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# *Malaysian government meeting*

Accounting reforms in public sector: experience from Europe

June 13, 2012





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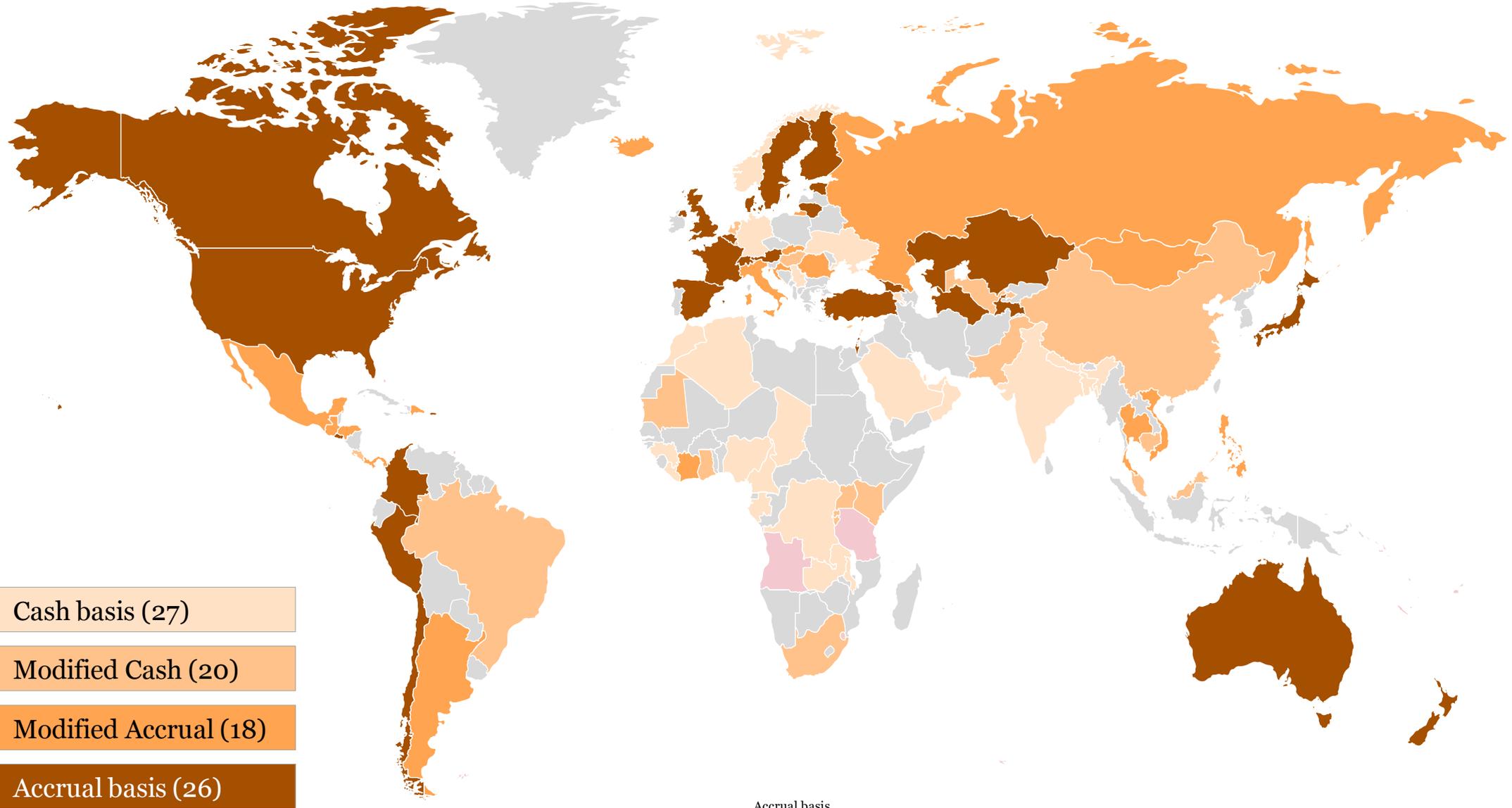
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# *Momentum for IPSAS*

