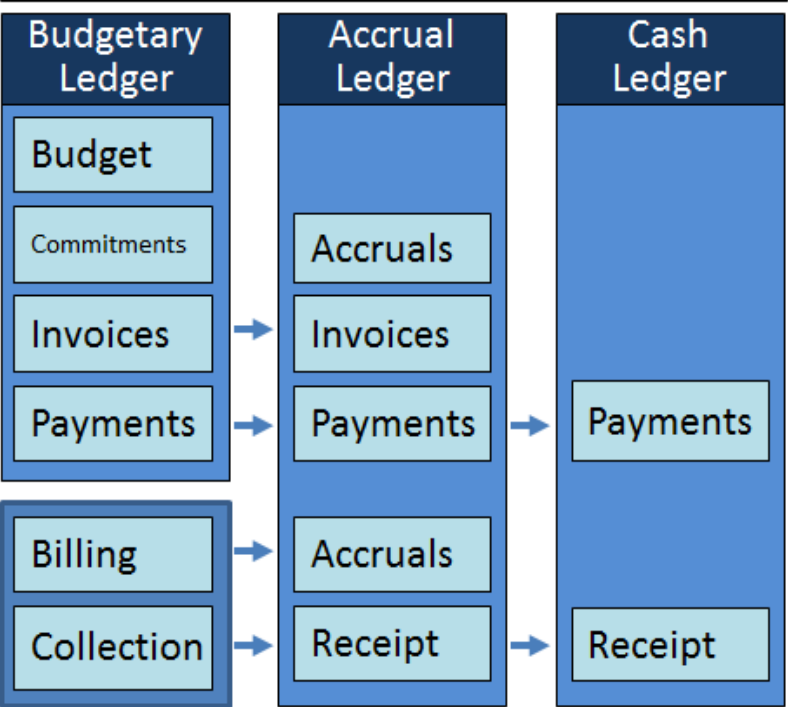
# Integration – The Way Forward



## MOVING FORWARD

- Standard IDD for interface
- DDSA
- Syndication with external systems owners
- Generic Financial Document
- Revisit on AP56 & AP58a
- Syndication with MAMPU on 1Gov\*Net
- Revisit business process (Refer to Appendix C)

### Recognition of cash and accrual accounting



# Risk

## Risks

### Change Management

- \* Resistance to change
- Transitions from Cash to Accrual accounting.

Initial lack of awareness in accrual accounting – benefits and costs, policies and standards

Inadequate skill competency

### Risk of flaws in system integration

- \* project management
- \* competent systems integrator
- \* technology platform

### Incomplete account of assets

- \* accuracy of costs of fixed asset
- \* data gathering

Slow or failure to access 1GFMAS which is built on a single and centralized database system

Slow or fail to access 1GFMAS due to the network problem

Failure to establish interfacing with external systems within specified time period