# *1*

# *A great diversity is observed in central government reporting practices*



Cash basis (27)

Modified Cash (20)

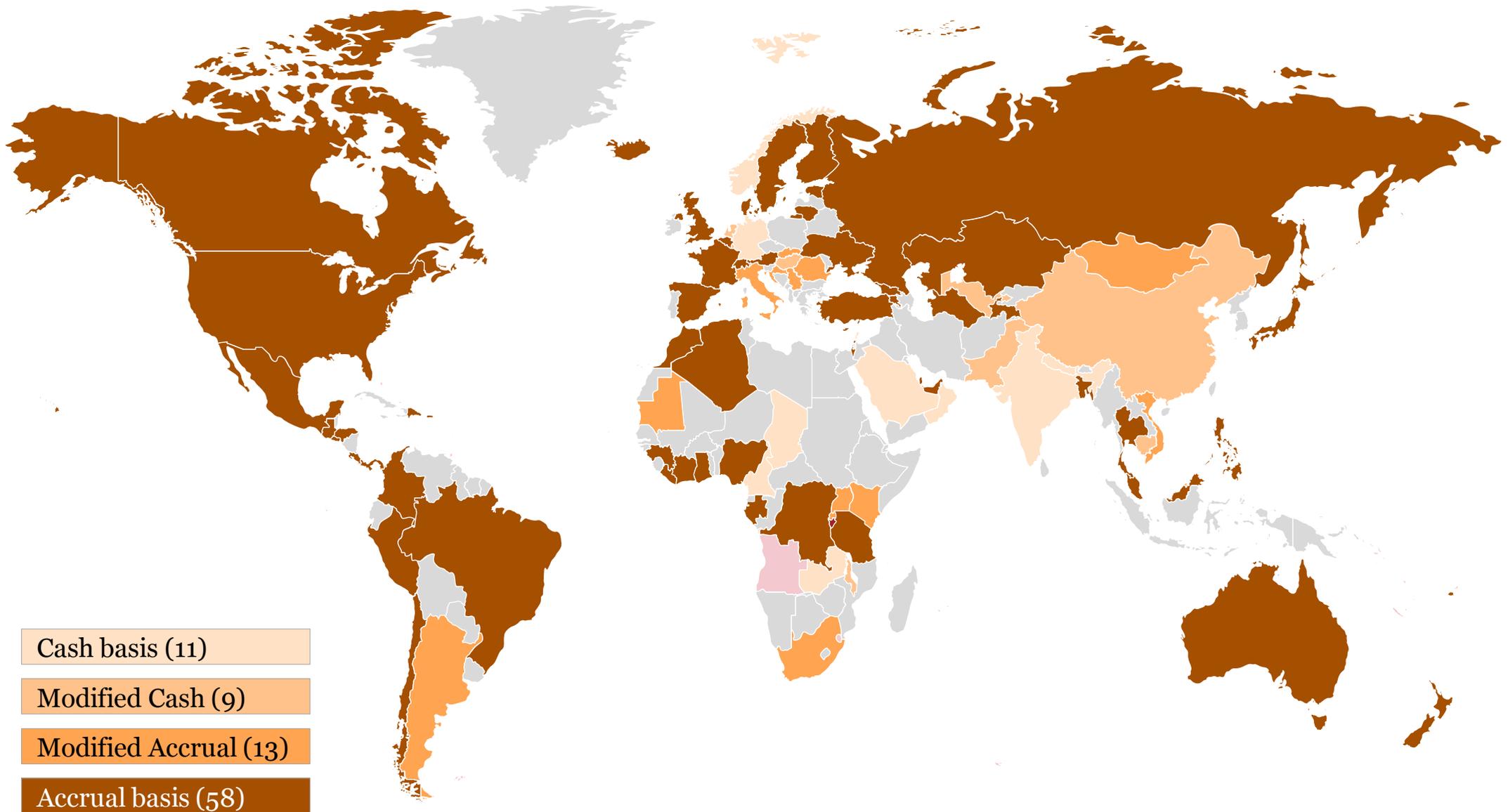
Modified Accrual (18)

Accrual basis (26)

Accrual basis



# *The trend toward accrual accounting is clear*



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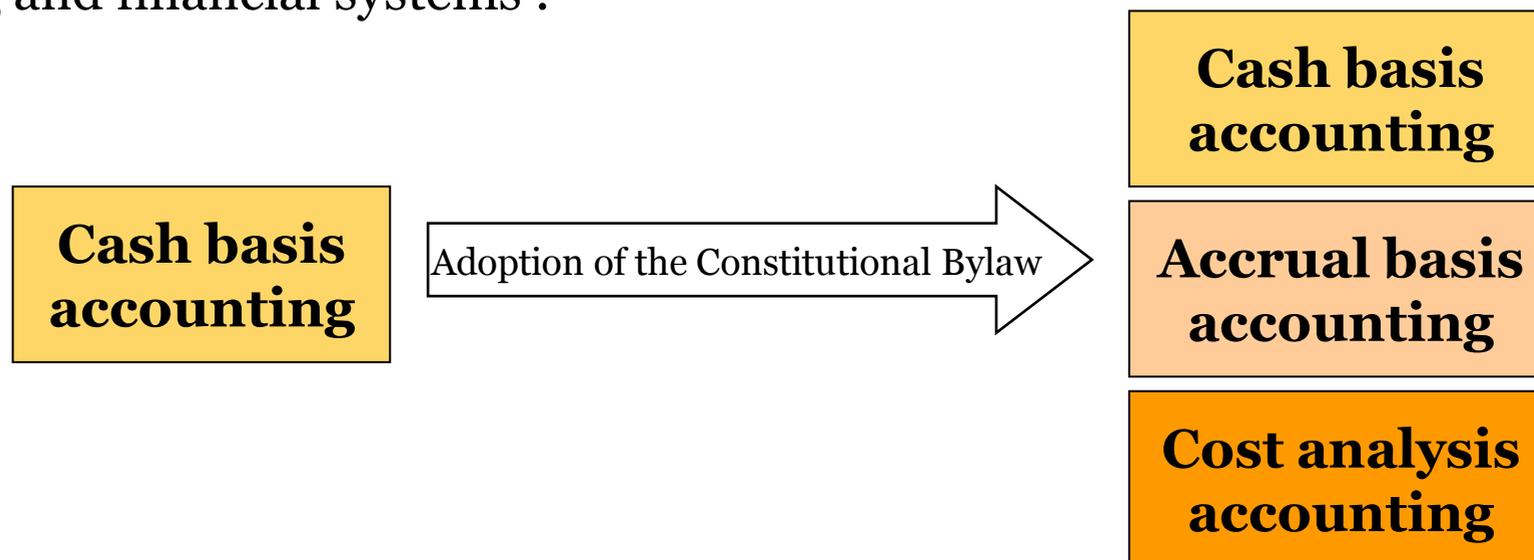
# *Case studies*

# 2

## ***Business case – Accrual conversion in France***

### **The successful challenge of French accounting reform**

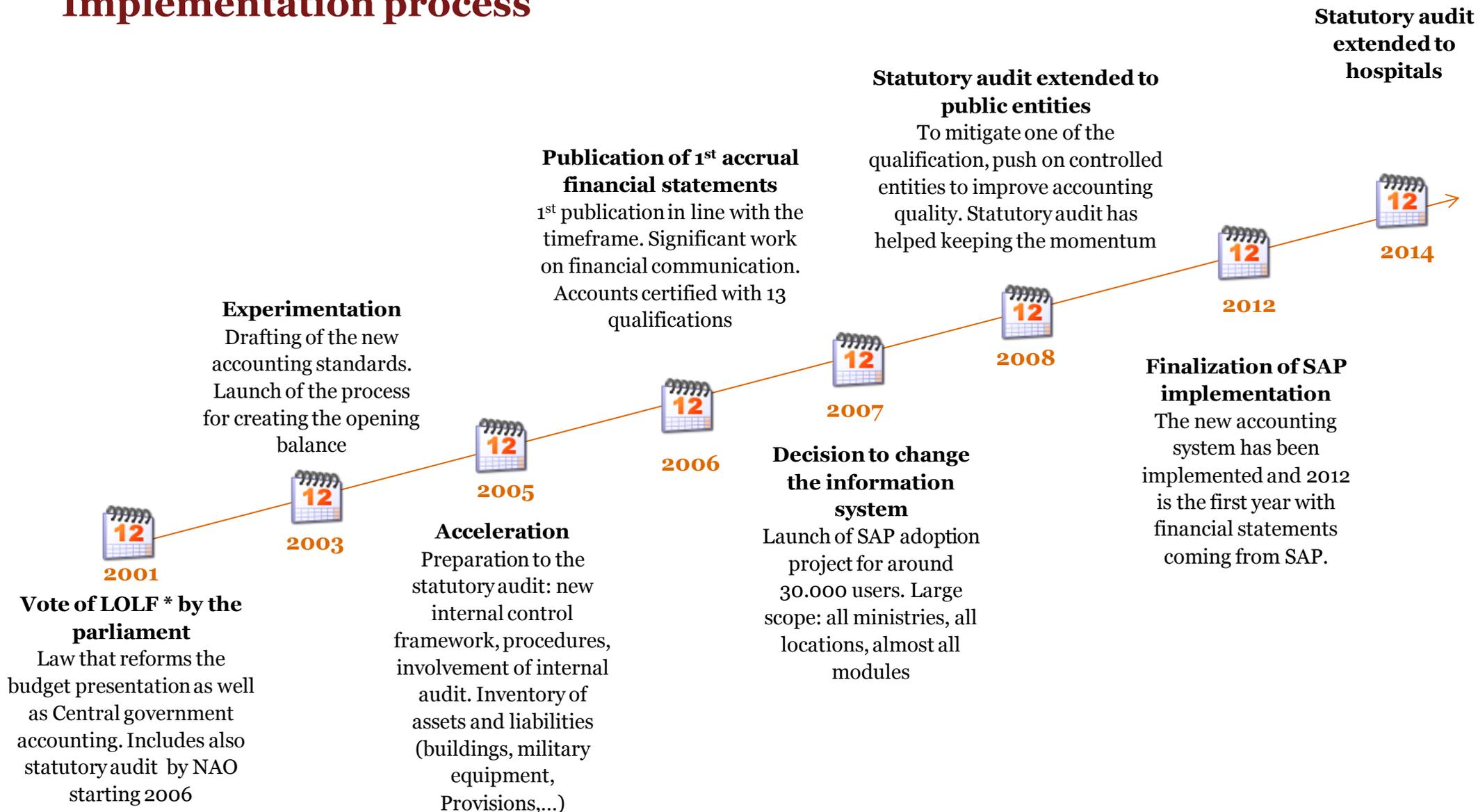
- 2001 Constitutional Bylaw enhances a new accounting system for France based on accrual accounting in order to make financial information more transparent for the Parliament and the public.
- One of the main changes implied by this reform was to create complementary reporting and financial systems :



- This challenge has been overcome in less than 5 years. The 2012 financial statements received a qualified opinion, with 7 qualifications.

# Business case – Accrual conversion in France

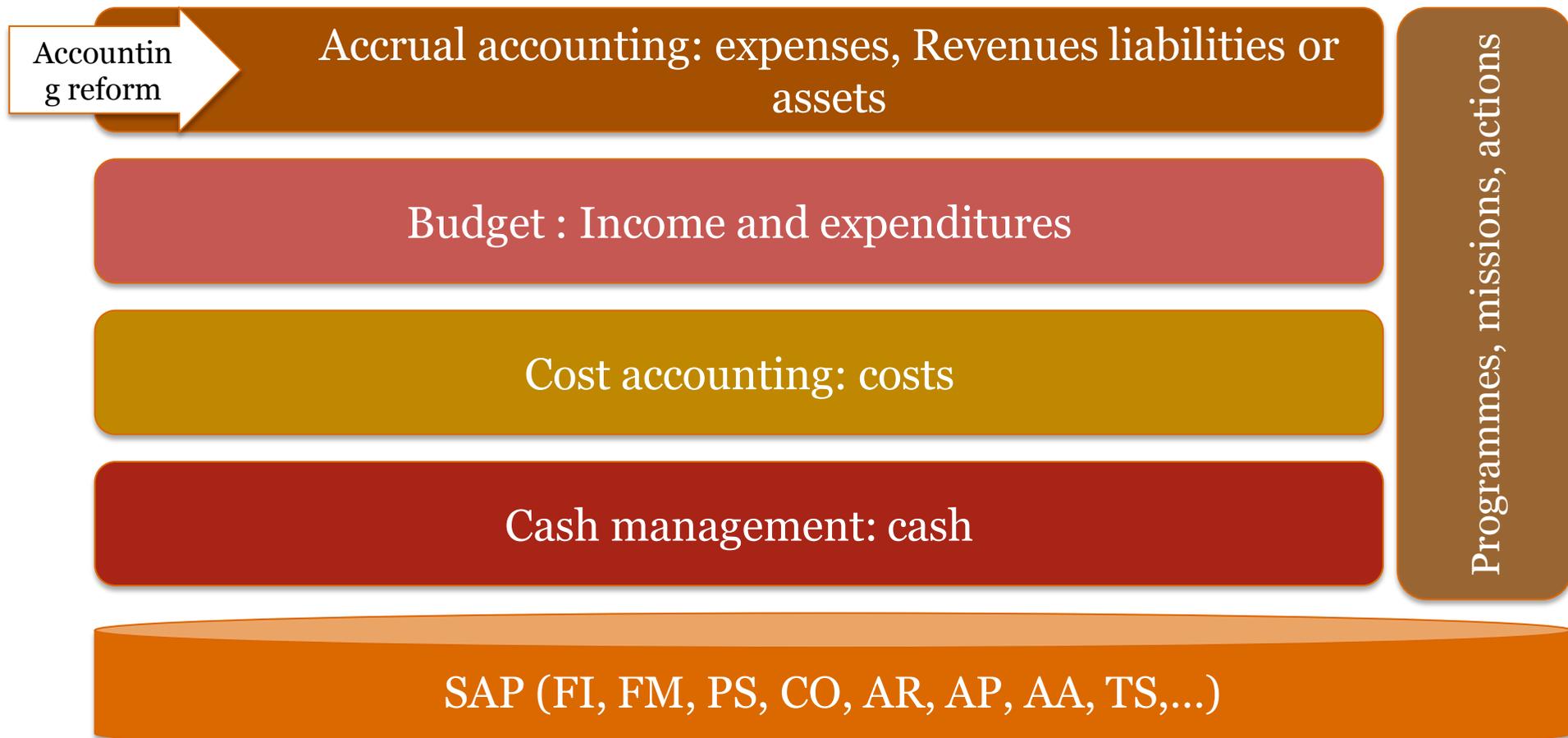
## Implementation process



# Key lessons learned, semantic to be explained

## Financial reforms: Several layers

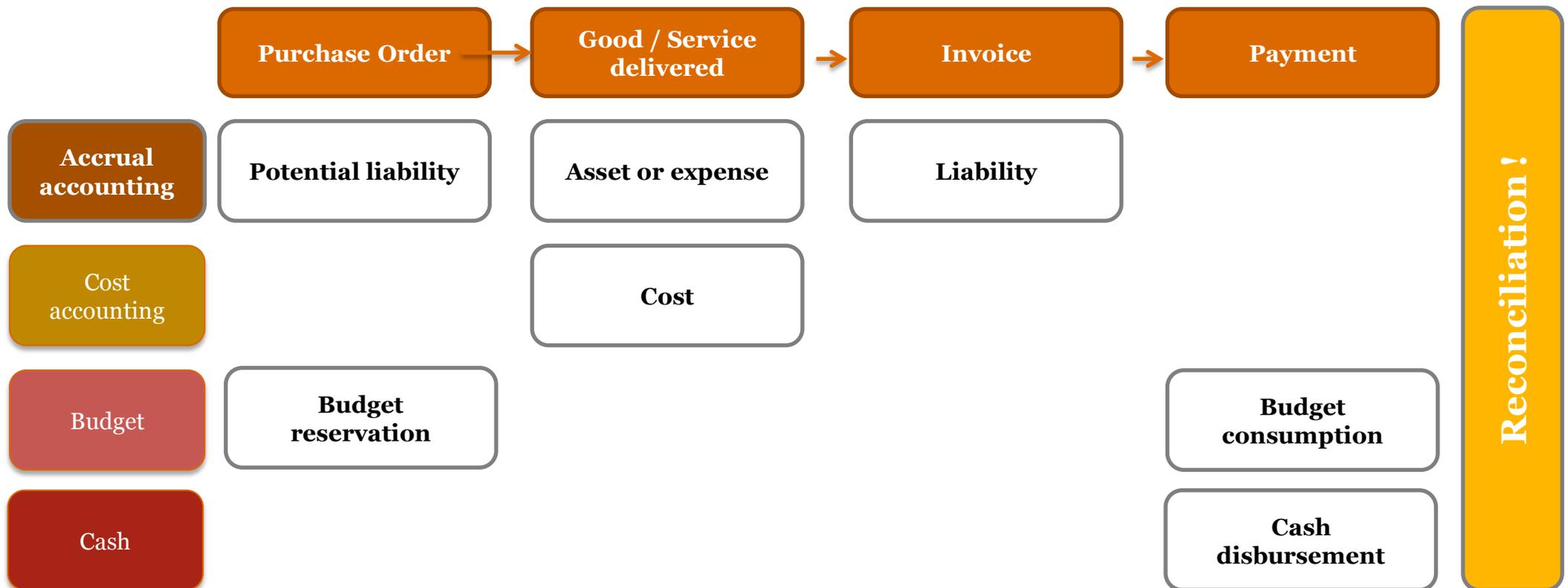
- The financial reform creates different layers of information to manage by civil servants. Each layer has its own rules / Standards / Definitions. All those layers are supported by a common system



# Key lessons learned, semantic to be explained

## Accrual accounting, one important layer of the reform

- It is critical to use the correct wording (and/or define the correct wording!) to navigate into the future financial system. Not using correct wording can bring be misleading. With the different concepts, the main impact is the timing of recognition of the events in the different accounting modules.
- For example, acquisition of an equipment



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## *Major issues the ministries had to overcome*



- Inventory of land and building which involved all ministries
- Populating new data necessary to proper valuation methods

## *Major issues the ministries had to overcome*



- Inventory and valuation of all military assets
- Assets under construction: development of fixed assets that have started several years ago. Review by contract performed

## *Major issues the ministries had to overcome*



- Provisions have grown after the first adoption
- “Present obligation” applies to political decision if they commit the state to expenses
- Off balance sheet information on pensions, guarantees is significant

# *Major issues the ministries had to overcome*



- Even if not consolidated, public entities and companies controlled by the government are shown as financial assets
- Accounting quality requirements have been extended to controlled entity
- Capacity for those entities to close their books according to government timeline

# *Financial communication*



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## ***Lessons learned - France***

### **Drivers for success**

- Bringing the obligation to move to accrual in a law together with the statutory audit of the financial statements
- Gap analysis and milestone plan
- Dedicated team focused on the preparation of the opening balance (i.e. project focused)
- Buy in of the Ministry of Defense. Lot of issues / workload remain in this ministry
- Top – down strategy with improvements that can be achieved after the first set of financial statements
- Communication with National Audit Office

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# *Lessons learned- France*

## **Difficulties**

- Resistance to change
- Inventory and valuation of buildings
- Inventory and valuation of military assets
- Identification of controlled entities
- Justification of inter-entity operations
- Scope of the provisions (to what extent the government has a present obligation)
- Timing for accruals at year end according to the size of the French Government
- Adaptation of the existing financial systems to accrual
- Audit trail between local systems and financial systems

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# *Government finance function*

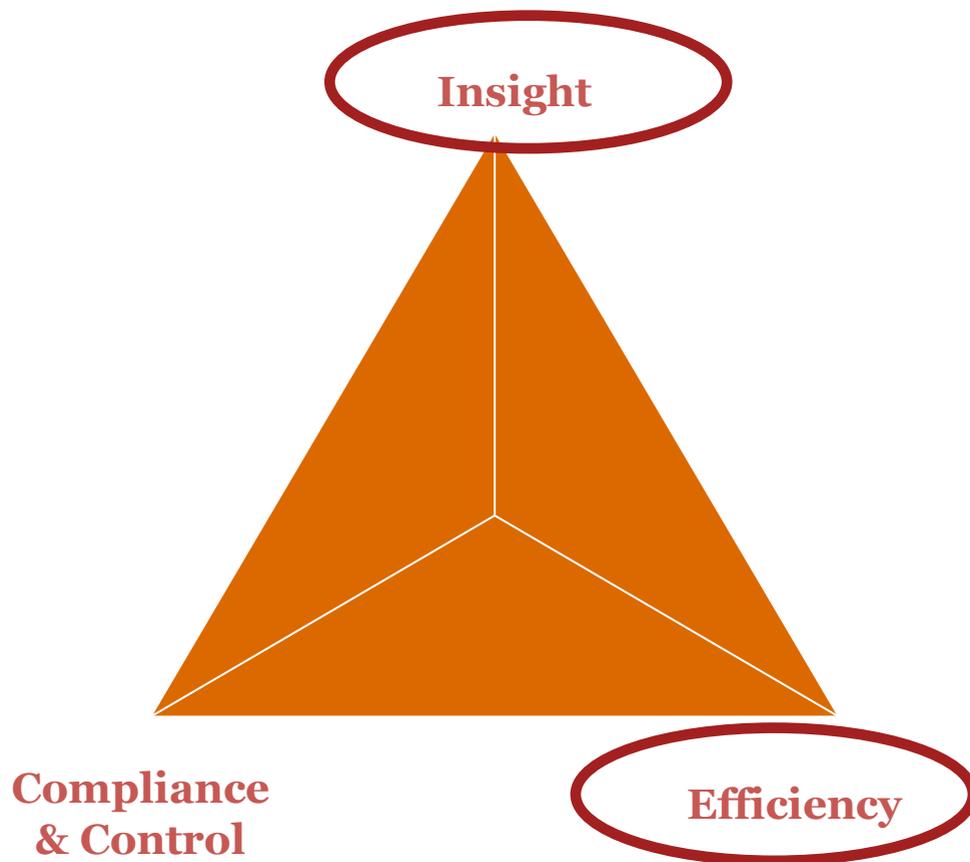
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***Accrual accounting alone provides great view of everything behind you, but you cannot see the traffic ahead***



Accrual  
accounting,  
yes, but what  
for?

# *IPSAS first adoption pushes governments to focus on compliance. You must think ahead and work on the value added accrual can bring*



## **Insight**

Insight is at the heart of the vision of the future finance function. It can take the form of performance management, business analytics, corporate information

## **Efficiency**

Efficiency in finance means performing tasks in a timely and cost effective manner typically via simplified and standardised processes that leverage technology and consolidation / elimination of non core activities through, for example, shared services .

## **Compliance and Control**

The accountability means compliance and improving control being top of the agenda. The finance function needs to optimise risk management, compliance and control to establish a sustainable cost effective control environment.